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**LEHIGHTON AREA SCHOOL DISTRICT  
LEHIGHTON, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2020**

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LEHIGHTON AREA SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

April 30, 2021

Board of School Directors  
Lehigh Area School District  
Lehigh, 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 Lehigh Area School District ("the School District"), Lehigh, Pennsylvania, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

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in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, and the schedule of the School District's proportionate share of the net pension liability – PSERS, schedule of School District pension contributions, schedule of the School District's proportionate share of the net OPEB liability – PSERS, schedule of School District OPEB contributions – PSERS, and schedule of the School District's net OPEB liability and related ratios – single employer plan on pages 57 through 61 (collectively “the required supplementary information”) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 School District's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

**LEHIGHTON AREA SCHOOL DISTRICT  
LEHIGHTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2020**

The discussion and analysis of the Lehigh Area School District's ("the School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should review the basic financial statements as well as the notes to the financial statements to enhance their understanding of the School District's financial performance.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements are comprised of five components: 1) government-wide financial statements, 2) governmental fund financial statements, 3) proprietary funds, 4) fiduciary funds, 5) notes to the financial statements.

***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide a broad overview of the District's finances. These statements are prepared using the accrual basis of accounting. The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference stated as net position. Increases or decreases in net position may be an indicator of whether the financial position of the District is improving or declining. In assessing the overall performance of the School District, consideration must be given to the overall cash position, the ability to meet its debt obligations, and the current property tax rates. 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.

**Assets, Liabilities, and Net Position**

Tables A-1 and A-2 reflect the condensed Statement of Net Position for the years ended 2020 and 2019.

**Table A-1  
Net Position  
June 30, 2020 and 2019**

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
ASSETS:						
Current and other assets	\$ 8,727,097	\$ 8,799,907	\$ 75,647	\$ (343,155)	\$ 8,802,744	\$ 8,456,752
Capital assets	85,698,001	88,826,795	111,061	124,642	85,809,062	88,951,437
<b>TOTAL ASSETS</b>	<b>94,425,098</b>	<b>97,626,702</b>	<b>186,708</b>	<b>(218,513)</b>	<b>94,611,806</b>	<b>97,408,189</b>
Deferred outflows of resources	7,545,336	9,349,364	131,096	161,995	7,676,432	9,511,359

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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2020**

**Table A-1  
Net Position  
June 30, 2020 and 2019**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
<b>LIABILITIES:</b>						
Current liabilities	8,392,444	8,985,695	610,931	150,074	9,003,375	9,135,769
Long-term liabilities	112,827,856	118,040,045	997,028	1,050,975	113,824,884	119,091,020
<b>TOTAL LIABILITIES</b>	<u>121,220,300</u>	<u>127,025,740</u>	<u>1,607,959</u>	<u>1,201,049</u>	<u>122,828,259</u>	<u>128,226,789</u>
Deferred inflows of resources	3,684,693	1,424,804	61,733	22,737	3,746,426	1,447,541
<b>NET POSITION (DEFICIT):</b>						
Net investment in capital assets	29,506,826	31,448,982	111,061	124,642	29,617,887	31,573,624
Restricted	235,339	232,742	-	-	235,339	232,742
Unrestricted (deficit)	<u>(52,676,724)</u>	<u>(53,156,202)</u>	<u>(1,462,949)</u>	<u>(1,404,946)</u>	<u>(54,139,673)</u>	<u>(54,561,148)</u>
<b>TOTAL NET DEFICIT</b>	<u><u>\$(22,934,559)</u></u>	<u><u>\$(21,474,478)</u></u>	<u><u>\$(1,351,888)</u></u>	<u><u>\$(1,280,304)</u></u>	<u><u>\$(24,286,447)</u></u>	<u><u>\$(22,754,782)</u></u>

**Table A-2  
Change in Net Position  
For the Years Ended June 30, 2020 and 2019**

REVENUES	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
<b>Program Revenues:</b>						
Charges for services	\$ 1,727,879	\$ 144,051	\$ 216,503	\$ 303,884	\$ 1,944,382	\$ 447,935
Operating grants and contributions	8,289,464	9,309,486	738,838	888,935	9,028,302	10,198,421
Capital grants and contributions	-	2,269,756	-	-	-	2,269,756
<b>General Revenues:</b>						
Property taxes	18,138,100	17,331,203	-	-	18,138,100	17,331,203
Other taxes	3,157,568	3,175,669	-	-	3,157,568	3,175,669
Grants/subsidies/contributions, unrestricted	10,475,148	9,003,292	-	-	10,475,148	9,003,292
Other	179,076	175,946	1,378	1,349	180,454	177,295
<b>TOTAL REVENUES</b>	<u>41,967,235</u>	<u>41,409,403</u>	<u>956,719</u>	<u>1,194,168</u>	<u>42,923,954</u>	<u>42,603,571</u>

**LEHIGHTON AREA SCHOOL DISTRICT  
LEHIGHTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2020**

**Table A-2  
Change in Net Position  
For the Years Ended June 30, 2020 and 2019**

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
<b>EXPENSES</b>						
Instruction	27,574,792	27,592,809	-	-	27,574,792	27,592,809
Instructional student support	2,662,805	3,038,615	-	-	2,662,805	3,038,615
Administrative/financial support	3,651,174	3,838,866	-	-	3,651,174	3,838,866
Operation/maintenance of plant	2,976,230	3,466,858	-	-	2,976,230	3,466,858
Pupil transportation	1,292,584	1,567,932	-	-	1,292,584	1,567,932
Student activities	921,527	1,056,065	-	-	921,527	1,056,065
Community services	21,703	22,540	-	-	21,703	22,540
Interest on long-term debt	1,814,764	1,368,820	-	-	1,814,764	1,368,820
Unallocated depreciation	2,511,737	1,675,617	-	-	2,511,737	1,675,617
Food services	-	-	1,028,303	1,390,063	1,028,303	1,390,063
<b>TOTAL EXPENSES</b>	<b>43,427,316</b>	<b>43,628,122</b>	<b>1,028,303</b>	<b>1,390,063</b>	<b>44,455,619</b>	<b>45,018,185</b>
<b>CHANGE IN NET DEFICIT</b>	<b><u>\$ (1,460,081)</u></b>	<b><u>\$ (2,218,719)</u></b>	<b><u>\$ (71,584)</u></b>	<b><u>\$ (195,895)</u></b>	<b><u>\$ (1,531,665)</u></b>	<b><u>\$ (2,414,614)</u></b>

**Governmental Activities**

**Revenue**

The governmental activities revenue of the School District during 2019-2020 totaled \$41,967,235 and came from four major sources. These sources included charges for services (\$1,727,879), grants and contributions (\$18,764,612), local tax revenue (\$21,295,668), and other revenue (\$179,076). Included in other revenue are investment earnings (\$100,313) and miscellaneous revenue (\$78,763). Overall, total revenues were relatively consistent with the prior year. Total governmental revenues increased \$557,832 or 0.013 percent from the prior year.

**Expenses**

The 2019-2020 governmental expenses totaled \$43,427,316, a decrease of \$200,806 or 0.46% reduction from the prior year.

Table A-3 shows the School District's largest functions as well as each function's net cost, total cost less revenues generated by the activities. This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

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LEHIGHTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2020**

**Table A-3  
Governmental Activities  
For the Years Ended June 30, 2020 and 2019**

	2020		2019	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>FUNCTIONS/PROGRAMS</b>				
Instruction	\$ 27,574,792	\$ 19,236,026	\$ 27,592,809	\$ 20,131,326
Instructional student support	2,662,805	2,356,176	3,038,615	2,563,307
Administrative and financial support	3,651,174	3,293,394	3,838,866	3,526,369
Operation and maintenance of plant	2,976,230	2,646,662	3,466,858	816,985
Pupil transportation	1,292,584	754,914	1,567,932	855,396
Student activities	921,527	776,730	1,056,065	952,562
Community services	21,703	19,570	22,540	14,447
Unallocated depreciation	2,511,737	2,511,737	1,675,617	1,675,617
Interest on long-term debt	1,814,764	1,814,764	1,368,820	1,368,820
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 43,427,316</u></b>	<b>33,409,973</b>	<b><u>\$ 43,628,122</u></b>	<b>31,904,829</b>
Less: Unrestricted grants and subsidies		<u>10,475,148</u>		<u>9,003,292</u>
<b>TOTAL NEEDS FROM LOCAL TAXES</b>		<b><u>\$ 22,934,825</u></b>		<b><u>\$ 22,901,537</u></b>

***Business-type Activities***

Table A-3 reflects the activities of the Food Service program, the only business-type activity of the School District.

**Table A-4  
Business-type Activities  
For the Years Ended June 30, 2020 and 2019**

	2020		2019	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>FUNCTIONS/PROGRAMS</b>				
Food services	<u>\$ 1,028,303</u>	\$ 72,962	<u>\$ 1,390,063</u>	\$ 197,244
Less investment earnings and transfers		<u>1,378</u>		<u>1,349</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>		<b><u>\$ 71,584</u></b>		<b><u>\$ 195,895</u></b>

The School District contracted with Nutrition Group, Inc. for the operation of food service for the School District. The School District's food service personnel have remained as School District employees except for the Food Service Director, who is a Nutrition Group employee. This change became effective on

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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
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January 1, 2007. Effective August 20, 2010, all new food service personnel will be Nutrition Group employees. All School District employees as of that date will remain School District employees until they resign, retire, or are terminated. As of June 30, 2020 7 district employees are food service personnel.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The School District uses fund accounting to ensure compliance with legal requirements. Fund financial statements are prepared using the modified accrual basis of accounting. The School District uses several types of funds, but the two most significant types are the governmental and proprietary fund types.

***Governmental Funds***

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

The General Fund had a fund balance of \$982,609 as of June 30, 2020, which is an increase of \$108,170 from the prior year. All of the fund balance is unassigned.

