

PALMYRA AREA SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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 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 Palmyra Area School District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 21, and the required supplementary information as listed in the Table of Contents, 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 Palmyra Area School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 November 11, 2020, on our consideration of the Palmyra Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Palmyra Area School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering Palmyra Area School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
November 11, 2020

**PALMYRA AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2020**

This discussion and analysis of Palmyra Area School District's financial performance provides an overall review of the 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. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the basic financial statements and notes to the financial statements.

Financial Highlights

- The liabilities of Palmyra Area School District exceeded its assets at the close of the most recent fiscal year by \$28.2 million (*net position*). The government's total net position decreased by \$736,360. Implementation of GASB No. 68 in 2014-15 required the District to recognize the obligation and deferred inflows and outflows resulting from the proportionate share of the PSERS net pension liability. PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. This is described in more detail in Footnote 8 of the financial statements. GASB No. 68 has had a significant impact on School Districts across the state. If the pension liability were not recorded under GASB No. 68, the Palmyra Area School District would have a positive net position of \$35 million as of June 30, 2020.
- Implementation of GASB No. 75 in 2017-18 required the District to recognize the obligation and deferred inflows and outflows resulting from the proportional share of the total OPEB (Other Post-Employment Benefits) liability. This is described in more detail in Footnotes 9 and 10 of the financial statements. This reduced net position by \$5.7 million as of June 30, 2020.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$3,439,437 or 6.3 percent of the total general fund expenditures including transfers out for debt service. Unassigned fund balance is the term for unreserved, undesignated fund balance under Governmental Accounting Standards Board (GASB) Statement No. 54. The adoption of this statement on fund-balance classifications is explained further in the section on Governmental Funds. The policy of the Board of Directors and management is to maintain an unassigned fund balance of 4-8% of budgeted general fund expenditures. Act 48 of 2003 places limits on unassigned fund balance. A school district may not approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unassigned fund balance of less than or equal to 8% of its total budgeted expenditures (for total budgets of \$19 million or more).
- Total expenditures for the School District's General Fund exceeded revenues by \$258,830. The 2019-20 budget reflected expenditures in excess of revenues in the amount of \$191,942, indicating a planned reduction in fund balance to balance the budget.
- The actual revenues were approximately \$24,585 lower than budgeted. Local tax collections were strong with earned income taxes higher than anticipated by \$196,000. Interest earnings were under budget by \$241,000 due to the drop in interest rates. State subsidies were lower than anticipated by \$75,000 due to the state not committing to its obligation to reimburse social security in its entirety.

- The actual expenditures were approximately \$42,300 higher than budgeted due to unfavorable variances in self-insured health claims and cyber charter school tuition. After three prior years of significant favorable variances in self-insured health claims, the District adjusted the 19-20 budget to reflect the known trend. There was a significant increase in high dollar claims that met the stop loss threshold and resulted in an unfavorable variance of \$762,000. Due to increased enrollment in cyber charter schools, there was an unfavorable variance of \$292,000. These two unfavorable variances were mostly offset by favorable variances in salaries and other benefits, savings from the mandated school closure from mid-March through the end of the school year due to the pandemic, and use of budgetary reserve. The District used \$100,000 of the Assigned Fund Balance for self-insured medical claims, leaving a healthy reserve in place of \$1,100,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Palmyra Area School District. The School District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the School District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Palmyra Area School District is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused retirement incentives).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Palmyra Area School District include most of the School District's basic services, such as regular and special education, administration, and transportation. Property taxes and formula-based state aid finance most of these activities. The Food Service Fund is the sole business-type activity for Palmyra Area School District.

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 or objectives. Palmyra Area School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the School District can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. Palmyra Area School District maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Palmyra Area School District uses an enterprise fund to account for its Food Service Fund. *Internal service funds* (the other type of proprietary fund) are used to report activities that provide supplies and services for the government's other programs and activities. The School District currently does not have any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service Fund, which is considered to be a major fund of the School District.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the operations of Palmyra Area School District. The accounting used for fiduciary funds is much like that used for proprietary funds.

Palmyra Area School District maintains two fiduciary funds, a Consolidated Scholarship Trust Fund and a Student Activities Fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*.

Government-wide Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Palmyra Area School District, liabilities exceeded assets by \$28,178,289 at the close of the most recent fiscal year. The government's total net position decreased by \$736,360. Implementation of GASB No. 68 in 2014-15 required the District to recognize the obligation and deferred inflows and outflows resulting from the proportionate share of the PSERS net pension liability. PSERS is a governmental cost sharing, multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. This is described in more detail in Note 8 of the financial statements. Implementation of GASB No. 75 in 2017-18 required the District to recognize the obligation and deferred inflows and outflows resulting from the proportional share of the total OPEB (Other Post-Employment Benefits) liability. This is described in more detail in Footnotes 9 and 10 of the financial statements.

By far the largest portion of the School District's assets reflects its investment in capital assets (e.g. land, buildings, furniture and equipment, construction in progress). Palmyra Area School District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The largest portion of the School District's liabilities is its long-term debt for general obligation bonds used to finance building improvements and other capital projects. The second largest liability is the net pension liability recorded with the implementation of GASB No. 68 and more fully described in Note 8 in the financial statements. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Capital Projects Funds Balance is restricted to pay for capital improvements.

An additional portion of the School District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations.

The Net Position as of June 30, 2019 and June 30, 2020, for Palmyra Area School District is summarized below in Table 1. At the end of the current fiscal year, the School District reports negative balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business type activities due to the Net Pension Liability. Current assets decreased due to payments on the construction contracts for Northside Elementary School renovations, completion of Forge Road Elementary School traffic redesign project and the construction of a High School Athletic complex. Capital assets increased due to the related fixed assets recorded as a result of construction projects, less depreciation on existing fixed assets. Current liabilities increased due to higher accounts payable for payments due on construction contracts. Long-term debt decreased due to payments on bonds payable. Footnotes 8-10 detail changes in Deferred Outflows and Inflows of resources for pension and OPEB (other post-employment benefits) liabilities.

Table 1
Palmyra Area School District
Net Position
(in thousands of dollars)
June 30, 2019 and 2020

| | Governmental Activities | | Business-Type Activities | | Total School District | | Percentage Change |
|--------------------------------|-------------------------|--------------------|--------------------------|-------------------|-----------------------|--------------------|----------------------|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | |
| Current and other assets | \$ 26,266 | \$ 21,066 | \$ 310 | \$ 333 | \$ 26,576 | \$ 21,399 | -19.5% |
| Capital assets | 94,819 | 97,826 | 85 | 100 | 94,904 | 97,926 | 3.2% |
| Total assets | \$ 121,085 | \$ 118,892 | \$ 395 | \$ 433 | \$ 121,480 | \$ 119,325 | -1.8% |
| Deferred outflows of resources | \$ 12,255 | \$ 13,443 | \$ 183 | \$ 186 | \$ 12,438 | \$ 13,629 | 9.6% |
| Current and other liabilities | \$ 8,270 | \$ 10,077 | \$ 133 | \$ 171 | \$ 8,403 | \$ 10,248 | 22.0% |
| Long-term liabilities | 148,296 | 145,120 | 1,638 | 1,644 | 149,934 | 146,764 | -2.1% |
| Total liabilities | \$ 156,566 | \$ 155,197 | \$ 1,771 | \$ 1,815 | \$ 158,337 | \$ 157,012 | -0.8% |
| Deferred inflows of resources | \$ 2,965 | \$ 4,058 | \$ 58 | \$ 62 | \$ 3,023 | \$ 4,120 | 36.3% |
| Net Position | | | | | | | |
| Net investment in | | | | | | | |
| capital assets | \$ 33,609 | \$ 35,086 | \$ 85 | \$ 100 | \$ 33,694 | \$ 35,186 | 4.4% |
| Unrestricted | (59,800) | (62,006) | (1,336) | (1,358) | (61,136) | (63,364) | 3.6% |
| Total net position | \$ (26,191) | \$ (26,920) | \$ (1,251) | \$ (1,258) | \$ (27,442) | \$ (28,178) | 2.7% |

Changes in Net Position. Comparative results of two years' operations as a whole are reported in the Statement of Activities in the basic financial statements. Table 2 takes the information from that Statement and rearranges it slightly so you can see total revenues for the year. The two largest general revenues are the formula-based state aid received from the Commonwealth of Pennsylvania and the local taxes assessed to property owners. Total revenues increased by 1.7% due to a real estate tax increase of 2.5%, growth in state subsidies and other local taxes, offset by a decrease in interest earnings. Total expenditures increased by 5.0% from 2018-19 due to contractual salary increases, positions added to address enrollment growth, additional special education classes, higher healthcare costs, mandatory retirement contributions and cyber charter school tuition. The increases were offset by some savings due to the Governor-ordered school closure in mid-March through the end of the year due to the pandemic (mainly comprised of substitutes, utilities, transportation and athletic expenses).