The Capital Projects and Capital Reserve Funds had a combined fund balance of \$235,339, which is restricted for future capital projects.

***General Fund Budget Comparison.***

For the year ended June 30, 2020, total budgeted expenditures were \$43,781,495 and total actual expenditures were \$42,249,096. Expenditures in total were underbudget primarily due to the operation and maintenance of plant and transportation line items coming under budget by \$357,002 and \$245,415, respectively. The most significant budget overage was in the School District's special programs, which was \$398,721 over budget.

***Proprietary Funds***

These funds are to account for the School District'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. The Food Service Fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provides more detail and additional information, such as cash flows. The Food Service Fund reported a net deficit of \$1,351,888 as of June 30, 2020.

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LEHIGHTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2020**

***Fiduciary Funds***

The School District is the trustee, or fiduciary for some scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations.

**Capital Assets**

At June 30, 2020, the School District had \$85,809,062 invested in capital assets which included land, site improvements, buildings and improvements, and furniture and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$3,142,375 or 3.5 percent from last year.

**Table A-5  
Capital Assets - Net of Depreciation**

	<u>2020</u>	<u>2019</u>
Land	\$ 325,786	\$ 325,786
Site improvements	\$ 440,545	\$ 506,739
Buildings and improvements	\$ 84,359,270	\$ 87,322,243
Furniture and equipment	\$ 683,461	\$ 796,669

**Debt Outstanding**

**Table A-6  
Outstanding Debt**

	<u>2020</u>	<u>2019</u>
<b>GENERAL OBLIGATION BONDS</b>		
Series of 2014	\$ 7,689,137	\$ 7,866,447
Series of 2015	4,975,000	4,980,000
Series A of 2015	30,880,000	31,280,000
<b>General OBLIGATION NOTES</b>		
Series of 2014	4,885,000	5,640,000
<b>QUALIFIED ZONE ACADEMY BONDS</b>		
Series of 2017	<u>5,270,000</u>	<u>5,780,000</u>
Total Outstanding Debt	<u>\$ 53,699,137</u>	<u>\$ 55,546,447</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
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The total debt outstanding for the School District as of June 30, 2020 was \$53,699,137, excluding unamortized bond premiums and discounts. More detailed information about our long-term liabilities is included in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The School District and its professional staff (Lehigh Area Educational Association) are currently working under status quo with recent contract expiring on August 31, 2020; contract negotiations for a new contract began in late 2019 and are currently ongoing.

The School District and its support staff (Lehigh Area Educational Support Personnel Association) are currently working under a five-year Collective Bargaining Agreement effective from July 1, 2016 to June 30, 2021.

The School District and its Act 93 administration are currently working under a five-year contract effective from July 1, 2017 to June 30, 2022.

The School District has contractual relationships with the Carbon Lehigh Intermediate Unit 21 (CLIU 21), the Carbon County Technical Institute (Vo-Tech), and Lehigh Carbon County College. The CLIU provides Special Education Services to the School District. The Carbon County Technical Institute provides full-time vocational and academic subjects for Lehigh Area students. At this time, the Lehigh Area School District allows students in grades 9 through 12 to participate in these programs. The Lehigh Carbon Community College is supported by contracts with various school districts in Lehigh and Carbon Counties. This support results in subsidized tuition for the residents of the member districts.

**Requests for Information**

Our financial report is designed to provide our stakeholders (taxpayers, parents, students, investors, and creditors) with a general overview of the School District's financial condition and to provide accountability for the funds it receives.

If you have questions about this report or wish to request additional financial information, please contact Mr. Edward Rarick, Business Administrator at Lehigh Area School District, 1000 Union Street, Lehigh, PA 18235, (610) 377-4490.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2020**

	Governmental Activities	Business-type Activities	Totals
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Current Assets:			
Cash and cash equivalents	\$ 4,710,181	\$ 2,614	\$ 4,712,795
Taxes receivable, net	1,470,362	-	1,470,362
Due from other governments	1,435,960	51,808	1,487,768
Other receivables	1,110,594	-	1,110,594
Inventories	-	21,225	21,225
Total Current Assets	8,727,097	75,647	8,802,744
Noncurrent Assets:			
Land	325,786	-	325,786
Site improvements	2,244,712	-	2,244,712
Buildings and improvements	103,273,700	-	103,273,700
Furniture and equipment	1,639,337	634,640	2,273,977
Accumulated depreciation	(21,785,534)	(523,579)	(22,309,113)
Total Noncurrent Assets	85,698,001	111,061	85,809,062
<b>TOTAL ASSETS</b>	<b>94,425,098</b>	<b>186,708</b>	<b>94,611,806</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows relating to pension	7,199,600	125,200	7,324,800
Deferred outflows relating to OPEB	345,736	5,896	351,632
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>7,545,336</b>	<b>131,096</b>	<b>7,676,432</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 101,970,434</b>	<b>\$ 317,804</b>	<b>\$ 102,288,238</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>			
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 1,445,002	\$ 16,555	\$ 1,461,557
Accrued salaries and benefits	5,080,206	5,635	5,085,841
Accumulated compensated absences	224,908	2,332	227,240
Internal balances	(583,112)	583,112	-
Other current liabilities	148	-	148
Accrued interest	245,521	-	245,521
Unearned revenue	-	3,297	3,297
Bonds and notes payable, net	1,979,771	-	1,979,771
Total Current Liabilities	8,392,444	610,931	9,003,375
Noncurrent Liabilities:			
Bonds and notes payable, net	54,211,404	-	54,211,404
Accumulated compensated absences	1,872,489	20,985	1,893,474
Net pension liability	53,432,000	929,000	54,361,000
Net OPEB liability	3,311,963	47,043	3,359,006
Total Noncurrent Liabilities	112,827,856	997,028	113,824,884
<b>TOTAL LIABILITIES</b>	<b>121,220,300</b>	<b>1,607,959</b>	<b>122,828,259</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows relating to pension	3,338,000	58,000	3,396,000
Deferred inflows relating to OPEB	346,693	3,733	350,426
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>3,684,693</b>	<b>61,733</b>	<b>3,746,426</b>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	29,506,826	111,061	29,617,887
Restricted	235,339	-	235,339
Unrestricted (Deficit)	(52,676,724)	(1,462,949)	(54,139,673)
<b>TOTAL NET DEFICIT</b>	<b>(22,934,559)</b>	<b>(1,351,888)</b>	<b>(24,286,447)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	<b>\$ 101,970,434</b>	<b>\$ 317,804</b>	<b>\$ 102,288,238</b>

The accompanying notes are an integral part of these financial statements.

**LEIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instruction	\$ 27,574,792	\$ 1,635,454	\$ 6,703,312	\$ -	\$ (19,236,026)	-	\$ (19,236,026)
Instructional student support	2,662,805	-	306,629	-	(2,356,176)	-	(2,356,176)
Administrative and financial support services	3,651,174	-	357,780	-	(3,293,394)	-	(3,293,394)
Operation and maintenance of plant services	2,976,230	37,928	291,640	-	(2,646,662)	-	(2,646,662)
Pupil transportation	1,292,584	-	537,670	-	(754,914)	-	(754,914)
Student activities	921,527	54,497	90,300	-	(776,730)	-	(776,730)
Community services	21,703	-	2,133	-	(19,570)	-	(19,570)
Unallocated depreciation	2,511,737	-	-	-	(2,511,737)	-	(2,511,737)
Interest on long-term debt	1,814,764	-	-	-	(1,814,764)	-	(1,814,764)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>43,427,316</b>	<b>1,727,879</b>	<b>8,289,464</b>	<b>-</b>	<b>(33,409,973)</b>	<b>-</b>	<b>(33,409,973)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food service	1,028,303	216,503	738,838	-	-	(72,962)	(72,962)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,028,303</b>	<b>216,503</b>	<b>738,838</b>	<b>-</b>	<b>-</b>	<b>(72,962)</b>	<b>(72,962)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 44,455,619</b>	<b>\$ 1,944,382</b>	<b>\$ 9,028,302</b>	<b>\$ -</b>	<b>(33,409,973)</b>	<b>(72,962)</b>	<b>(33,482,935)</b>
<b>GENERAL REVENUES</b>							
Property taxes, levied for general purposes					18,138,100	-	18,138,100
Taxes levied for specific purposes					3,157,568	-	3,157,568
Grants and entitlements not restricted to specific programs					10,475,148	-	10,475,148
Investment earnings					100,313	1,378	101,691
Miscellaneous					78,763	-	78,763
<b>GENERAL REVENUES</b>					<b>31,949,892</b>	<b>1,378</b>	<b>31,951,270</b>
<b>CHANGE IN NET DEFICIT</b>					<b>(1,460,081)</b>	<b>(71,584)</b>	<b>(1,531,665)</b>
<b>NET DEFICIT, BEGINNING OF YEAR</b>					<b>(21,474,478)</b>	<b>(1,280,304)</b>	<b>(22,754,782)</b>
<b>NET DEFICIT, END OF YEAR</b>					<b>\$ (22,934,559)</b>	<b>\$ (1,351,888)</b>	<b>\$ (24,286,447)</b>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2020**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 4,474,842	\$ 1	\$ 235,338	\$ 4,710,181
Taxes receivable	1,470,362	-	-	1,470,362
Due from other governments	1,435,960	-	-	1,435,960
Due from other funds	583,112	-	-	583,112
Other receivables	1,110,594	-	-	1,110,594
<b>TOTAL ASSETS</b>	<b><u>\$ 9,074,870</u></b>	<b><u>1</u></b>	<b><u>235,338</u></b>	<b><u>\$ 9,310,209</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 1,445,002	-	-	\$ 1,445,002
Accrued salaries and benefits	5,080,206	-	-	5,080,206
Other current liabilities	148	-	-	148
Current portion of compensated absences	224,908	-	-	224,908
<b>TOTAL LIABILITIES</b>	<b><u>6,750,264</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>6,750,264</u></b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenues - delinquent taxes	1,341,997	-	-	1,341,997
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>1,341,997</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,341,997</u></b>
<b>FUND BALANCES:</b>				
Restricted	-	1	235,338	235,339
Unassigned	982,609	-	-	982,609
<b>TOTAL FUND BALANCES</b>	<b><u>982,609</u></b>	<b><u>1</u></b>	<b><u>235,338</u></b>	<b><u>1,217,948</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 9,074,870</u></b>	<b><u>1</u></b>	<b><u>235,338</u></b>	<b><u>\$ 9,310,209</u></b>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET POSITION  
JUNE 30, 2020**