Table 2
Palmyra Area School District
Changes in Net Position
(in thousands of dollars)
June 30, 2019 and 2020

| | Governmental Activities | | Business-Type Activity | | Total School District | | Percentage Change |
|--------------------------------------|-------------------------|-----------------|------------------------|---------------|-----------------------|-----------------|-------------------|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | |
| Revenues | | | | | | | |
| Program revenues | | | | | | | |
| Charges for services | \$ 344 | \$ 257 | \$ 934 | \$ 646 | \$ 1,278 | \$ 903 | -29.3% |
| Operating grants and contributions | 10,018 | 10,332 | 586 | 589 | 10,604 | 10,921 | 3.0% |
| Capital grants and contributions | 67 | 114 | - | - | 67 | 114 | 70.1% |
| General revenues | | | | | | | |
| Property taxes | 30,262 | 31,190 | - | - | 30,262 | 31,190 | 3.1% |
| Formula-based state aid | 7,006 | 7,411 | - | - | 7,006 | 7,411 | 5.8% |
| Other | 5,676 | 5,209 | 6 | 83 | 5,682 | 5,292 | -6.9% |
| Total revenues | 53,373 | 54,513 | 1,526 | 1,318 | 54,899 | 55,831 | 1.7% |
| Expenses | | | | | | | |
| Instruction | 32,954 | 35,461 | - | - | 32,954 | 35,461 | 7.6% |
| Instructional student support | 4,906 | 5,281 | 1,545 | 1,326 | 6,451 | 6,607 | 2.4% |
| Admin. and financial support | 5,030 | 5,662 | - | - | 5,030 | 5,662 | 12.6% |
| Operations and maint. of plant svcs. | 4,001 | 3,885 | - | - | 4,001 | 3,885 | -2.9% |
| Pupil transportation | 1,427 | 1,239 | - | - | 1,427 | 1,239 | -13.2% |
| Interest on long-term debt | 2,671 | 2,403 | - | - | 2,671 | 2,403 | -10.0% |
| Other | 1,357 | 1,311 | - | - | 1,357 | 1,311 | -3.4% |
| Total expenses | 52,346 | 55,242 | 1,545 | 1,326 | 53,891 | 56,568 | 5.0% |
| Changes in net position | \$ 1,027 | \$ (729) | \$ (19) | \$ (8) | \$ 1,008 | \$ (737) | |

Financial Analysis of the Government's Funds

As noted earlier, Palmyra Area School District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the School District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$10,606,159, a decrease of \$6,961,262 in comparison with the prior year. The reduction was planned due to anticipated spending on construction projects. Approximately 32% of this total amount (\$3,439,437) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *restricted*, *committed* or *assigned* based on the applicable spending constraints under GASB Statement No. 54.

The District changed its presentation of governmental funds and fund balance classifications to adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. The Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications and clarifies the existing governmental-fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources. The fund types and fund balance classifications being used by the District are described in Note 1 to the Financial Statements.

The restricted fund balance of \$4,721,597 in the Capital Projects Funds is designated for capital improvement projects, including a renovations project at Northside Elementary School and an Athletic Complex at the High School. This decreased by approximately \$6,700,000 due to payments made on construction contracts. A committed fund balance has been board approved and recorded in the amount of \$1,000,000 to provide for future increases in mandated retirement contributions. An assigned fund balance in the amount of \$252,390 is the remainder of a rate stabilization fund established to phase in the impact of tax appeals following the County-wide reassessment completed in 2014. As of June 30, 2020, an assigned fund balance was recorded in the amount of \$1,100,000 as a reserve for medical insurance claims, a decrease of \$100,000 from the previous year. Beginning July 1, 2016, the District entered into an agreement for self-insurance of its medical benefits. A reserve fund is necessary to provide stabilization for the anticipated fluctuation in claims expense (See Footnote 13).

The General Fund is the chief operating fund of the Palmyra Area School District and provides 100% of the unassigned fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 6.3% of total General Fund expenditures, including transfers out for debt service.

Proprietary funds. The School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of the end of the current fiscal year, the negative net position of the proprietary fund - Food Service was (\$1,258,561) a decrease of \$7,725. There is no change in net position from current year operations, excluding pension and OPEB liabilities. The net position of the Food Service fund would be a positive \$261,428, without the liability for its share of the PSERS pension liability and OPEB, described more fully in Footnotes 8, 9, and 10. Management continually reviews the operations of the Food Service Fund and the user charges (lunch prices) to ensure that there are adequate cash reserves to meet operating needs and that the Food Service Fund is a break even operation. There was a general fund transfer to the Food Service Fund of \$64,023 to sustain break even operations due to the mandated school closure from mid-March through the end of the year. The Food Service program continued to provide meals to families in need via a drive-through delivery method through June 30, 2020, and received subsidies for the meals served, but the participations was not sufficient to cover fixed costs.

Beginning with the 2017-18 school year, the District outsourced its cafeteria employees to Nutrition, Inc., as a means to save labor expenses and sustain break even operations.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted.

Departmental differences between the revised, budgeted revenues and expenses and the final financial statements can be briefly summarized as follows:

- Total expenditures for the School District's General Fund exceeded revenues by \$258,830. The 2019-20 budget reflected expenditures in excess of revenues in the amount of \$191,942, indicating a planned reduction in fund balance to balance the budget.
- The actual revenues were approximately \$24,585 lower than budgeted. Local tax collections were strong with Earned income taxes were higher than anticipated by \$196,000. Interest earnings were under budget by \$241,000 due to the drop in interest rates. State subsidies were lower than anticipated by \$75,000 due to the state not committing to its obligation to reimburse social security in its entirety.
- The actual expenditures were approximately \$42,300 higher than budgeted due to unfavorable variances in self-insured health claims and cyber charter school tuition. After three prior years of significant favorable variances in self-insured health claims, the District adjusted the 19-20 budget to reflect the known trend. There was a significant increase in high dollar claims that met the stop loss threshold and resulted in an unfavorable variance of \$762,000. Due to increased enrollment in cyber charter schools, there was an unfavorable variance of \$292,000. These two unfavorable variances were mostly offset by favorable variances in salaries and other benefits, savings from the mandated school closure from mid-March through the end of the school year due to the pandemic, and use of budgetary reserve. The District used \$100,000 of the Assigned Fund Balance for self-insured medical claims, leaving a healthy reserve in place of \$1,100,000.

The revised General Fund budget planned for a decrease in fund balance of \$191,942. Maintenance of a healthy fund balance is especially important during periods of enrollment growth and for bond ratings. The policy of the Board of Directors and management is to maintain an unassigned fund balance of 4-8% of budgeted General Fund expenditures. As of June 30, 2020, the unassigned fund balance was \$3,439,437 or 6.3% of General Fund expenditures. The ending unassigned fund balance as of June 30, 2020, is 6.3% of expenditures, well within the Fund Balance policy range of 4-8%.

The committed fund balance for future retirement contributions is unchanged at \$1,000,000. As of June 30, 2020, the assigned fund balance for tax appeals is \$252,390 for outstanding appeals following the countywide reassessment. As of June 30, 2020, an assigned fund balance was recorded in the amount of \$1,100,000 as a reserve for medical insurance claims, a decrease of \$100,000 from the prior year. Beginning July 1, 2016, the District entered into an agreement for self-insurance of its medical benefits. A reserve fund is necessary to provide stabilization for the anticipated fluctuation in claims expense (See Footnote 13). The reserve represents approximately three months of claims, stop loss insurance, and administrative expenses.

Capital Asset and Debt Administration

Capital assets. The School District's investment in capital assets for its governmental and business-type activities as of June 30, 2019 and 2020, is summarized in Table 3 below. The District's total capital assets, net of depreciation, increased by 3.2% from 2019 due to construction-in-progress for the Northside renovations and High School Athletic complex. The District entered into a Guaranteed Energy Savings Agreement (GESA) for Phase II at Northside at a cost of \$3.5 million for infrastructure renovations and a redesigned secure entrance. The District also entered a contract for the construction of an Athletic Complex at the High School at a cost of \$5.1 million. No additional borrowing needs are anticipated. The District will be funding outstanding commitments on both projects with existing funds in the Capital Projects Fund and both projects were ready for occupancy in the 20-21 school year.

The District entered into a GESA with Reynolds Building Solutions for Phase I of a Middle School renovations project including infrastructure improvements and a new roof for \$9.8 million with completion in August of 2017. Phase II included a 12-classroom addition and an expansion of the cafeteria to address existing enrollment growth with a total contract of \$6.7 million. A GESA contract for renovations of Forge Road Elementary School was an additional \$6.8 million. Both projects were substantially completed and ready for occupancy for the start of the 2018-19 school year.

Significant savings were realized by using a hybrid construction approach combining guaranteed energy savings agreements (GESAs) and a traditional bid project for the addition. The District attributes the savings to a compacted design-build schedule and a scope for existing renovations that retained fixtures that were well maintained, rather than replacing everything.