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,217,948

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$	325,786	
Land improvements		2,244,712	
Buildings and improvements		103,273,700	
Furniture and equipment		1,639,337	
Accumulated depreciation		<u>(21,785,534)</u>	85,698,001

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Bonds payable, net		(56,191,175)	
Net OPEB liability		(3,311,963)	
Accumulated compensated absences		(1,872,489)	
Accrued interest		(245,521)	
Net pension liability		<u>(53,432,000)</u>	(115,053,148)

Deferred inflows and outflows of resources related to the School District's net pension liability and net OPEB liability are based on the differences between actuarially determined actual and expected investment returns, actual and projected experience, changes in the actuarially determined proportion of the School District's amount of the total pension and OPEB liabilities, and pension and OPEB contributions made after the measurement date of the net pension and OPEB liabilities. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows relating to pension		7,199,600	
Deferred outflows relating to OPEB		345,736	
Deferred inflows relating to pension		(3,338,000)	
Deferred inflows relating to OPEB		<u>(346,693)</u>	3,860,643

Some of the School District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.

1,341,997

NET DEFICIT OF GOVERNMENTAL ACTIVITIES

\$ (22,934,559)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals
<b>REVENUES</b>				
Local sources	\$ 22,767,445	-	2,597	\$ 22,770,042
State sources	17,631,397	-	-	17,631,397
Federal sources	1,133,195	-	-	1,133,195
<b>TOTAL REVENUES</b>	<u>41,532,037</u>	<u>-</u>	<u>2,597</u>	<u>41,534,634</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	27,229,474	-	-	27,229,474
Support services	10,027,809	-	-	10,027,809
Operation of noninstructional services	911,528	-	-	911,528
Capital outlays	308,676	-	-	308,676
Debt service	3,771,609	-	-	3,771,609
<b>TOTAL EXPENDITURES</b>	<u>42,249,096</u>	<u>-</u>	<u>-</u>	<u>42,249,096</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(717,059)</u>	<u>-</u>	<u>2,597</u>	<u>(714,462)</u>
<b>OTHER FINANCING SOURCES</b>				
Refund of prior year expenditures	7,255	-	-	7,255
Sale of capital asset	817,974	-	-	817,974
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>825,229</u>	<u>-</u>	<u>-</u>	<u>825,229</u>
<b>NET CHANGE IN FUND BALANCES</b>	108,170	-	2,597	110,767
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>874,439</u>	<u>1</u>	<u>232,741</u>	<u>1,107,181</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 982,609</u>	<u>\$ 1</u>	<u>\$ 235,338</u>	<u>\$ 1,217,948</u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 110,767

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net deletions of \$577,084, and depreciation expense of \$2,852,865 exceeded net capital outlays of \$301,155. (3,128,794)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable revenues increased by this amount this year. 432,601

The issuance of long-term debt (e.g. bonds, leases) 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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and are amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,953,772

In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 151,680

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 3,073

OPEB expense in the statement of activities differs from the amount reported in the governmental funds because OPEB expense is recognized in the statement of activities based on the School District's proportionate share of the expense of the cost-sharing OPEB plan and expense of the single employer plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (29,380)

Pension expense in the statement of activities differ from the amount reported in the governmental funds because pension expense is recognized on the statement of activities based on the School District's proportionate share of the expense of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (953,800)

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (1,460,081)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 22,415,406	\$ 22,415,406	\$ 22,767,445	\$ 352,039
State sources	18,024,915	18,024,915	17,631,397	(393,518)
Federal sources	1,191,105	1,191,105	1,133,195	(57,910)
<b>TOTAL REVENUES</b>	<u>41,631,426</u>	<u>41,631,426</u>	<u>41,532,037</u>	<u>(99,389)</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular programs	18,529,552	18,529,552	18,292,521	237,031
Special programs	6,573,258	6,573,258	6,971,979	(398,721)
Vocational programs	1,733,088	1,733,088	1,728,838	4,250
Adult education programs	233,396	233,396	181,473	51,923
Non-public programs	-	-	51,923	(51,923)
Pre-kindergarten	6,200	6,200	2,740	3,460
Total Instruction	<u>27,075,494</u>	<u>27,075,494</u>	<u>27,229,474</u>	<u>(153,980)</u>
Support services:				
Student services	1,251,416	1,251,416	1,163,288	88,128
Instructional staff	1,070,301	1,070,301	1,004,897	65,404
Administration	2,177,311	2,177,311	2,195,032	(17,721)
Pupil health	500,094	500,094	393,610	106,484
Business serices	686,677	686,677	632,844	53,833
Operation and maintenance of plant	3,200,569	3,200,569	2,843,567	357,002
Transportation services	1,490,000	1,490,000	1,244,585	245,415
Central services	619,046	619,046	520,023	99,023
Other support services	27,000	27,000	29,963	(2,963)
Total Support Services	<u>11,022,414</u>	<u>11,022,414</u>	<u>10,027,809</u>	<u>994,605</u>
Operation of noninstructional activities:				
Student activities	971,595	971,595	891,528	80,067
Community services	20,000	20,000	20,000	-
Total Operation of Noninstructional Services	<u>991,595</u>	<u>991,595</u>	<u>911,528</u>	<u>80,067</u>
Facilities, acquisition and construction	900,215	900,215	308,676	591,539
Debt service	3,791,777	3,791,777	3,771,609	20,168
<b>TOTAL EXPENDITURES</b>	<u>43,781,495</u>	<u>43,781,495</u>	<u>42,249,096</u>	<u>1,532,399</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(2,150,069)</u>	<u>(2,150,069)</u>	<u>(717,059)</u>	<u>1,433,010</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year expenditures	-	-	7,255	7,255
Transfers out	(110,000)	(110,000)	-	110,000
Proceeds from sale of capital assets	-	-	817,974	817,974
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(110,000)</u>	<u>(110,000)</u>	<u>825,229</u>	<u>935,229</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(2,260,069)</u>	<u>(2,260,069)</u>	<u>108,170</u>	<u>2,368,239</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>874,439</u>	<u>874,439</u>	<u>874,439</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ (1,385,630)</u>	<u>\$ (1,385,630)</u>	<u>\$ 982,609</u>	<u>\$ 2,368,239</u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
JUNE 30, 2020**

	Food Service Fund
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 2,614
Due from other governments	51,808
Inventories	21,225
Total Current Assets	75,647
<b>PROPERTY AND EQUIPMENT:</b>	
Machinery and equipment	634,640
Accumulated depreciation	(523,579)
Net Property and Equipment	111,061
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred outflows relating to pension	125,200
Deferred outflows relating to OPEB	5,896
Total Deferred Outflows of Resources	131,096
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 317,804</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 16,555
Accrued salaries and benefits	5,635
Due to other funds	583,112
Unearned revenue	3,297
Current portion of compensated absences	2,332
Total Current Liabilities	610,931
<b>NONCURRENT LIABILITIES:</b>	
Long-term position of compensated absences	20,985
Net pension liability	929,000
Net OPEB liability	47,043
Total Noncurrent Liabilities	997,028
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred inflows relating to pension	58,000
Deferred inflows relating to OPEB	3,733
Total Deferred Inflows of Resources	61,733
<b>NET POSITION (DEFICIT):</b>	
Investment in capital assets	111,061
Unrestricted (Deficit)	(1,462,949)
Total Net Deficit	(1,351,888)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	<b>\$ 317,804</b>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020**

	Food Service Fund
OPERATING REVENUES	
Food service revenues	\$ 216,503
TOTAL OPERATING REVENUES	216,503
OPERATING EXPENSES	
Salaries	176,695
Employee benefits	204,202
Purchased property services	13,163
Other purchased services	617,774
Supplies	9,438
Miscellaneous	450
Depreciation	13,581
TOTAL OPERATING EXPENSES	1,035,303
OPERATING LOSS	(818,800)
NONOPERATING REVENUES	
Earnings on investments	1,378
State sources	30,975
Federal sources	707,863
Local sources	7,000
TOTAL NONOPERATING REVENUES	747,216
CHANGE IN NET DEFICIT	(71,584)
NET DEFICIT, BEGINNING OF YEAR	(1,280,304)
NET DEFICIT, END OF YEAR	\$ (1,351,888)

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020**

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 208,021
Payments to suppliers	(685,483)
Payments to employees	(359,556)
NET CASH USED BY OPERATING ACTIVITIES	(837,018)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	35,971
Federal sources	724,538
Local sources	7,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	767,509
CASH FLOWS FROM INVESTING ACTIVITIES:	
Earnings on investments	1,378
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,378
NET DECREASE IN CASH AND CASH EQUIVALENTS	(68,131)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	70,745
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,614
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (818,800)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	13,581
Donated commodities	68,770
(Increase) Decrease in:	
Other receivables	9,601
Inventories	(6,728)
Deferred outflows relating to pension	31,800
Deferred outflows relating to OPEB	(901)
Increase (Decrease) in:	
Accounts payable	(109,565)
Due to other funds	2,865
Unearned revenue	(18,083)
Accrued salaries and benefits	5,305
Accrued compensated absences	878
Net pension liability	(54,000)
Net OPEB liability	(737)
Deferred inflows relating to pension	38,000
Deferred inflows relating to OPEB	996
NET CASH USED BY OPERATING ACTIVITIES	\$ (837,018)
SUPPLEMENTAL DISCLOSURE:	
NONCASH NONCAPITAL FINANCING ACTIVITY	
Donated commodities	\$ 68,770

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2020**

	<u>Private- Purpose Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash	<u>\$ 530,424</u>	<u>\$ 84,128</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 530,424</u></u>	<u><u>\$ 84,128</u></u>
 <b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Other current liabilities	\$ -	\$ 84,128
 <b>NET POSITION</b>		
Restricted	<u>530,424</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 530,424</u></u>	<u><u>\$ 84,128</u></u>

The accompanying notes are an integral part of these financial statements.