On September 30, 2009, the School District purchased 21 acres of land on Lingle Avenue in North and South Londonderry Townships for the construction of a fourth elementary school and kindergarten center at an estimated total cost of \$24 million. Lingle Avenue Elementary School was occupied for the start of the 2011-12 school year. The School District received LEED (Leadership in Energy and Environmental Design) silver certification from the U.S. Green Building Council for the project, which was estimated to increase state reimbursement by \$420,000.

Renovations to the Palmyra High School in the amount of \$33 million were completed in 2007. The project included the addition of a two-story classroom wing resulting in 60 new or renovated classrooms, a net addition of 20 classrooms to address enrollment growth. Other key features are new site circulation, expanded parking, a renovated auditorium, a new and enlarged media center, a new kitchen and cafeteria for seating 400 students, upgraded Administration areas, more secure entryways, new electrical, plumbing and HVAC systems, and a new and enlarged maintenance building.

Renovations to the Pine Street Elementary School in the amount of \$12.1 million were completed in 2004. The project included the addition of five regular classrooms to accommodate growth, three additional special education classrooms and offices for the Special Education Administrative staff, a separate full-size gymnasium, and a new media center.

Through long-term planning, Palmyra Area School District has demonstrated its commitment to maintaining functional educational facilities that meet the needs of today's students, while also considering what is affordable for the community.

Table 3
Palmyra Area School District
Capital Assets - Net of Depreciation
(in thousands of dollars)
June 30, 2019 and 2020

| | Governmental Activities | | Business-Type Activities | | Total School District | | Percentage Change |
|---|-------------------------|------------------|--------------------------|---------------|-----------------------|------------------|----------------------|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | |
| Land and improvements | \$ 6,250 | \$ 6,490 | \$ - | \$ - | \$ 6,250 | \$ 6,490 | 3.8% |
| Buildings and building improvements | 84,622 | 81,756 | - | - | 84,622 | 81,756 | -3.4% |
| Furniture and equipment | 3,162 | 2,668 | 85 | 100 | 3,247 | 2,768 | -14.8% |
| Construction-in-progress | 785 | 6,912 | - | - | 785 | 6,912 | 780.5% |
| Total capital assets - net of depreciation | \$ 94,819 | \$ 97,826 | \$ 85 | \$ 100 | \$ 94,904 | \$ 97,926 | 3.2% |

Long-Term Debt. At the end of the current fiscal year, Palmyra Area School District had total bonds payable outstanding of \$67,116,760. The total debt decreased by \$4.8 million due to principal repayments made during the fiscal year. In October 2019, the Series 2019 General Obligation Bonds were issued to refund the Series of 2014, 2014A and 2015B. One-time savings of approximately \$440,000 were recognized in 2019-20.

Academic Program & Student Achievement

The Palmyra Area School District performed quite well academically during the 2018-2019 school year. The District's School Performance Profiles, which incorporate student achievement on PSSAs and Keystone Exams, student growth via the PVAAS System, and other components such as graduation and attendance rates were released in October 2019 by the Pennsylvania Department of Education. No updated test results are available due to the suspension of testing in the 19-20 school year due to the pandemic. Therefore, the following information represents the 2018-2019 school year, which is the most recent assessment.

Palmyra Area High School maintained an SPP score in the high 90s at 97.70. This marks the seventh consecutive year where the high school SPP was above 90. Only 5% of the more than 2,000 high schools in the Commonwealth earned an SPP over a 90.

Forge Road Elementary - 77.60
Lingle Avenue Elementary - 77.00
Northside Elementary - 68.20
Pine Street Elementary - 87.90
Palmyra Area Middle School - 77.00
Palmyra Area High School - 97.70

In the 2014-2015 school year, Pennsylvania fully implemented PSSA testing based upon the PA-Core Standards and continued the new PSSA's during the 2018-2019 school year. The previous Reading and Writing assessments were combined into one assessment; the English/Language Arts PSSA.

The PSSA proficient/advanced performances in the area of **English/Language Arts** were as follows:

Forge Road Elementary - 84.2%
Lingle Avenue Elementary - 83.7%
Northside Elementary - 72.1%
Pine Street Elementary - 79.7%
Palmyra Area Middle School - 76.6%

The PSSA proficient/advanced performances in the area of **Math** were as follows:

Forge Road Elementary - 73.3%
Lingle Avenue Elementary - 73.9%
Northside Elementary - 60.0%
Pine Street Elementary - 68.7%
Palmyra Area Middle School - 54.2%

These levels of performance are lower than the district has grown accustomed to and are due to the changes in the PSSA assessment alignment to the PA Core Standards.

The PSSA proficient/advanced performances in the area of **Science** were as follows:

Forge Road Elementary - 92.4%
Lingle Avenue Elementary - 90.0%
Northside Elementary - 88.0%
Pine Street Elementary - 85.9%
Palmyra Area Middle School - 83.0%

On Keystone Exams, our students performed as follows:

Algebra

High School - 90.5%

Literature

High School - 90.9%

Biology

High School - 88.5%

The District's graduation rate was 93.4% and the attendance rates at all of the District's schools were above 95%.

The District's administrative team and Board worked to develop a set of guiding principles during the 2011-12 school year. The principles have framed the decisions of the District in the years since then, in order to provide a positive and productive learning experience for students while maintaining a fiscally responsible environment. These principles are as follows:

The Palmyra Area School District...

1. ... will always support core academic subjects (Reading, Writing, Math, Science, Social Studies) as District priorities.
2. ... will provide evidence-based interventions in the areas of literacy and math for targeted students at every grade level, realizing that a strong K-2 literacy foundation is imperative.
3. ... will adhere to all federal and state mandates.
4. ... will allocate resources to those non-core academic electives that meet the needs of the largest number of students while maintaining a balance of offerings.
5. ... will create learning environments that better prepare students with 21st century skills (inquiry, research, collaboration, presentation, reflection, innovation) by:
 - a. integrating them across the students' Palmyra experience
 - b. utilizing technology resources as tools for teaching and learning.
6. ... realize that to improve teaching and learning and meet our goals as a District, it is vital that we will maintain high-quality:
 - a. cohesive, strong leadership
 - b. professional development related to our District vision.
7. ... recognize the need to:
 - a. examine other cost efficiency measures
 - b. rely on data to inform our decisions
 - c. research efficient, collaborative solutions with other educational entities, local programs, and area organizations before any student programs are cut.
8. ... will offer co-curricular activities for all students in a (more) efficient and cost-effective manner.
9. ... will create and maintain physical learning environments (facilities) that are safe and cost effective with attention to the environmental impact.

Based on these guiding principles and the current performance of our schools, the following are areas of emphasis for the upcoming school years:

- Literacy Development
- STEM/STEAM Development
- Technology Integration
- Meeting Needs of Learners

Economic Factors

The Standard and Poor's Rating Services has assigned the Palmyra Area School District a AA-underlying rating. Standard and Poor's cited that the AA- rating reflects the District's stable economy and strong incomes; maintenance of consistently strong fund balances; good financial management practices and policies; and moderate debt profile with no immediate plan to issue additional debt." Additional security for bonds is provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default.

Under the Local Government Unit Debt Act, the School District's outstanding debt may not exceed 225% of the borrowing base. The borrowing base is defined as the average three years of total revenues as defined in the Act. The net debt of the Local Government Unit after the Series of 2019 issue for refinancing purposes was \$67,640,000. This leaves \$42,129,641 of available borrowing capacity out of the District's total debt limit of \$109,769,641. In the 2020-21 budget and long-range projections, the School District continues to make provisions for the known debt service for the Middle School renovations project and other capital projects at an estimated cost of \$29.5 million.

The School District's overall, debt burden is considered moderate by Standard and Poor's. This has resulted from carefully planned construction projects needed to keep up with growing enrollments. More data is provided on this topic in the Enrollment Trends section below. In tandem, Palmyra Area School District has demonstrated its commitment to controlling spending. In comparison to the 2018-19 per pupil costs in the Lancaster-Lebanon Intermediate Unit, Palmyra's cost-per-student of \$15,418 is the second lowest among 22 school districts and significantly lower than the average of \$17,825. This comparison was prepared using the expenditures from the 2018-19 Annual Financial Report (AFR) submitted to the Department of Education.

In the last five years, the assessed value of real estate has grown by an average of 1.2% annually. This is a result of steady residential growth in the School District. Corchoice, LLC, a producer of industrial corrugated paper packing products, built a 350,000 square foot facility that came on the tax rolls in 19-20 via an Intergovernmental Agreement for the 45% allocation of the facility within the Palmyra Area School District.

The Lebanon County Tax Assessment Office conducted a County-wide reassessment and adjusted assessed property values for the 2013-14 fiscal year. An assigned fund balance of \$252,390 as of June 30, 2020, was recorded to maintain a rate stabilization fund for anticipated tax appeals.