**LEHIGHTON AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Interest earnings and contributions	<u>\$ 81,123</u>
TOTAL ADDITIONS	<u>81,123</u>
DEDUCTIONS	
Scholarships	<u>46,532</u>
TOTAL DEDUCTIONS	<u>46,532</u>
CHANGE IN NET POSITION	34,591
NET POSITION, BEGINNING OF YEAR	<u>495,833</u>
NET POSITION, END OF YEAR	<u><u>\$ 530,424</u></u>

The accompanying notes are an integral part of these financial statements.

## LEHIGHTON AREA SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### School District

The Lehigh Area School District ("the School District") is located in Northeastern Pennsylvania in Carbon County. The School District is comprised of the Boroughs of Lehigh, Parryville, and Weissport, and the Townships of East Penn, Mahoning, and Franklin.

The School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania ("the Commonwealth") 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).

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other School Districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act" (Article II, Section 211).

##### Board of School Directors

The public-school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

The School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such School District, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the School District is required to pay, or to pay any 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.

##### Administration

The Superintendent of Schools shall be the executive officer of the Board of School Directors and, in that capacity, shall administer the School District in conformity with Board policies and the

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision, and operation of the School District.

The Business Administrator recommended by the Superintendent and appointed by the Board of School Directors shall supervise and coordinate all business aspects of the School District. In this capacity, he or she shall be responsible to ensure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the School District. The Business Administrator is directly responsible to the Superintendent.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District.

The School District is a municipal corporation governed by an elected nine-member board. As required by accounting principles generally accepted in the United States of America, these financial statements are to present the School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

Joint Ventures

***Carbon Career & Technical Institute*** – The School District is a participating member of the Carbon Career & Technical Institute (“CCTI”). The CCTI is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CCTI's annual operating budget. Each participating district pays a pro-rata share of the CCTI's operating costs based on the number of students attending the CCTI's from their district. The School District's share of the CCTI's operating costs for 2019-2020 was \$1,421,654.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

On dissolution of the Carbon Career & Technical Institute, the net position of CCTI will be shared, on a pro-rata basis of each participating district's current market value of taxable real property, as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in CCTI as defined by accounting principles generally accepted in the United States of America, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the CCTI can be obtained from the CCTI's administrative office.

***Lehigh-Carbon Community College*** – The School District is a participating member of the Lehigh-Carbon Community College ("LCCC"). The LCCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the LCCC's annual operating budget. The amount of the annual operating costs of the LCCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in the LCCC and residing in the respective geographical areas of each of the member districts. The School District's share of LCCC's operating costs for 2019-2020 was \$233,396.

On dissolution of the Lehigh-Carbon Community College, the net position of LCCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in LCCC as defined by accounting principles generally accepted in the United States of America, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCCC can be obtained from the LCCC's administrative office at 2300 Main Street, Schnecksville, Pennsylvania.

Jointly Governed Organizations

***Carbon-Lehigh Intermediate Unit*** – The School District is a participating member of the Carbon-Lehigh Intermediate Unit ("CLIU"). The CLIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CLIU's annual operating budget. The CLIU is a self-sustaining organization that provides services for fees to participating Districts. As such, the School District has no on-going financial interest or financial responsibility in the CLIU. The CLIU contracts with participating districts to supply special education and computer services and acts as a conduit for certain federal programs.

Basis of Presentation

The financial statements of the School District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

***Entity-Wide Financial Statements***

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net position and the statement of activities display information about the School District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements include the financial activities of the primary government, except for fiduciary funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the School District and for each governmental program. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the School District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings attributable to acquiring, constructing, or improving those assets.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from the capital projects fund. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

***Fund Financial Statements***

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type. The School District did not report any nonmajor funds.

Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

***Governmental Funds***

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The School District reports the following major governmental funds:

The **general fund** is the School District's primary operating fund. It accounts for all financial resources of the general government, including the athletic fund, except those required to be accounted for in another fund.

The **capital projects and capital reserve funds** are used to account for the acquisition, construction, and renovation of major capital facilities and their related capital assets and to account for funds set aside for future capital needs.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue and similar revenue streams to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

***Proprietary Funds***

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The School District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not recognized proportionately within the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's proprietary fund are food service charges. Operating expenses for the School District's proprietary fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

***Fiduciary Funds***

Fiduciary funds account for the assets held by the School District as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the School District's own programs. The School District accounts for these assets as agency funds and trust funds. The agency fund accounts for funds held on behalf of students of the School District. It is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

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 of School Directors ("the Board") shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

***Accelerated Budget Process Option*** – Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least ten days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or 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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 ten 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 Pennsylvania 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.

The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the Pennsylvania Department of Education Form 2028 when the original appropriations were adopted. There were no budget transfers during the year ended June 30, 2020.

Use of Estimates

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

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the School District to invest in: 1) obligations, participations, and other instruments of any federal agency; 2) repurchase agreements with respect to U.S. Treasury bills or obligations; 3) negotiable certificates of deposit; 4) bankers' acceptances; 5) commercial paper; 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933; and 7) savings or demand deposits. The specific conditions under which the School District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

United States of America, any state of the United States of America, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120 percent of the funds deposited.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

Property taxes, which were levied during the fiscal year, are recognized as revenue in the fund financial statements when received by the School District during the fiscal year and also estimated to be received by the School District within 60 days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within 60 days after the fiscal year-end, are recorded as receivable and deferred inflows of resources in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount. Management believes all amounts are collectible since any outstanding amounts are liened against the respective property.

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face period
November 1 - collection	-	Penalty period, 10% of gross levy
December 31	-	Lien date

The School District's taxes are billed and collected by the School District. The tax on real estate for public school purposes for fiscal year 2019 - 2020 was 47.88 mills (\$47.88 for \$1,000 of assessed valuation) for the entire School District.

Inventories

All inventories are valued at the lower of cost (first-in, first-out method) or market.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$2,500. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant, and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Site improvements	8 - 65 years

Compensated Absences

Vacation benefits are accrued as a liability since the employees are allowed to carryover vacation days and are compensated for unused vacation days upon retirement.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

netted against outstanding principal balances and amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortized amounts are amortized using the straight-line method.

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 is reported as other financing sources. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The School District currently has three types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year end and, therefore, not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet. Pension and OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net pension and OPEB liabilities under full accrual basis reporting are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension and OPEB liabilities are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balances of the governmental funds are classified, if applicable, as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by formal action of the Board. The Board is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Superintendent and Business Administrator may assign amounts for specific purposes.

*Unassigned* – all other spendable amounts.

It is the policy of the School District to maintain a minimum general fund unassigned fund balance to be used for unanticipated emergencies of approximately five (minimum) to eight (maximum) percent of the budgeted expenditures for that fiscal year. If the unassigned portion of the fund balance falls below the threshold of five percent, the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until eight percent is attained.

The School District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The School District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) 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.

NOTE 2 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 School District does not have a policy for custodial credit risk but adheres to Commonwealth of Pennsylvania Law Act 72 ("Act 72") for the collateralization requirements governing public funds. At June 30, 2020, the carrying amount of the School District's deposits was \$5,327,347, and the bank balance was \$6,182,356. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$5,932,356 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured; and the collateral held by the depository's agent was not in the School District's name.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 INTERNAL RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2020 is as follows:

Receivable To	Payable From	Amount
General Fund	Food Service Fund	\$ 583,112

Interfund balances between funds result mainly from the time lag between when reimbursable expenditures occur and payments between the funds have been made.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital assets not being depreciated:				
Land	\$ 325,786	\$ -	\$ -	\$ 325,786
Total Capital Assets Not Being Depreciated	<u>325,786</u>	<u>-</u>	<u>-</u>	<u>325,786</u>
Capital assets being depreciated:				
Site improvements	2,252,612	-	7,900	2,244,712
Buildings and improvements	105,320,727	301,155	2,348,182	103,273,700
Furniture and equipment	1,648,786	-	9,449	1,639,337
Total Capital Assets Being Depreciated	<u>109,222,125</u>	<u>301,155</u>	<u>2,365,531</u>	<u>107,157,749</u>
Less accumulated depreciation for:				
Site improvements	1,745,873	63,956	5,662	1,804,167
Buildings and improvements	17,998,484	2,690,228	1,774,282	18,914,430
Furniture and equipment	976,759	98,681	8,503	1,066,937
Total Accumulated Depreciation	<u>20,721,116</u>	<u>2,852,865</u>	<u>1,788,447</u>	<u>21,785,534</u>
Total Capital Assets Being Depreciated, Net	<u>88,501,009</u>	<u>(2,551,710)</u>	<u>577,084</u>	<u>85,372,215</u>
Governmental Activities Assets, Net	<u>\$ 88,826,795</u>	<u>\$ (2,551,710)</u>	<u>\$ 577,084</u>	<u>\$ 85,698,001</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 634,640	\$ -	\$ -	\$ 634,640
Accumulated depreciation	509,998	13,581	-	523,579
Business-type Activities, Net	<u>\$ 124,642</u>	<u>\$ (13,581)</u>	<u>\$ -</u>	<u>\$ 111,061</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

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

Governmental Activities:	
Regular instruction	\$ 31,165
Vocational instruction	2,596
Adult instruction	3,850
Pupil services	980
Business services	60,410
Operation and maintenance of plant services	73,872
Central services	147,136
Student activities	21,119
Depreciation, unallocated	<u>2,511,737</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,852,865</u>
Business-type Activities:	
Food Service	<u>\$ 13,581</u>

NOTE 5 LONG-TERM LIABILITIES

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2020:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deductions/</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
General obligations bonds and notes	\$ 55,546,448	\$ -	\$1,847,311	\$ 53,699,137	\$1,873,310
Premiums on bonds	2,741,842	-	114,243	2,627,599	114,243
Discounts on bonds	<u>(143,343)</u>	-	<u>(7,782)</u>	<u>(135,561)</u>	<u>(7,782)</u>
General obligation bonds, net	58,144,947	-	1,953,772	56,191,175	1,979,771
Compensated absences	2,249,077	-	151,680	2,097,397	224,908
Net OPEB liability	3,297,700	14,263	-	3,311,963	-
Net pension liability	<u>56,527,000</u>	-	<u>3,095,000</u>	<u>53,432,000</u>	-
	<u>\$120,218,724</u>	<u>\$ 14,263</u>	<u>\$5,200,452</u>	<u>\$115,032,535</u>	<u>\$2,204,679</u>

The following summarizes the changes in the long-term liabilities of business-type activities for the year ended June 30, 2020:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

	Balance June 30, 2019	Additions	Deductions/ Payments	Balance June 30, 2020	Due Within One Year
Compensated absences	\$ 22,439	\$ 878	\$ -	\$ 23,317	\$ 2,332
Net OPEB liability	47,780	-	737	47,043	-
Net pension liability	983,000	-	54,000	929,000	-
	<u>\$ 1,053,219</u>	<u>\$ 878</u>	<u>\$ 54,737</u>	<u>\$ 999,360</u>	<u>\$ 2,332</u>

Payments of long-term liabilities are expected to be funded by the general fund for governmental activities, and for business type activities, long-term liabilities will be paid by the food service fund.

General Obligation Bonds and Notes

Federally Taxable General Obligation Qualified Zone Academy Bonds - Series of 2014 – On December 18, 2014, the School District issued \$8,449,000 of General Obligation Bonds - Series of 2014. The proceeds were used: (1) to finance additions and renovations to the Lehigh Area Middle School and (2) pay the allowable costs of issuing the bond. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Series of 2014 Bonds mature on November 1, 2034. The coupon rate is 1.5%.

\$ 7,647,812

General Obligation Note - Series of 2014 – On December 3, 2014, the School District issued \$10,000,000 of General Obligation Notes - Series of 2014. The proceeds were used for the Middle School and High School Renovation projects. The Series of 2014 Notes mature on November 15, 2025. The interest rate is fixed at 2.16%.

4,885,000

General Obligation Bonds - Series of 2015 – On April 9, 2015, the School District issued \$5,000,000 of General Obligation Bonds - Series of 2015. The proceeds were used: (1) to finance additions and renovations to the Lehigh Area Middle School and High School buildings, and (2) pay the costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Series of 2015 Bonds mature from November 15, 2025 to November 15, 2040. The interest rates range from 0.50% to 5.00%.

4,880,764

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

General Obligation Bonds - Series A of 2015 – On November 30, 2015, the School District issued \$32,055,000 of General Obligation Bonds - Series A of 2015. The proceeds were used to provide funds to finance the acquisition, design, construction, furnishing, and any other expenses related to elementary school facilities, the completion of additions and renovations to the existing Lehigh Area Middle School and High School buildings and, to the extent of any remaining funds, other capital projects of the School District, and pay the costs of issuing the Bonds. The Series A of 2015 Bonds mature from November 15, 2040 to November 15, 2043. The interest rates range from 0.50% to 5.00%.

33,507,599

Qualified Zone Academy Bonds - Series of 2017 – On March 29, 2017, the School District issued \$6,800,000 of Qualified Zone Academy Bonds - Series of 2017. The proceeds will be used to permanently finance the High School project and any remaining funds to reimburse the School District Funds. The Series of 2017 Bonds mature on November 11, 2031. The interest rate is fixed at 4.40%.

5,270,000

\$ 56,191,175

Principal and interest payments for the succeeding fiscal years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,979,771	\$ 3,080,928	\$ 5,060,699
2022	2,011,771	3,094,519	5,106,290
2023	2,038,771	3,102,888	5,141,659
2024	2,070,771	3,099,207	5,169,978
2025	2,113,771	3,093,951	5,207,722
2026 – 2030	10,912,854	11,025,956	21,938,810
2031 – 2035	11,093,169	7,607,408	18,700,577
2036 – 2040	12,377,559	5,010,129	17,387,688
2041 - 2044	<u>11,592,738</u>	<u>1,158,835</u>	<u>12,751,573</u>
	<u>\$ 56,191,175</u>	<u>\$ 40,273,821</u>	<u>\$ 96,464,996</u>

NOTE 6 COMPENSATED ABSENCES

**Vacation Days** – 12-month support personnel are entitled to carryover a maximum of five vacation days for use in the following fiscal year. These days are valued based on each eligible employee's per diem rate as of June 30, 2020. The vacation leave earned as of June 30, 2020 in the General Fund that will use currently available financial resources is \$4,065, including FICA tax and retirement contributions. This amount is also shown as a current liability in the

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 COMPENSATED ABSENCES (cont'd)

governmental activities column of the government-wide statement of net position. The remaining vacation leave earned as of June 30, 2020, of \$49,929, including FICA tax and retirement contributions, is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

**Sick Pay** – All employees, based upon their classification, shall receive the following amounts for each accumulated unused sick day at retirement, unless said employee elects to use their respective accumulated unused sick days to continue health insurance coverage. The sick pay earned and recorded in the Enterprise Fund and in the business-type activities column of the government-wide statement of net position is \$23,317. The sick leave earned as of June 30, 2020 in the General Fund that will use currently available financial resources is \$220,843. The amount is also shown as a current liability in the governmental activities column of the government-wide statement of net position. The remaining sick pay earned as of June 30, 2020 is \$1,822,560.

Act 93 Administrators	\$125 per day
Educational Support Personnel Association Members	\$ 65 per day
Education Association Members	\$100 per day

NOTE 7 PENSION PLAN

Plan Description

The School District contributes to the Public School Employees' Retirement System ("PSERS"), 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. Benefit terms and contributions may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval. The PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service. Benefits are generally equal to two percent or two and one-half percent, depending upon the 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 may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service. Benefit terms may be amended by passing a bill in the Pennsylvania House of Representatives and Senate and sending the bill to the Governor for approval.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or two and one-half percent, depending upon the 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 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.

Member Contributions

Active members who joined the system prior to July 22, 1983 contributed at 5.25 percent (Membership Class T-C), or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (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 percent (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 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (base rate) of

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The School District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2020, the rate of the employer contribution was 34.29 percent of covered payroll, which was comprised of 33.36 percent for pension contributions, 0.84 percent for healthcare contributions, and 0.09 for the Act 5 defined contribution plan. The School District's contribution to PSERS for pension contributions for the year ended June 30, 2020 was \$5,207,000.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2020, the School District reported a liability of \$54,361,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2018 to June 30, 2019. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School District's proportion was 0.1162 percent, which was an decrease of 0.0036 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$6,176,600. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 156,000
Changes in assumptions	520,000	-
Difference between expected and actual experience	299,000	1,802,000
Changes in proportions	1,216,000	1,438,000
Difference between employer contributions and proportionate share of total contributions	82,800	-
Contributions subsequent to the date of measurement	<u>5,207,000</u>	<u>-</u>
	<u>\$ 7,324,800</u>	<u>\$ 3,396,000</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Deferred outflows of resources of \$5,207,000 resulting from the School District's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2021	\$ 471,600
2022	(902,400)
2023	(944,400)
2024	<u>97,000</u>
	<u>\$ (1,278,200)</u>

Actuarial Assumptions

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

- Actuarial cost method – entry age normal, level percentage of pay
- Investment return – 7.25 percent, including inflation of 2.75 percent
- Salary increases – effective average of 5.00 percent, which reflects an allowance for inflation of 2.75, real wage growth and merit or seniority increases of 2.25 percent
- 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 long-term expected rate of return on pension plan investments was determined using the building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

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

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

Discount Rate

The discount used to measure the total pension liability was 7.25 percent. 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 which are 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.

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

The following presents the net pension liability, calculated using the discount rate of 7.25 percent, 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 percent) or one percentage point higher (8.25 percent) than the current rate.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ 67,713,000	\$ 54,361,000	\$ 43,055,000

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.state.pa.us](http://www.psers.state.pa.us).

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN

Health Insurance Premium Assistance Program

The School District contributes to the Health Insurance Premium Assistance Program, which is a governmental cost sharing, multiple-employer other postemployment benefits plan ("OPEB") for all eligible retirees who qualify and elect to participate. Employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Benefit terms may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval.

Premium Assistance Eligibility Criteria

Retirees of the system can participate in the premium assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan Description

The School District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

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 comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

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

Employer Contributions

The School District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2020, the rate of the employer contribution was 34.29 percent of covered payroll, which was comprised of 33.36 percent for pension contributions, 0.84 percent for healthcare contributions, and 0.09 for the Act 5 defined contribution plan. The School District's OPEB contribution to PSERS for the year ended June 30, 2020 was \$131,000.

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

At June 30, 2020, the School District reported a liability of \$2,471,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the system's total OPEB liability as of June 30, 2018 to June 30, 2019. The School District's proportion of the net liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School District's proportion was 0.1162 percent, which was a decrease of 0.0036 percent from its proportion measured as of June 30, 2018.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

For the year ended June 30, 2020, the School District recognized OPEB expense of \$119,286. At June 30, 2020, the School 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>
Difference between expected and actual experience	\$ 14,000	\$ -
Changes in assumptions	82,000	73,000
Net difference between projected and actual investment earnings	4,000	-
Changes in proportions	68,000	77,000
Difference between employer contributions and proportionate share of total contributions	1,143	-
Contributions subsequent to the measurement date	<u>131,000</u>	<u>-</u>
	<u>\$ 300,143</u>	<u>\$ 150,000</u>

Change in assumption: The discount rate used to measure the total OPEB liability decreased from 2.98 percent as of June 30, 2018 to 2.79 percent as of June 30, 2019.