Impact of Pandemic

As the pandemic has drastically impacted the District's operations and finances, the Palmyra Area School District has responded to the challenge and has plans in place to responsibly address health & safety concerns and fiscal realities. As noted in the 2020-21 Budget section of the MD&A, the District prudently reduced projected tax revenues and cut expenditures to produce a balanced budget, using stimulus funds to pay for PPE (personal protective equipment), disinfectants and staffing and technology needs for delivery of expanded online instruction. Cash flow is being monitored aggressively, and while we do not have a crystal ball to predict an economic recovery, to date our projections for a decline in local tax collections appear to be in line with actual collections to date. As noted in the Enrollment section, shifts in how instruction is delivered are designed to keep students and staff as safe as possible and provide parents with options aligned with their individual preferences.

Key factors that will be critical to our success in mitigating the economic impact on District finances are the following:

- Determining if students in asynchronous cyber programs will return to in-person instruction and responding accordingly to align staff and control costs
- Award of further stimulus funds for schools at state and federal level
- Collective Bargaining as negotiations for renewal of the teacher contract progress
- Continuing to find ways to control healthcare costs
- Use of Long-range projections and fund balance management strategies in an Act 1 environment to make decisions about tax increases

Act 1

Special Session Act 1 of 2006, the "Taxpayer Relief Act", approved by state legislators and signed into law by Governor Rendell on June 27, 2006, created a state-wide, property tax reduction program. Act 1 enacted sweeping changes to the way school taxes are imposed and how annual school budgets are adopted.

As required by Act 1, the Palmyra Area School District placed a question on the Spring of 2007 primary-election ballot asking voters if they wanted to increase the School District Earned Income Tax (EIT) for the purpose of generating revenues that would be used to reduce property tax rates for those who own eligible, homestead or farmstead property. This tax shift was overwhelmingly rejected by the voters.

Under Act 1, school districts have a new cap on any increase in the millage rate for property taxes. School districts must obtain voter approval, known as a back-end referendum, for millage rate increases that exceed the Act 1 Index. The indices for the Palmyra Area School District for its 2020-21 and 2021-22 budgets are 3.3% and 3.8%, respectively. Act 1, as revised by Act 25 of 2011, contains three exceptions to the back-end referendum for extraordinary costs or circumstances that are beyond the School District's control. The District was eligible for one of these exceptions for the 2020-21 General Fund Budget for increases in special education costs. The District approved an increase of 1.84%, which was below the applicable index.

To accommodate the exception process and the potential for back-end referendum, an accelerated, budget timetable is required by Act 1. The earlier budget schedule increases the complexity of school districts' budgets since there is less actual data on which to base next year's costs, and state revenues have not been announced in the Governor's Budget.

In 2019-20, as part of Act 1 tax relief, the School District was awarded \$346,430 from gaming revenues to be used to reduce real estate taxes. Approved homestead and farmstead owners received a real estate tax reduction in the amount of \$53.

2019-20 Budget and Tax Rates

A two-year comparison of the General Fund Budget is provided in Table 4 below. The 2020-21 Budget reflects an increase in the real estate tax from 15.36 to 15.643 mills, an increase of 1.84%.

The 2020-21 Budget is balanced using \$640,000 of fund balance. Management projects that at the end of the 2020-21 fiscal year, the unassigned fund balance will be \$2.8 million or 5.1% of General Fund budgeted expenditures.

Highlights of the 2020-21 General Fund Budget are as follows:

Revenues

- After the preliminary revenue budget was prepared under normal assumptions for revenue trends, approximately \$2,000,000 was cut from real estate taxes, real estate transfer taxes, earned income taxes and other line items projected to be impacted by the economic downturn due to the pandemic. Research analysts from PASBO, the Pennsylvania Association of School Business Officials, projected a range for reductions to these line items for each school district in the state. The range for Palmyra was \$1.9 to \$2.2 million. This provided additional validation for the \$2 million in cuts initiated by the District.
- Budgeted earnings on investments was decreased by \$485,000 due to lower interest rates.
- State and federal revenues were flat with the exception of stimulus funds targeted to meet Covid-19 needs in the amount of \$510,000.
- The budget uses a higher than normal allocation of unassigned fund balance to balance the budget to offset the projected decline in local tax revenues due to the economic impact of the pandemic. The projected ending unassigned fund balance is within the 4-8% targeted range.

Expenditures

- Total expenditures increased by 1.19%. Expenditures were cut throughout the preliminary budget in order to responsibly attain a balanced budget.
- Total salaries were flat. Contractual increases in collective bargaining were offset by positions eliminated through attrition and no new positions were budgeted.
- Self-insured Medical claims were increased by \$210,000, or 6.4%, to provide for inflationary increases and a trend to more high dollar claims.
- An additional \$48,000 for retirement contributions based on a legislatively capped rate of 34.51%.
- Budgeted increase of approximately \$226,000 for debt service payments to finance the Middle School addition and other renovations projects.
- Cyber charter school tuition was increased by \$320,000 due to increased enrollments.
- Purchased property services decreased by \$90,000 for cuts to discretionary repairs and maintenance and athletic facilities rental no longer necessary due to the newly opened District athletic complex.
- Supplies and equipment decreased by \$166,000.
- Budgetary reserve was increased \$253,000 to provide for Covid-19 related spending funded by the stimulus funds.

Table 4
Palmyra Area School District
General Fund Budget Summary
(in thousands of dollars)

| | Approved Budget 2019-20 | Approved Budget 2020-21 | % Change |
|--|-------------------------------|-------------------------------|--------------|
| Revenues | | | |
| Local | \$ 37,240 | \$ 36,557 | -1.83% |
| State | 15,888 | 16,365 | 3.00% |
| Federal | 1,170 | 1,443 | 23.33% |
| Other | - | 135 | 100.00% |
| Total revenues | \$ 54,298 | \$ 54,500 | 0.12% |
| Expenditures | | | |
| Instructional | \$ 30,391 | \$ 30,789 | 1.31% |
| Support services | 15,127 | 15,026 | -0.67% |
| Operation of noninstructional services | 1,104 | 1,027 | -6.97% |
| Operating transfers out and debt service | 7,668 | 7,844 | 2.30% |
| Budgetary reserve | 200 | 453 | 126.50% |
| Total expenditures | \$ 54,490 | \$ 55,139 | 1.19% |
| Budgeted Use of Fund Balance | \$ 192 | \$ 639 | |

Labor Relations

The “professional staff” of Palmyra Area School District is represented by the Palmyra Area Education Association, an affiliation of the Pennsylvania State Teachers Association (PSEA). This group, which represents approximately 261 of the School District’s 427 staff, has the responsibility of bargaining for these employees. This past year was the second year of a three-year agreement ending on August 31, 2021, with average salary increases of 3.0%, 3.0%, and 3.25%.

The “support staff” of Palmyra Area School District is represented by the Bakery, Confectionery, Tobacco Workers, and Grain Millers Union Local 464. This group represents approximately 130 clerical employees, custodial employees, maintenance employees, instructional and non-instructional assistants. This past year was the first year of a four-year contract ending on June 30, 2023, with annual increases of 3.5%, 3.0%, 3.25% and 3.0%. Beginning with the 2017-18 school year, the District outsourced its cafeteria employees to Nutrition, Inc., thus reducing the number of District employees by 33.

Enrollment Trends

Palmyra Area School District enrollment levels have been steadily climbing since 2002-03. Enrollment flattened from 2007-08 through 2011-12, likely due to the economy. Prior to 2020-21, 2012-13 and ongoing enrollment figures indicated signs of accelerated growth, averaging 1.5% annually over the past five years.

In 2020-21, movement of 100 students to external cyber charter schools and home schooling accounts for most of the decline in total enrollment at the beginning of the school year. The District is providing parents with the choice of daily in-person instruction for elementary students, hybrid in-person instruction (every other day) for secondary students, and synchronous (logging into in-person classes) or asynchronous (District’s cyber academy) instruction for all students. An administrative team is working closely with the Pennsylvania Department of Health to monitor and track Covid-19 infection and exposure rates in Lebanon County and the School District. The District has implemented a board-approved Health & Safety plan to promote a safe working environment for staff and students.

| Year | Total Enrollment | Projected Enrollment |
|-----------|------------------|----------------------|
| 2001-2002 | 2,682 | |
| 2002-2003 | 2,774 | |
| 2003-2004 | 2,901 | |
| 2004-2005 | 2,955 | |
| 2005-2006 | 3,057 | |
| 2006-2007 | 3,142 | |
| 2007-2008 | 3,214 | |
| 2008-2009 | 3,173 | |
| 2009-2010 | 3,245 | |
| 2010-2011 | 3,248 | |
| 2011-2012 | 3,263 | |
| 2012-2013 | 3,344 | |
| 2013-2014 | 3,367 | |
| 2014-2015 | 3,437 | |
| 2015-2016 | 3,515 | |
| 2016-2017 | 3,593 | |
| 2017-2018 | 3,601 | 3,652 |
| 2018-2019 | 3,624 | 3,696 |
| 2019-2020 | 3,662 | 3,736 |
| 2020-2021 | 3,540 | 3,771 |
| 2021-2022 | | 3,801 |

The School District has routinely commissioned the Pennsylvania Economy League (PEL) to prepare an extensive study of demographics and community growth patterns in order to project enrollments with the most recent update completed in November of 2016. Based on live births, PEL predicts that total enrollment in the District will increase by 5.8% by 2021-22 to a total enrollment of 3,801. To date, the projected enrollments have proven to be a reliable planning tool. The decrease in 20-21 is believed to be temporary due to student movement to alternative instruction options due to the pandemic.

Addressing the projected enrollment growth has been one of the most significant challenges facing Palmyra Area School District. As noted throughout this discussion and analysis, the District has completed renovations projects at the Middle School, which resulted in an additional 12 secondary classrooms to address overcrowding, and renovations at Forge Road and Northside Elementary Schools. All projects included infrastructure upgrades, addressed safety and ADA compliance and provided guaranteed energy savings. A new Athletic complex with two turf fields was completed at the High School for the start of the 20-21 school year. Significant sponsorships were secured to offset the increase in debt service for the borrowing for the athletic complex. No additional borrowing is anticipated.

Request for Information

This financial report is designed to provide a general overview of the finances of Palmyra Area School District for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darcy Brenner-Smith, Director of Business Affairs, 1125 Park Drive, Palmyra, Pennsylvania, 17078.

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2020

| | Governmental Activities | Business-Type Activity | Total |
|--|----------------------------|---------------------------|------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 6,248,774 | \$ 166,509 | \$ 6,415,283 |
| Investments | 9,614,189 | - | 9,614,189 |
| Receivables | 5,130,116 | 144,468 | 5,274,584 |
| Prepaid expenses - other | 72,988 | - | 72,988 |
| Inventories | - | 21,829 | 21,829 |
| Capital assets | | | |
| Land and construction-in-progress (note 6) | 8,715,939 | - | 8,715,939 |
| Other capital assets, net of depreciation (note 6) | 89,110,558 | 99,799 | 89,210,357 |
| Total capital assets | 97,826,497 | 99,799 | 97,926,296 |
| Total assets | \$ 118,892,564 | \$ 432,605 | \$ 119,325,169 |
| Deferred Outflows of Resources | | | |
| Deferred amounts on pension liability | \$ 12,629,000 | \$ 184,000 | \$ 12,813,000 |
| Deferred amounts on OPEB liabilities | 637,171 | 2,234 | 639,405 |
| Deferred amounts on refunding debt | 176,478 | - | 176,478 |
| Total deferred outflows of resources | \$ 13,442,649 | \$ 186,234 | \$ 13,628,883 |
| Liabilities | | | |
| Internal balances | \$ (58,800) | \$ 58,800 | \$ - |
| Accounts payable and accrued expenses | 10,007,807 | 31,706 | 10,039,513 |
| Unearned revenues | 128,144 | 80,671 | 208,815 |
| Long-term liabilities | | | |
| Due within one year (note 7) | 5,276,900 | - | 5,276,900 |
| Due in more than 1 year (note 7) | 63,206,001 | - | 63,206,001 |
| Net pension liability | 71,047,000 | 1,513,000 | 72,560,000 |
| OPEB liabilities | 5,590,239 | 130,946 | 5,721,185 |
| Total long-term liabilities | 145,120,140 | 1,643,946 | 146,764,086 |
| Total liabilities | \$ 155,197,291 | \$ 1,815,123 | \$ 157,012,414 |
| Deferred Inflows of Resources | | | |
| Deferred amounts on pension liability | \$ 3,412,000 | \$ 55,000 | \$ 3,467,000 |
| Deferred amounts on OPEB liabilities | 645,650 | 7,277 | 652,927 |
| Total deferred inflows of resources | \$ 4,057,650 | \$ 62,277 | \$ 4,119,927 |
| Net Position | | | |
| Net investment in capital assets | \$ 35,086,786 | \$ 99,799 | \$ 35,186,585 |
| Unrestricted | (62,006,514) | (1,358,360) | (63,364,874) |
| Total net position | \$ (26,919,728) | \$ (1,258,561) | \$ (28,178,289) |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|-------------------------|--|--|--|---------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activity | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 35,461,284 | \$ 152,621 | \$ 7,701,847 | \$ - | \$ (27,606,816) | \$ - | \$ (27,606,816) |
| Instructional student support | 5,280,879 | - | 696,029 | - | (4,584,850) | - | (4,584,850) |
| Administration and financial support | 5,662,383 | - | 578,826 | - | (5,083,557) | - | (5,083,557) |
| Operation and maintenance of plant services | 3,884,595 | 19,398 | 278,621 | - | (3,586,576) | - | (3,586,576) |
| Pupil transportation | 1,238,762 | - | 777,961 | - | (460,801) | - | (460,801) |
| Student activities | 1,308,464 | 85,380 | 121,077 | - | (1,102,007) | - | (1,102,007) |
| Community services | 2,500 | - | - | - | (2,500) | - | (2,500) |
| Interest on long-term debt | 2,402,863 | - | 291,538 | - | (2,111,325) | - | (2,111,325) |
| Total governmental activities | 55,241,730 | 257,399 | 10,445,899 | - | (44,538,432) | - | (44,538,432) |
| Business-type activity: | | | | | | | |
| Food Service | 1,326,118 | 646,365 | 588,850 | - | - | (90,903) | (90,903) |
| Total School District | \$ 56,567,848 | \$ 903,764 | \$ 11,034,749 | \$ - | \$ (44,538,432) | \$ (90,903) | \$ (44,629,335) |
| General Revenues and Transfers: | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | \$ 31,189,944 | \$ - | \$ 31,189,944 |
| Public Utility Realty, Transfer, Earned Income, and Per Capita for General Purposes, Net | | | | | 4,567,705 | - | 4,567,705 |
| Grants, subsidies, and contributions not restricted | | | | | 7,410,828 | - | 7,410,828 |
| Investment earnings | | | | | 500,390 | 2,865 | 503,255 |
| Miscellaneous income | | | | | 204,953 | 16,290 | 221,243 |
| Transfers | | | | | (64,023) | 64,023 | - |
| Total general revenues and transfers | | | | | 43,809,797 | 83,178 | 43,892,975 |
| Changes in net position | | | | | (728,635) | (7,725) | (736,360) |
| Net Position - July 1, 2019 | | | | | (26,191,093) | (1,250,836) | (27,441,929) |
| Net Position - June 30, 2020 | | | | | \$ (26,919,728) | \$ (1,258,561) | \$ (28,178,289) |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

| | General Fund | Capital Projects Funds | Debt Service Fund | Total Governmental Funds |
|---|----------------------|------------------------------|-------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 4,751,014 | \$ 1,497,760 | \$ - | \$ 6,248,774 |
| Investments | 4,384,712 | 5,229,477 | - | 9,614,189 |
| Receivables | | | | |
| Taxes - net | 1,585,314 | - | - | 1,585,314 |
| Federal subsidies | 89,099 | - | - | 89,099 |
| State subsidies | 2,939,651 | - | - | 2,939,651 |
| Other | 20,876 | 1,499 | - | 22,375 |
| Intergovernmental receivables | 168,748 | - | - | 168,748 |
| Due from other funds | 134,377 | 23,268 | - | 157,645 |
| Prepaid expenses | 72,988 | - | - | 72,988 |
| Total assets | \$ 14,146,779 | \$ 6,752,004 | \$ - | \$ 20,898,783 |
| Liabilities | | | | |
| Due to other funds | \$ 91,467 | \$ 7,378 | \$ - | \$ 98,845 |
| Intergovernmental payables | 226,807 | - | - | 226,807 |
| Accounts payable | 507,342 | 2,023,029 | - | 2,530,371 |
| Accrued salaries and benefits | 6,461,444 | - | - | 6,461,444 |
| Payroll deductions and withholdings | 229,620 | - | - | 229,620 |
| Unearned revenues | 128,144 | - | - | 128,144 |
| Total liabilities | 7,644,824 | 2,030,407 | - | 9,675,231 |
| Deferred Inflows of Resources | | | | |
| Delinquent property taxes | 617,393 | - | - | 617,393 |
| Fund Balances | | | | |
| Restricted for: | | | | |
| Capital projects | - | 4,721,597 | - | 4,721,597 |
| Committed for: | | | | |
| Retirement | 1,000,000 | - | - | 1,000,000 |
| Assigned for: | | | | |
| Dental claims | 19,747 | - | - | 19,747 |
| Self-insurance medical claims | 1,100,000 | - | - | 1,100,000 |
| Tax appeals | 252,390 | - | - | 252,390 |
| Nonspendable | 72,988 | - | - | 72,988 |
| Unassigned | 3,439,437 | - | - | 3,439,437 |
| Total fund balances | 5,884,562 | 4,721,597 | - | 10,606,159 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 14,146,779 | \$ 6,752,004 | \$ - | \$ 20,898,783 |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2020**

| | |
|---|------------------------|
| Total fund balances - governmental funds | \$ 10,606,159 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$163,738,662, and the accumulated depreciation is \$65,912,165. | 97,826,497 |
| Federal subsidy for reimbursement of bond interest on qualified school construction bonds is not due to be received in the current period. | 241,500 |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred inflows of resources in the funds. | 617,393 |
| Taxes receivable from Lebanon County EIT that are not to be received in the current period. | 83,429 |
| The difference between the reacquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds. | 176,478 |
| Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail): | |
| Deferred inflows | (3,412,000) |
| Deferred outflows | 12,629,000 |
| Deferred inflows and outflows of resources related to OPEB are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail): | |
| Deferred inflows | (645,650) |
| Deferred outflows | 637,171 |
| Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | |
| Bonds payable | (63,240,000) |
| Lease-purchase obligation | (521,056) |
| Accrued interest | (559,565) |
| Bond-issuance premium | (3,876,730) |
| Other post-employment benefits | (5,590,239) |
| Pension liability | (71,047,000) |
| Compensated absences | (845,115) |
| | (145,679,705) |
| Total net position - governmental activities | \$ (26,919,728) |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