Deferred outflows of resources of \$131,000, resulting from the School District's contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,

2021	\$ 1,286
2022	1,286
2023	286
2024	(715)
2025	20,000
Thereafter	<u>(3,000)</u>
	<u>\$ 19,143</u>

Actuarial Assumptions

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

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

- Actuarial cost method – entry age normal – level percent of pay
- Investment return – 2.79 percent - S&P 20-year Municipal Bond Rate
- Salary growth – effective average of 5.00 percent comprised of inflation of 2.75 percent and 2.25 percent 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 percent.
  - Eligible retirees will elect to participate post-age 65 at 70 percent.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017 determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value
- Participation rate: 63 percent 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.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	13.2%	0.2%
U.S. Core Fixed Income	83.1%	1.0%
Non-U.S. Developed Fixed	3.7%	0.0%
	<u>100.0%</u>	

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

For the year ended June 30, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 1.63 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Sensitivity of the System's Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual premium assistance. As of June 30, 2019, retirees' premium assistance benefits are not subject to future healthcare cost increases. The annual premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the \$1,200 per year cap, which is a small percentage of the total population and has a minimal impact on the healthcare cost trends as depicted below.

The following presents the system's net OPEB liability for June 30, 2019, calculated using current healthcare cost trends as well as what the system's net OPEB liability would be if its health cost trends were one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net OPEB liability	\$ 2,471,000	\$ 2,471,000	\$ 2,472,000

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

The following presents the net OPEB liability, calculated using the discount rate of 2.79 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

one percentage point lower (1.79 percent) or one percentage point higher (3.79 percent) than the current rate:

	1% Decrease 1.79%	Current Rate Discount Rate 2.79%	1% Increase 3.79%
School District's proportionate share of the net OPEB liability	\$ 2,815,000	\$ 2,471,000	\$ 2,186,000

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report, which can be found on the system's website at [www.psers.pa.gov](http://www.psers.pa.gov).

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan) for employees who meet the eligibility requirements upon retirement. The School District's 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. Under GASB Statement No. 75, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan. A plan report is available in the School District office.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The School District has no assets accumulated in a trust or equivalent arrangement for the purpose of administering the OPEB plan. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For the year ended June 30, 2020, the School District paid \$26,837 to plan members eligible for receiving benefits.

Participants

As of July 1, 2019, the plan had 278 participants (275 active, 3 retired).

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of July 1, 2019. The total OPEB liability as of July 1, 2019 was based off the July 1, 2018 actuarial valuation using the actuarial assumptions noted below.

Discount Rate

The discount rate was 3.36 percent, based on the S&P Municipal Bond 20-year High Grade Rate Index at July 1, 2019.

Salary

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of 2.5 percent cost of living adjustment, 1.0 percent real wage growth, and for teachers and administrators, a merit increase which varies by age from 2.75 to 0.0 percent.

Withdrawal

Rates of withdrawal vary by age, gender, and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9 percent for both men and women and decrease with age and service.

<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>	<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
25	2.5700%	5.0200%	45	1.3700%	1.6500%
30	2.5700%	4.0200%	50	1.9200%	2.0600%
35	1.5000%	2.8500%	55	3.3800%	3.1100%
40	1.3400%	1.6000%	60	5.5700%	6.4000%

Mortality

Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit plan actuarial valuations.

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

Disability

No disability was assumed.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Retirement

Assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender.

<u>Age</u>	<u>Age 55 and 25 Years of Service</u>		<u>Superannuation</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

Percent of Eligible Retirees Electing Coverage in Plan

Twenty-five percent of teachers and administrators and ten percent of the support staff are assumed to elect coverage.

Percent Married at Retirement

Thirty-five percent of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

Spouse Age

Wives are assumed to be two years younger than their husbands.

Per Capita Claims Cost

Making use of weighted averages for various plan designs, the per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

<u>Age</u>	<u>Medical and Prescription Drug Combined</u>	
	<u>Male</u>	<u>Female</u>
45 - 49	\$ 7,474	\$ 10,794
50 - 54	\$ 9,899	\$ 12,200
55 - 59	\$ 12,056	\$ 12,765
60 - 64	\$ 15,733	\$ 14,664
65+	\$ 7,721	\$ 7,721

Retiree Contributions

Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate.

Healthcare Cost Trend Rate

The healthcare cost trend rate was 6.0 percent in 2018, and 5.5 percent in 2019 through 2021. Rates gradually decrease from 5.4 percent in 2022 to 3.8 percent in 2075 and after based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Cost Method – Entry Age Normal

Under the entry age normal cost method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The accrued liability as of the valuation date is the excess of the present value of future benefits over the present value of future normal cost. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets. Actuarial gains and losses serve to reduce or increase the unfunded accrued liability.

Participant Data

Participant data is based on census information as of July 1, 2019. Due to the timing of School District turnover, the data is believed to be representative of the population for the 2019 - 2020 school year.

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

	1% Decrease 2.36%	Current Rate Discount Rate 3.36%	1% Increase 4.36%
Net OPEB liability	\$ 956,750	\$ 888,006	\$ 822,912

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB liability	\$ 777,532	\$ 888,006	\$ 1,019,402

Changes in Total OPEB Liability

Total OPEB obligation as of July 1, 2018	\$ 847,480
Service cost	57,702
Interest on OPEB obligation	26,682
Effect of assumption changes or inputs	(25,714)
Benefit payments	(18,144)
Total OPEB obligation as of July 1, 2019	<u>\$ 888,006</u>

The amount of OPEB expense for the single employer plan recognized by the School District was \$67,289 for the year ended June 30, 2021. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 24,652	\$ 23,571
Difference between expected and actual experience	-	176,855
Benefit payment subsequent to the July 1, 2019 measurement date	26,837	-
Total	<u>\$ 51,489</u>	<u>\$ 200,426</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 SCHOOL DISTRICT POSTEMPLOYMENT HEALTHCARE PLAN (cont'd)

Deferred outflows of resources of \$26,837 resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Deferred inflows of resources due to the change in assumptions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2021	\$ (17,095)
2022	(17,095)
2023	(17,095)
2024	(17,095)
2025	(17,095)
Thereafter	<u>(90,299)</u>
	<u><u>\$ (175,774)</u></u>

NOTE 10 AGGREGATION OF NET OPEB LIABILITY

The School District's reconciliation of the net OPEB liability is as follows:

	PSERS Healthcare Premium Assistance Plan (See Note 8)	School District Postemployment Healthcare Benefits Plan (See Note 9)	<u>Total</u>
Deferred Outflows Related to OPEB	\$ 300,143	\$ 51,489	\$ 351,632
Net OPEB Liability	\$ 2,471,000	\$ 888,006	\$ 3,359,006
Deferred Inflows Related to OPEB	\$ 150,000	\$ 200,426	\$ 350,426

NOTE 11 FUND BALANCES

As of June 30, 2020, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
Restricted:				
Capital projects	\$ -	\$ 1	\$ 235,338	\$ 235,339
Unassigned	<u>982,609</u>	<u>-</u>	<u>-</u>	<u>982,609</u>
Total Fund Balances	<u>\$ 982,609</u>	<u>\$ 1</u>	<u>\$ 235,338</u>	<u>\$ 1,217,948</u>

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the School District. In the opinion of the School District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the School District's finances.

NOTE 13 RISK MANAGEMENT

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District has purchased various insurance policies to safeguard the assets of the School District from the risk of loss.

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following General Fund function incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2020:

Special programs	\$	398,721
Non-public programs	\$	51,923
Administration	\$	17,721
Other support services	\$	2,963

The excess of expenditures over appropriations was financed with positive budget variances in other functions.

NOTE 15 DEFICIT NET POSITION

For governmental activities, business-type activities, and the food service fund, the unrestricted net deficit amounts of \$52,676,724 (governmental activities) and \$1,462,949 (business-type activities and food service fund), respectively, includes the effect of the deferring the recognition

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 DEFICIT NET POSITION (cont'd)

of pension and OPEB contributions made subsequent to the measurement date of the net pension and OPEB liabilities, the unamortized portion of contributions made in excess of the School District's share of its proportionate contributions to its pension and OPEB plans, and the deferred outflows resulting from the change in the School District's share of the net pension and OPEB liabilities. This is offset by the School District's actuarially determined pension and OPEB liabilities and the deferred inflows resulting from the differences between changes in proportion and expected and actual experience.

NOTE 16 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus which is ongoing at June 30 2020, economic and operational uncertainties have arisen which may impact the District in fiscal year 2021. There exist uncertainties surrounding the District's operations in the 2020-2021 school year in terms of whether instruction will continue to be remote or hybrid and for what length of time. The uncertainties surrounding the on-site operations will have a direct impact on individual revenue and expense items that are dependent on services being provided to students while on site. The extent of the potential impact is unknown as the COVID-19 pandemic continues to develop.