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

Year Ended June 30, 2020

| | General Fund | Capital Projects Funds | Debt Service Fund | Total Governmental Funds |
|--|--------------------|------------------------------|-------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 37,274,477 | \$ 151,551 | \$ 62,075 | \$ 37,488,103 |
| State sources | 15,812,725 | 25,000 | - | 15,837,725 |
| Federal sources | 1,186,419 | - | - | 1,186,419 |
| Total revenues | 54,273,621 | 176,551 | 62,075 | 54,512,247 |
| Expenditures | | | | |
| Instructional | 30,996,735 | - | - | 30,996,735 |
| Support services | 14,834,875 | - | 273,710 | 15,108,585 |
| Operation of noninstructional services | 1,014,533 | - | - | 1,014,533 |
| Capital outlay | 7,090 | 7,192,463 | - | 7,199,553 |
| Refunds of prior years' receipts | 37 | - | - | 37 |
| Debt service | | | | |
| Principal | 125,000 | - | 4,670,000 | 4,795,000 |
| Interest | 19,104 | - | 2,719,251 | 2,738,355 |
| Other | 3,350 | - | - | 3,350 |
| Total expenditures | 47,000,724 | 7,192,463 | 7,662,961 | 61,856,148 |
| Excess (deficiency) of revenues over expenditures | 7,272,897 | (7,015,912) | (7,600,886) | (7,343,901) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | 313,480 | 7,154,224 | 7,467,704 |
| Operating transfers out | (7,531,727) | - | - | (7,531,727) |
| Issuance of refunding bonds | - | - | 28,186,662 | 28,186,662 |
| Payment to refunded-bond escrow agent | - | - | (27,740,000) | (27,740,000) |
| Total other financing sources (uses) | (7,531,727) | 313,480 | 7,600,886 | 382,639 |
| Net changes in fund balances | (258,830) | (6,702,432) | - | (6,961,262) |
| Fund Balances: | | | | |
| July 1, 2019 | 6,143,392 | 11,424,029 | - | 17,567,421 |
| June 30, 2020 | \$ 5,884,562 | \$ 4,721,597 | \$ - | \$ 10,606,159 |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

| | | |
|---|--------------------|----------------------------|
| Net changes in fund balances - all governmental funds | | \$ (6,961,262) |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period.</p> | | |
| Capital outlays | 7,228,573 | |
| Less depreciation expense | <u>(4,220,721)</u> | 3,007,852 |
| <p>Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.</p> | | |
| | | 97,456 |
| <p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. In addition, bond premiums, discounts, and refunding losses are recognized as interest throughout the lives of the loans rather than at the issuance of the bonds. The effects of the modifications for accrued interest and bond-issuance discounts and premiums are shown here.</p> | | |
| | | 335,492 |
| <p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.</p> | | |
| District pension and OPEB contributions (PSERS) | | 7,683,000 |
| Cost of benefits earned net of employee contributions (PSERS) | | <u>(9,477,800)</u> |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. This amount represents the sum of compensated absences and other post-employment benefits.</p> | | |
| | | (106,594) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued; these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Intermunicipal-agreement receivable | (32,587) | |
| Issuance of long-term debt | (26,620,000) | |
| Premium on issuance of long-term debt | (1,566,662) | |
| Repayment of lease purchase obligation | 377,470 | |
| Repayment of long-term debt | <u>32,535,000</u> | 4,693,221 |
| Change in net position of governmental activities | | <u><u>\$ (728,635)</u></u> |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2020**

| | Budgeted Amounts | | Actual | Variance with Final |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Budget Positive (Negative) |
| Revenues | | | | |
| Local sources | \$ 37,240,160 | \$ 37,240,160 | \$ 37,274,477 | \$ 34,317 |
| State sources | 15,888,164 | 15,888,164 | 15,812,725 | (75,439) |
| Federal sources | 1,169,882 | 1,169,882 | 1,186,419 | 16,537 |
| Total revenues | 54,298,206 | 54,298,206 | 54,273,621 | (24,585) |
| Expenditures | | | | |
| Instructional | 30,390,803 | 30,992,684 | 30,996,735 | (4,051) |
| Support services | 15,126,974 | 14,838,925 | 14,834,875 | 4,050 |
| Operation of noninstructional services | 1,104,414 | 1,014,533 | 1,014,533 | - |
| Capital outlay | - | 7,090 | 7,090 | - |
| Refunds of prior years' receipts | - | - | 37 | (37) |
| Debt service | 7,251,380 | 147,491 | 147,454 | 37 |
| Total expenditures | 53,873,571 | 47,000,723 | 47,000,724 | (1) |
| Excess of revenues over expenditures | 424,635 | 7,297,483 | 7,272,897 | (24,586) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers out | (416,577) | (7,489,425) | (7,531,727) | (42,302) |
| Budgetary reserve | (200,000) | - | - | - |
| Total other financing uses | (616,577) | (7,489,425) | (7,531,727) | (42,302) |
| Net changes in fund balance | \$ (191,942) | \$ (191,942) | (258,830) | \$ (66,888) |
| Fund Balance: | | | | |
| July 1, 2019 | | | <u>6,143,392</u> | |
| June 30, 2020 | | | <u>\$ 5,884,562</u> | |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE
June 30, 2020

| | |
|---|------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 166,509 |
| Receivables | |
| Federal subsidies | 34,154 |
| State subsidies | 1,412 |
| Other | 108,902 |
| Inventories | 21,829 |
| Other capital assets, net of depreciation | 99,799 |
| Total assets | <u><u>\$ 432,605</u></u> |
| Deferred Outflows of Resources | |
| Deferred amounts on pension liability | \$ 184,000 |
| Deferred amounts on OPEB liability | 2,234 |
| Total deferred outflows of resources | <u><u>\$ 186,234</u></u> |
| Liabilities | |
| Internal balances | \$ 58,800 |
| Accounts payable | 31,706 |
| Unearned revenues | 80,671 |
| Long-term liabilities | |
| Net pension liability | 1,513,000 |
| OPEB liabilities | 130,946 |
| Total long-term liabilities | <u>1,643,946</u> |
| Total liabilities | <u><u>\$ 1,815,123</u></u> |
| Deferred Inflows of Resources | |
| Deferred amounts on pension liability | \$ 55,000 |
| Deferred amounts on OPEB liability | 7,277 |
| Total deferred inflows of resources | <u><u>\$ 62,277</u></u> |
| Net Position | |
| Invested in capital assets | \$ 99,799 |
| Unrestricted | (1,358,360) |
| Total net position | <u><u>\$ (1,258,561)</u></u> |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

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

Year Ended June 30, 2020

| | |
|--|-----------------------|
| <hr/> | |
| Operating Revenues | |
| Sales | \$ 646,365 |
| Other income | 16,290 |
| Total operating revenue | <u>662,655</u> |
| | |
| Operating Expenses | |
| Purchased services - food management | 543,635 |
| Supplies | 119,505 |
| Labor, taxes and benefits | 137,552 |
| Purchased professional, technical and other services | 515,300 |
| Depreciation | 10,126 |
| Total operating expenses | <u>1,326,118</u> |
| | |
| Operating loss | (663,463) |
| | |
| Nonoperating Revenues | |
| Investment earnings | 2,865 |
| Federal and state subsidies | 588,850 |
| Transfer in | 64,023 |
| Total nonoperating revenues | <u>655,738</u> |
| | |
| Changes in net position | (7,725) |
| | |
| Net Position - July 1, 2019 | (1,250,836) |
| Net Position - June 30, 2020 | <u>\$ (1,258,561)</u> |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2020**

| | |
|---|---------------------|
| <hr/> | |
| Cash Flows From Operating Activities | |
| Cash received from meal sales | \$ 721,482 |
| Cash payments for goods and services | (1,092,907) |
| Cash payments to employees for services | (129,827) |
| Net cash used in operating activities | <u>(501,252)</u> |
| | |
| Cash Flows From Noncapital Financing Activities | |
| Interfund transfer in | 64,023 |
| Federal and state sources | 493,575 |
| Net cash provided by noncapital financing activities | <u>557,598</u> |
| | |
| Cash Flows From Capital and Related Financing Activities | |
| Purchase of fixed assets | (24,538) |
| Investment earnings | 2,865 |
| Net cash used in capital and related financing activities | <u>(21,673)</u> |
| | |
| Net change in cash and cash equivalents | 34,673 |
| | |
| Cash and Cash Equivalents: | |
| July 1, 2019 | 131,836 |
| June 30, 2020 | <u>\$ 166,509</u> |
| | |
| Reconciliation of Operating Loss to Net Cash used in Operating Activities | |
| Operating loss | \$ (663,463) |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| Depreciation | 10,126 |
| Value of donated commodities used | 69,409 |
| Changes in assets and liabilities: | |
| (Increase) decrease in: | |
| Receivables | 38,798 |
| Inventories | (1,015) |
| Deferred outflow resources | (2,891) |
| (Decrease) increase in: | |
| Internal balances | (30,644) |
| Accounts payable | 31,493 |
| Unearned revenues | 36,319 |
| Pension liability | 6,000 |
| OPEB liabilities | 442 |
| Deferred inflow of resources | 4,174 |
| Net cash used in operating activities | <u>\$ (501,252)</u> |
| | |
| Supplemental Disclosure | |
| Noncash noncapital financing activity | |
| USDA donated commodities | <u>\$ 69,409</u> |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
June 30, 2020**

| | Consolidated Scholarship Trust Fund | Student Activities Fund |
|-------------------------------------|---|-------------------------------|
| Assets | | |
| Cash | \$ 40,747 | \$ 109,613 |
| Total assets | \$ 40,747 | \$ 109,613 |
| Liabilities | | |
| Accounts payable | \$ - | \$ 109,613 |
| Total liabilities | \$ - | \$ 109,613 |
| Net Position | | |
| Restricted for | | |
| Consolidated Scholarship Trust Fund | \$ 40,747 | \$ - |
| Total net position | \$ 40,747 | \$ - |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
CONSOLIDATED SCHOLARSHIP TRUST FUND
Year Ended June 30, 2020**

| | |
|--------------------------------|------------------|
| Additions | |
| Contributions | \$ 800 |
| Investment earnings | 488 |
| Total additions | <u>1,288</u> |
| Deductions | |
| Scholarship awards | <u>2,448</u> |
| Changes in net position | (1,160) |
| Net Position: | |
| July 1, 2019 | 41,907 |
| June 30, 2020 | <u>\$ 40,747</u> |

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Palmyra Area School District operates four elementary schools, one middle school and one high school in Lebanon County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally elected, nine-member, Board form of government.

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

A. Reporting Entity

Palmyra Area School District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Palmyra Area School District is the lowest level of government which has oversight responsibility and control over all activities related to public school education in the Commonwealth of Pennsylvania. The District receives funding from local, state and Federal government sources and must comply with the requirements of these sources. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities, and consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets less total liabilities) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged against current operations, and accumulated depreciation is reported in the Statement of Net Position.

Governmental fund financial statements are reported using the current, financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund. Revenues are primarily derived from local property, earned income, per capita and occupational taxes, and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

The Debt Service Fund accounts for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs.

The District operates one enterprise fund, the Food Service Fund. This fund accounts for the activities of the District's food service program.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, ongoing operations. The principal, operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental of facilities expense).

The District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. This fund accounts for activities in the various scholarship accounts, the sole purposes of which are to provide annual scholarships to particular students as prescribed by donor stipulations.

The Student Activities Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. A portion of this fund is an agency Fund which is separate from other agency funds because of legal requirements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are also accounted for using the modified accrual basis of accounting.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budget and Budgetary Accounting

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. The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year;

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District;

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. 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 effects of approved budget amendments.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the School District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

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

Allowances for Estimated Uncollectible Taxes and Unearned Revenues: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Delinquent property taxes in the deferred inflows section are based upon an historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes in the deferred inflows section. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

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

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2020. The inventory consisted of government donated commodities which were valued at estimated, fair-market value. The District has adopted a single inventory, recordkeeping system which does not distinguish between donated and purchased commodities. Accordingly, no unearned revenues for donated commodities have been recorded.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets and Depreciation: Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized at the discretion of management, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs, and the extent to which the assets are parts of larger capital projects. The District's capitalization policy excludes library books, classroom texts, computer equipment, classroom furniture, and other instructional equipment, subject to the ongoing discretion of management.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend their economic useful lives are not capitalized.

Depreciation of individual capital assets or groups of such assets is provided on the straight-line basis over the assets' estimated useful lives as determined by management.

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

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to its pension plan, and the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2019, as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Outflows of Resources - Other Post-Employment Benefits: The District recognizes the difference between changes in assumptions, net difference between projected and actual investments earnings, and estimated benefits paid subsequent to the measurement date of June 30, 2019, and changes in proportions as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-Term Obligations: In the government-wide financial statements, and in those of proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable reflect the effects of applicable bond premiums or discounts. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental-fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued and related premiums are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences: According to the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits such as unpaid sick pay and vested bonus based on years of service. Calculations of these amounts are determined by the appropriate sick, and retirement lump-sum payments which would be available to employees if they left or retired from the District; the calculations are adjusted for expected, employee turnover rates. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as long-term liabilities unless retirements are likely within the upcoming fiscal year. In the governmental funds, the cost of sick leave is recognized when payments are made to employees.

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The balance of the District’s OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2020, are as follows:

| OPEB Liabilities | Governmental Activities | Business-Type Activities | Total |
|---------------------------------------|----------------------------|-----------------------------|--------------|
| PSERS Cost Sharing Plan | \$ 3,230,000 | \$ 69,000 | \$ 3,299,000 |
| District Plan | 2,360,239 | 61,946 | 2,422,185 |
| Total | \$ 5,590,239 | \$ 130,946 | \$ 5,721,185 |
| Deferred Outflows of Resources | | | |
| PSERS Cost Sharing Plan | \$ 513,810 | \$ 990 | \$ 514,800 |
| District OPEB Plan | 123,361 | 1,244 | 124,605 |
| Total | \$ 637,171 | \$ 2,234 | \$ 639,405 |
| Deferred Inflows of Resources | | | |
| PSERS Cost Sharing Plan | \$ 151,300 | \$ 5,000 | \$ 156,300 |
| District OPEB Plan | 494,350 | 2,277 | 496,627 |
| Total | \$ 645,650 | \$ 7,277 | \$ 652,927 |

Additional disclosures related to other posts-employment benefits of the District’s Single Employer Plan and PSERS Cost Sharing Plan are in Notes 9 and 10, respectively.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Interfund Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases, in which repayment is expected, the advances are accounted for through the various “due from” and “due to” accounts. On fund financial statements, short-term, interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Pensions: The District recognizes its share of the difference between projected earnings and actual investments and the difference between expected and actual experience of their pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Inflows of Resources - Other Post-Employment Benefits (OPEB): The District recognizes its share of the changes in assumptions and proportions of its OPEB plan as deferred inflows of resources. The amounts are amortized over the average remaining services lives of active and inactive members.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balance:

The School District's fund balances are classified as follows:

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

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

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

Assigned: Represents amounts that are constrained by the government's intentions for them to be used for specific purposes, but such amounts are neither restricted nor committed. The Board has delegated the authority to establish intent to the District's Director of Business Affairs.

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

The District has a Board policy which prescribes fund balance guidelines. The District will strive to maintain the assigned and unassigned fund balances of the General Fund at no less than four percent and at no more than eight percent of budgeted, annual expenditures.

F. Other

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

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 11, 2020, the date the financial statements were available to be issued. See Note 16.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

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

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

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

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2020, are shown below:

| | Carrying Amount | Bank Balance | Financial Institution |
|--|---------------------|---------------------|--------------------------|
| Insured (FDIC) | \$ 250,000 | \$ 250,000 | Fulton Bank |
| Insured (FDIC) | 245,000 | 245,000 | Various Bank CD's |
| Uninsured and collateralized by assets maintained in conformity with Act 72 | 1,492,256 | 2,354,865 | Fulton Bank |
| | <u>\$ 1,987,256</u> | <u>\$ 2,849,865</u> | |

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Financial Institutions - Fulton - The District invests in Certificates of Deposit at a number of banks. These investments are individually covered by FDIC as they are under the FDIC insurance threshold of \$250,000. The certificates are invested at the various banks and are held in the name of the District.