NOTE 17 SUBSEQUENT EVENTS

The School District has evaluated all subsequent events through April 30, 2021, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LEIGHTON AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE					
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
School District's proportion of the net pension liability	0.1162%	0.1198%	0.1153%	0.1162%	0.1143%	0.1125%
School District's proportion of the net pension liability - dollar value	\$ 54,361,000	\$ 57,510,000	\$ 56,945,000	\$ 57,585,000	\$ 49,510,000	\$ 44,528,000
School District's covered employee payroll	\$ 15,987,730	\$ 16,420,920	\$ 15,355,974	\$ 15,048,374	\$ 14,702,281	\$ 14,360,280
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	340.02%	350.22%	370.83%	382.67%	336.75%	310.08%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT PENSION CONTRIBUTIONS  
Pennsylvania Public School Employees' Retirement System (PSERS)**

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 5,207,000	\$ 5,212,000	\$ 5,212,000	\$ 4,547,000	\$ 3,789,000	\$ 2,955,000
Contributions in relation to the contractually required contribution	5,207,000	5,212,000	5,212,000	4,547,000	3,789,000	2,955,000
Contribution excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered employee payroll	\$ 15,608,513	\$ 15,987,730	\$ 16,420,920	\$ 15,355,974	\$ 15,048,374	\$ 14,702,281
Contributions as a percentage of covered-employee payroll	33.36%	32.60%	31.74%	29.61%	25.18%	20.10%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY  
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
School District's proportion of the net OPEB liability	0.1162%	0.1198%	0.1153%
School District's proportion of the net OPEB liability - dollar value	\$ 2,471,000	\$ 2,498,000	\$ 2,349,000
School District's covered employee payroll	\$ 15,987,730	\$ 16,420,920	\$ 15,355,974
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	15.46%	15.21%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.56%	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT OPEB CONTRIBUTIONS  
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Contractually required contribution	\$ 131,000	\$ 133,000	\$ 136,000
Contributions in relation to the contractually required contribution	<u>131,000</u>	<u>133,000</u>	<u>136,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 15,608,513	\$ 15,987,730	\$ 16,420,920
Contributions as a percentage of covered-employee payroll	0.84%	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LEHIGHTON AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS  
SINGLE EMPLOYER PLAN**

	MEASUREMENT DATE		
	July 1, 2019	July 1, 2018	July 1, 2017
TOTAL OPEB LIABILITY			
Service cost	\$ 57,702	\$ 63,875	\$ 62,134
Interest on total OPEB liability	26,682	32,646	23,830
Differences between expected and actual experience	-	(212,227)	-
Effect of assumption changes or inputs	(25,714)	595	32,209
Benefit payments	(18,144)	(36,116)	(31,365)
NET CHANGE IN TOTAL OPEB LIABILITY	40,526	(151,227)	86,808
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	847,480	998,707	911,899
TOTAL OPEB LIABILITY, END OF YEAR	<u>\$ 888,006</u>	<u>\$ 847,480</u>	<u>\$ 998,707</u>
<u>PLAN FIDUCIARY NET POSITION</u>			
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	\$ -	\$ -	\$ -
PLAN FIDUCIARY NET POSITION, END OF YEAR	\$ -	\$ -	\$ -
SCHOOL DISTRICT'S NET OPEB LIABILITY	<u>\$ 888,006</u>	<u>\$ 847,480</u>	<u>\$ 998,707</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%	0.00%
Covered employee payroll	\$ 14,510,580	\$ 14,510,580	\$ 14,170,306
School District's net OPEB liability as a percentage of covered payroll	6.12%	5.84%	7.05%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**SINGLE AUDIT SUPPLEMENT**



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

April 30, 2021

Board of School Directors  
Lehigh Area School District  
Lehigh, 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 Lehigh Area School District ("the School District"), Lehigh, Pennsylvania, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated April 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting ("internal control") to determine the 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 the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

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

#### Compliance and Other Matters

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

#### School District's Response to Findings

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

#### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP



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

April 30, 2021

Board of School Directors  
Lehigh Area School District  
Lehigh, Pennsylvania

Report on Compliance for Each Major Federal Program

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

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 on the 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 ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of School Directors  
Lehigh Area School District

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 the School District's compliance.

#### Opinion on Each Major Federal Program

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

#### Report on Internal Control Over Compliance

Management of the 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 the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 the School District's internal control over compliance.

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

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

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

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

**LEHIGHTON AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2020**

Source Code	Federal CFDA Number	Pass-through Grantor Number	Grant Period Beginning - Ending Dates	Grant Amount	Total Received for Year	Accrued (Unearned) Revenue at July 1, 2019	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue at June 30, 2020	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>										
Passed through the Pennsylvania Department of Education										
I	84.010	013-190226	08/15/18 - 09/30/19	\$ 587,226	\$ 175,048	\$ 175,048	\$ -	\$ -	\$ -	\$ -
I	84.010	013-200226	07/23/19 - 09/30/20	580,506	270,902	-	580,450	580,450	309,548	-
I	84.010	107-200226	07/23/19 - 09/30/20	48,732	42,235	-	48,732	48,732	6,497	-
				<u>1,216,464</u>	<u>488,185</u>	<u>175,048</u>	<u>629,182</u>	<u>629,182</u>	<u>316,045</u>	-
<b>Total CFDA #84.010</b>										
I	84.367	020-190226	08/15/18 - 09/30/19	92,987	20,710	20,710	-	-	-	-
I	84.367	020-200226	07/23/19 - 09/30/20	101,648	81,115	-	100,836	100,836	19,721	-
				<u>194,635</u>	<u>101,825</u>	<u>20,710</u>	<u>100,836</u>	<u>100,836</u>	<u>19,721</u>	-
<b>Total CFDA #84.367</b>										
I	84.424	144-190226	08/15/18 - 09/30/19	36,521	23,478	23,478	-	-	-	-
I	84.424	144-200226	08/15/19 - 09/30/20	43,951	26,371	-	43,951	43,951	17,580	-
				<u>80,472</u>	<u>49,849</u>	<u>23,478</u>	<u>43,951</u>	<u>43,951</u>	<u>17,580</u>	-
<b>Total CFDA #84.424</b>										
Passed through the Carbon-Lehigh Intermediate Unit										
I	84.027	N/A	07/01/18 - 06/30/19	352,661	115,961	115,961	-	-	-	-
I	84.027	N/A	07/01/19 - 06/30/20	353,224	241,883	-	353,224	353,224	111,341	-
				<u>705,885</u>	<u>357,844</u>	<u>115,961</u>	<u>353,224</u>	<u>353,224</u>	<u>111,341</u>	-
<b>Total CFDA #84.027</b>										
I	84.173	N/A	07/01/18 - 06/30/19	1,416	1,416	1,416	-	-	-	-
I	84.173	N/A	07/01/19 - 06/30/20	2,330	2,330	-	2,330	2,330	-	-
				<u>3,746</u>	<u>3,746</u>	<u>1,416</u>	<u>2,330</u>	<u>2,330</u>	<u>-</u>	<u>-</u>
				<u>2,201,202</u>	<u>1,001,449</u>	<u>336,613</u>	<u>1,129,523</u>	<u>1,129,523</u>	<u>464,687</u>	<u>-</u>
<b>Total CFDA #84.173</b>										
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>										
<b>U.S. DEPARTMENT OF AGRICULTURE</b>										
Passed through the Pennsylvania Department of Agriculture										
I	10.555	N/A	07/01/19 - 06/30/20	N/A	63,426	(8,641)	68,770	68,770	(3,297)	-
I	10.555	N/A	07/01/18 - 06/30/19	N/A	99,722	99,722	-	-	-	-
I	10.555	N/A	07/01/19 - 06/30/20	N/A	441,130	-	482,187	482,187	41,057	-
					<u>604,278</u>	<u>91,081</u>	<u>550,957</u>	<u>550,957</u>	<u>37,760</u>	<u>-</u>
I	10.553	N/A	07/01/18 - 06/30/19	N/A	155,999	35,438	129,219	129,219	8,658	-
I	10.558	N/A	07/01/19 - 06/30/20	N/A	27,687	-	27,687	27,687	-	-
					<u>787,964</u>	<u>126,519</u>	<u>707,863</u>	<u>707,863</u>	<u>46,418</u>	<u>-</u>
<b>TOTAL FEDERAL AWARDS</b>										
					<u>\$ 1,789,413</u>	<u>\$ 463,132</u>	<u>\$ 1,837,386</u>	<u>\$ 1,837,386</u>	<u>\$ 511,105</u>	<u>\$ -</u>
<b>SPECIAL EDUCATION CLUSTER (IDEA) (CFDA's #84.027 and #84.173)</b>										
<b>CHILD NUTRITION CLUSTER (CFDA's #10.553 and #10.555)</b>										
					<u>\$ 361,590</u>	<u>\$ 117,377</u>	<u>\$ 355,554</u>	<u>\$ 355,554</u>	<u>\$ 111,341</u>	<u>\$ -</u>
					<u>\$ 760,277</u>	<u>\$ 126,519</u>	<u>\$ 680,176</u>	<u>\$ 680,176</u>	<u>\$ 46,418</u>	<u>\$ -</u>

Source Codes:  
I - Indirect Funding

LEHIGHTON AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Lehigh Area School District. Federal awards passed through other government agencies are included on the schedule.

NOTE B BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting as described in the notes to the basic financial statements.

NOTE C NON-MONETARY ASSISTANCE

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 (National School Lunch Program - Donated Commodities) represent surplus food consumed by the School District during the 2019-2020 fiscal year. The School District has food commodities totaling \$3,297 in inventory as of June 30, 2020.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues, but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2020 was \$3,672.

NOTE E INDIRECT COST RATE

The School District has not elected to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

LEHIGHTON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A – SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements*

Type of auditor’s report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified?   X   Yes        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?        Yes   X   None reported

Type of auditor’s report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

       Yes   X   No

Identification of major programs:

CFDA Numbers  
10.553 and 10.555  
84.010

Name of Federal Program or Cluster  
Child Nutrition Cluster  
Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

       Yes   X   No

LEHIGHTON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART B – FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

**Finding #2019-001**

YEAR-END ADJUSTMENTS NOT POSTED RESULTING IN MATERIAL AUDIT ADJUSTMENTS

Condition: During the audit of the School District's financial statements, we identified material misstatements in the School District's general ledger account balances which necessitated the proposal of material audit adjustments.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP.")

Cause: The School District's business office did not perform an adequate year-end closing process.

Effect: Several material audit adjustments were necessary to properly reflect balances as of year-end.

Recommendation: We recommend that the School District take steps to implement procedures to ensure that year end reconciliations and adjustments are posted in a timely manner.

Status: During our current year audit, we identified material misstatements in the School District's general ledger that required the proposal of material audit adjustments. This finding remains applicable and is being reissued as Finding #2020-001.

**Finding #2019-002**

GENERAL FUND BUDGET

Condition: In reviewing the budget, we noted a number of areas in which the budget does not appear to represent current activity levels of the School District. In addition, the District overspent the total general fund budget by \$3,417,274.

Criteria: The fundamental purpose of budgetary control is to plan beforehand for the operations of the School District and then maintain the operations according to the plan.

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**Effect:** Budgetary comparisons to actual results stimulate the early identification of operational problems and help ensure that timely decisions are made resolving the problems, resulting in better coordination and control of business efforts and in more effective use of the School District's resources.

**Cause:** The School District did not effectively manage District operations in accordance with its approved budget.

**Recommendation:** We recommended that the School District monitor its budget versus actual results during the year and make the appropriate decisions based on those results.

**Status:** During our current year audit we noted that the District monitored its budget versus actual results and made the appropriate decisions which resulted in a budget surplus in the current year. This finding is deemed to be resolved.

**Finding #2019-003**

FUND BALANCE POLICY

**Condition:** During our prior year audit, we noted that the School District is currently not in compliance with its fund balance policy, which states "The School District will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent of the budgeted expenditures for that fiscal year." At year-end, the general fund unassigned fund balance is well below five percent of the budgeted expenditures for the year ended June 30, 2019.

**Criteria:** The maintenance of a fund balance is essential to the preservation of the financial integrity of the School District and is fiscally advantageous for both the School District and the taxpayer. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

**Effect:** The School District may have insufficient funds in future years for operating expenditures and debt service.

**Cause:** The School District did not effectively manage School District operations in accordance with its approved budget in the current year and previous years resulting in a depleted general fund unassigned fund balance.

**Recommendation:** In order to restore the general fund unassigned fund balance, the School District should plan to adjust budgeted resources in the subsequent fiscal years such as increasing revenues and decreasing expenditures or a combination of both.

**Status:** During our current year audit the District was found to not be in compliance with its fund balance policy. This finding remains applicable and is being reissued as Finding #2020-002.

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**Finding #2019-004**

INTERNAL BALANCES

Condition: During our prior year audit, we noted a substantial interfund balance exists between the general fund and food service fund. At June 30, 2019, the food service fund owed the general fund \$580,247.

Criteria: In accordance with accounting principles generally accepted in the United States of America, interfund balances not expected to be repaid should be eliminated by an operating transfer between the funds.

Effect: The general fund's unassigned fund balance may be overstated if the food service fund does not make repayment to the general fund.

Cause: Recurring losses in the food service fund subsidized by the general fund.

Recommendation: We recommended that the School District develop a strategic plan to address the large interfund receivable and payable. As part of the plan, the School District should consider interfund transfers to address the balances; the need to potentially raise taxes, fees, and/or charges for services in order to raise additional funds that could be used to pay off the interfund balances.

Status: During our current year audit, we noted that the interfund balance continued to increase. This finding remains applicable and is being reissued as Finding #2020-003.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

**Finding #2020-001**

YEAR-END ADJUSTMENTS NOT POSTED RESULTING IN MATERIAL AUDIT ADJUSTMENTS

Condition: During the audit of the School District's financial statements, we identified material misstatements in the School District's general ledger account balances which necessitated the proposal of material audit adjustments.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process in order to accurately and completely close the current year general ledger in a timely manner. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP.")

Cause: The School District's business office did not perform an adequate year-end closing process.

LEHIGHTON AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Effect: Several material audit adjustments were necessary to properly reflect balances as of year-end.

Recommendation: We recommended that the School District take steps to implement procedures to ensure that year end reconciliations and adjustments are posted in a timely manner.

**Finding #2020-002**

FUND BALANCE POLICY

Condition: During our current year audit we noted that the School District is currently not in compliance with its fund balance policy, which states "The School District will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent of the budgeted expenditures for that fiscal year." At year-end, the general fund unassigned fund balance is well below five percent of the budgeted expenditures for the year ended June 30, 2020.

Criteria: The maintenance of a fund balance is essential to the preservation of the financial integrity of the School District and is fiscally advantageous for both the School District and the taxpayer. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

Effect: The School District may have insufficient funds in future years for operating expenditures and debt service.

Cause: The School District did not effectively manage School District operations in accordance with its approved budget in the current year and previous years resulting in a depleted general fund unassigned fund balance.

Recommendation: In order to restore the general fund unassigned fund balance, the School District should plan to adjust budgeted resources in the subsequent fiscal years such as increasing revenues and decreasing expenditures or a combination of both.

**Finding #2020-003**

INTERNAL BALANCES

Condition: During our current year audit, we noted a substantial interfund balance exists between the general fund and food service fund. At June 30, 2020, the food service fund owed the general fund \$583,112.

Criteria: In accordance with accounting principles generally accepted in the United States of America, interfund balances not expected to be repaid should be eliminated by an operating transfer between the funds.

LEHIGHTON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Effect: The general fund's unassigned fund balance may be overstated if the food service fund does not make repayment to the general fund.

Cause: Recurring losses in the food service fund subsidized by the general fund.

Recommendation: We recommended that the School District develop a strategic plan to address the large interfund receivable and payable. As part of the plan, the School District should consider interfund transfers to address the balances; the need to potentially raise taxes, fees, and/or charges for services in order to raise additional funds that could be used to pay off the interfund balances.

**PART C – FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS**

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# LEHIGHTON AREA SCHOOL DISTRICT

Jonathan J. Cleaver, Superintendent  
Patricia J. Denicola, Business Administrator  
Tina L. Champ, Assistant Business Administrator  
1000 Union Street, Lehigh, Pennsylvania 18235  
Telephone: 610-377-4490 Fax: 610-577-0032

*“Partnering with students, families, and community to provide opportunities for life-long success through academic excellence and individual growth in a safe and supportive environment.”*

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Management has reviewed the audit findings within the audited financial statements for the fiscal year 2019-2020. The Lehigh Area School District (“LASD”) concurs with recommendations contained herein. The following is management’s response to the fiscal year 2019-2020 findings.

## **Finding #2020-001**

### YEAR-END ADJUSTMENTS NOT POSTED RESULTING IN MATERIAL AUDIT ADJUSTMENTS

Cause: The School District’s business office did not perform an adequate year-end closing process.

Effect: Several material audit adjustments were necessary to properly reflect balances as of year-end.

Recommendation: We recommended that the School District take steps to implement procedures to ensure that year-end reconciliations and adjustments are posted in a timely manner.

### **School District Response and Action Plan**

The School District recognizes that during transitions of business office staff and/or leadership, there may be delays in year-end processes. The School District in 2020 experienced the elimination of the Assistant Business Manager position as well as the departure of the Business Manager. These departures took place at fiscal year end, resulting in the year-end reconciliations and adjustments not being posted in a timely manner. The School District is working to complete reconciliations throughout the year, as well document the year-end process so in the event there is a future vacancy, processes can be completed as necessary.

## **Finding #2020-002**

### FUND BALANCE POLICY

Condition: During our current year audit, we noted that the School District is currently not in compliance with its fund balance policy, which states, “The School District will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent of the budgeted expenditures for that fiscal year.” At year-end, the general fund unassigned fund balance is well below five percent of the budgeted expenditures for the year ended June 30, 2020.

Criteria: The maintenance of a fund balance is essential to the preservation of the financial integrity of the School District and is fiscally advantageous for both the School District and the taxpayer. It is essential

that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

Recommendation: In order to restore the general fund unassigned fund balance, the School District should plan to adjust budgeted resources in the subsequent fiscal years such as increasing revenues and decreasing expenditures or a combination of both.

### **School District Response and Action Plan**

In December 2020, the School District hired a new Business Administrator who, with the help of PASBO, the Interim Business Manager program is working to provide an accurate detailed budget that the School District can utilize to make sound business decisions regarding its financial status. Several actions are listed below that have been taken since December 2020.

- Engagement of PFM to evaluate/analyze restructuring and refinance of existing debt to establish cash on hand to rebuild fund balance.
- Recommendation to the Board to increase taxes to Act 1 Index based on historical data presentation of budget, past tax increases, as well as assessed value property rates for the School District.
- Utilization of ESSER II, III funding to cover existing expenses while building fund balance.
- Evaluation of current expenditures for necessity as well exploring cost savings alternatives in areas of energy and daily School District expenditures.
- Creation of a detailed budget model that involves all parties involved in decision making.

The School District will continue to improve financial processes and closely monitor and evaluate contractual costs and other expenditures as well as revenue streams in order to regain and maintain financial stability.

### **Finding #2020-003**

#### **INTERNAL BALANCES**

Condition: During our current year audit, we noted a substantial interfund balance exists between the general fund and food service fund. At June 30, 2020, the food service fund owed the general fund \$583,112.

Criteria: In accordance with accounting principles generally accepted in the United States of America, interfund balances not expected to be repaid should be eliminated by an operating transfer between the funds.

Recommendation: We recommended that the School District develop a strategic plan to address the large interfund receivable and payable. As part of the plan, the School District should consider interfund transfers to address the balances and the need to potentially raise taxes, fees, and/or charges for services in order to raise additional funds that could be used to pay off the interfund balances.

### **School District Response and Action Plan**

The School District recognizes that over the years, a significant interfund receivable is due to the general fund from the food service fund. The School District is currently under contract with "The Nutrition Group," which has a performance guarantee that has greatly reduced the impact to the interfund balance. The School District has also begun reducing positions through attrition of existing School District employees to help mitigate costs incurred. Throughout the year, the School District also is performing monthly transfers of FAI revenues to the food service fund in actual dollars received by the School District for food service expenditures. The School District is continuing to evaluate ways to reduce the interfund balance including application of future assets to reduce the receivable balance as well continued reduction of expenditures.