Investments

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

| <u>Investments</u> | <u>Weighted Avg. Maturities Years</u> | <u>Rating</u> | <u>Values</u> |
|---|---|---------------|----------------------|
| Fulton Financial Advisors | Various | A-1/P-1 | \$ 6,649,185 |
| Pennsylvania School District Liquid Asset Fund (PSDLAF) | | | |
| Max Series (PSDMAX) | 0.197 | AAAm | 4,823,338 |
| Full Flex Investment Pool | N/A | N/A | 2,720,000 |
| | | | <u>\$ 14,192,523</u> |

Portfolio Assets

The District holds various investments with Fulton Financial Advisors within the General Fund and Capital Projects Funds. The investments consist of a money market account and commercial paper. The investments adhere to Pennsylvania Public School Code and maintain a credit risk rating of A-1/P-1 or better. The investments meet the criteria of money market or interest earning investment contracts with a remaining maturity of less than one year. This is consistent with GASB Statement No. 31 and are reported at amortized cost.

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, at amortized cost.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Portfolio Assets (Continued)

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

Certificates of deposit used for Fixed-Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third-party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as US Treasury or Agency securities in which monies in which a Fixed-Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed-Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the Investment Adviser and the third party custodian. At present, U.S. Bank National Association, Minneapolis, Minnesota serves as the third-party custodian with respect to all such securities. The District reports these non-participating contracts, as non-negotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

Weighted Average Maturity

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Interest-Rate Risk

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

Credit Risk

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

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The concentration percentages of the District's investments at June 30, 2020, are as follows:

| <u>Investment</u> | <u>Percent of Portfolio</u> |
|---------------------------|---------------------------------|
| Fulton Financial Advisors | 46.85% |
| Max Series (PSDMAX) | 33.99% |
| Full Flex Investment Pool | 19.17% |
| | <u>100.00%</u> |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Unearned Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2020, follows:

| | Amount |
|---|---------------------|
| Uncollected taxes | \$ 1,807,901 |
| Estimated uncollectible taxes | <u>222,587</u> |
| Taxes Receivable - Net | <u>\$ 1,585,314</u> |
| Taxes to be collected within 60 days | \$ 967,921 |
| Deferred inflows of resources - delinquent property taxes | <u>617,393</u> |
| Taxes Receivable - Net | <u>\$ 1,585,314</u> |
| Deferred Inflows of Resources | |
| Delinquent taxes | <u>\$ 617,393</u> |
| Total Deferred Inflows of Resources | <u>\$ 617,393</u> |

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2019-2020 is as follows:

| | |
|--------------------------|-----------------------|
| July 1, 2019 | Tax levy date |
| Through August 31, 2019 | 2%-discount period |
| Through October 31, 2019 | Face-payment period |
| November 1, 2019 | 10%-penalty period |
| 4th Monday, 2019 | Lien filing date |
| January 1, 2020 | Interim tax levy date |

The District's tax rate for all purposes in 2019-20 was 15.3600 mills (\$15.3600 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District approximated 97 percent of the total tax levy.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Balances and Transfers

Individual fund level receivables and payables at June 30, 2020, are as follows:

| | Interfund Receivables | Interfund Payables |
|--------------------------------------|--------------------------|-----------------------|
| <hr/> | | |
| Governmental Fund Types | | |
| General | \$ 134,377 | \$ 91,467 |
| Capital Projects | 23,268 | 7,378 |
| Total Governmental Fund Types | <hr/> 157,645 | <hr/> 98,845 |
| Proprietary Fund Type - Food Service | 88,398 | 147,198 |
| | <hr/> \$ 246,043 | <hr/> \$ 246,043 |

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

Operating transfers between funds during the year ended June 30, 2020, are as follows:

| Fund | Transfers In | Transfers Out |
|--------------------------------------|--------------------|--------------------|
| <hr/> | | |
| Governmental Funds | | |
| General | \$ - | \$ 7,531,727 |
| Capital Projects | 313,480 | - |
| Debt Service | 7,154,224 | - |
| Total governmental funds | <hr/> 7,467,704 | <hr/> 7,531,727 |
| Proprietary Fund Type - Food Service | 64,023 | - |
| | <hr/> \$ 7,531,727 | <hr/> \$ 7,531,727 |

Transfers and payments within the District are substantially for purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

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

| | July 1, 2019 | Increases | Decreases | June 30, 2020 |
|---|----------------------|---------------------|--------------------|----------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,803,847 | \$ - | \$ - | \$ 1,803,847 |
| Construction-in-progress | 784,845 | 6,180,001 | (52,754) | 6,912,092 |
| Total capital assets not being depreciated | 2,588,692 | 6,180,001 | (52,754) | 8,715,939 |
| Capital assets being depreciated | | | | |
| Land improvements | 9,515,931 | 677,564 | - | 10,193,495 |
| Buildings and building improvements | 130,162,265 | 88,049 | - | 130,250,314 |
| Furniture and equipment | 14,243,201 | 335,713 | - | 14,578,914 |
| Total capital assets being depreciated | 153,921,397 | 1,101,326 | - | 155,022,723 |
| Less accumulated depreciation | | | | |
| Land improvements | 5,069,952 | 437,767 | - | 5,507,719 |
| Buildings and building improvements | 45,540,557 | 2,953,395 | - | 48,493,952 |
| Furniture and equipment | 11,080,935 | 829,559 | - | 11,910,494 |
| Total accumulated depreciation | 61,691,444 | 4,220,721 | - | 65,912,165 |
| Total capital assets being depreciated, net | 92,229,953 | (3,119,395) | - | 89,110,558 |
| Governmental Activities - Capital Assets - Net | \$ 94,818,645 | \$ 3,060,606 | \$ (52,754) | \$ 97,826,497 |
| Business-Type Activity | | | | |
| Capital assets being depreciated | | | | |
| Buildings and building improvements | \$ 150,000 | \$ - | \$ - | \$ 150,000 |
| Furniture and equipment | 398,368 | 24,538 | - | 422,906 |
| Total Business-Type Activity - Capital Assets | 548,368 | 24,538 | - | 572,906 |
| Less accumulated depreciation | | | | |
| Buildings and building improvements | 150,000 | - | - | 150,000 |
| Furniture and equipment | 312,981 | 10,126 | - | 323,107 |
| Total accumulated depreciation | 462,981 | 10,126 | - | 473,107 |
| Business-Type Activity - Capital Assets - Net | \$ 85,387 | \$ 14,412 | \$ - | \$ 99,799 |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

| | Amount |
|-------------------------------|----------------------------|
| Governmental Activities: | |
| Instruction | \$ 2,978,758 |
| Instructional student support | 454,928 |
| Admin and financial support | 463,614 |
| Op. and main of plant svcs. | 223,163 |
| Pupil transportation | 3,281 |
| Student activities | 96,977 |
| Total governmental activities | <u>4,220,721</u> |
| Business-Type Activities: | |
| Food service | <u>10,126</u> |
| Total School District | <u><u>\$ 4,230,847</u></u> |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations

During the fiscal year ended June 30, 2020, general long-term debt changed as follows:

| | Balances July 1, 2019 | Increases | Decreases | Balances June 30, 2020 | Due Within one year |
|---|-----------------------------|----------------------|------------------------|------------------------------|------------------------|
| Bonds Payable | | | | | |
| Qualified School Construction Bonds Series of 2010 | \$ 12,970,000 | \$ - | \$ (395,000) | \$ 12,575,000 | \$ 400,000 |
| General Obligation Bonds - Series of 2013 | 925,000 | - | (535,000) | 390,000 | 5,000 |
| General Obligation Bonds - Series of 2014 | 9,325,000 | - | (9,325,000) | - | - |
| General Obligation Bonds - Series A of 2014 | 8,700,000 | - | (8,700,000) | - | - |
| General Obligation Bonds - Series B of 2015 | 9,715,000 | - | (9,715,000) | - | - |
| General Obligation Note - Series of 2016 | 910,000 | - | (125,000) | 785,000 | 125,000 |
| General Obligation Note - Series of 2017 | 12,360,000 | - | (5,000) | 12,355,000 | 5,000 |
| General Obligation Note - Series of 2018 | 14,250,000 | - | (5,000) | 14,245,000 | 5,000 |
| General Obligation Note - Series of 2019 | - | 26,620,000 | (3,730,000) | 22,890,000 | 4,445,000 |
| | <u>69,155,000</u> | <u>26,620,000</u> | <u>(32,535,000)</u> | <u>63,240,000</u> | <u>4,985,000</u> |
| Bond-issuance premium - net | 2,785,580 | 1,566,662 | (475,512) | 3,876,730 | - |
| Total Bonds Payable | <u>71,940,580</u> | <u>28,186,662</u> | <u>(33,010,512)</u> | <u>67,116,730</u> | <u>4,985,000</u> |
| Lease-purchase obligation | <u>898,526</u> | <u>-</u> | <u>(377,470)</u> | <u>521,056</u> | <u>291,900</u> |
| Compensated absences | <u>890,490</u> | <u>-</u> | <u>(45,375)</u> | <u>845,115</u> | <u>-</u> |
| Total Long-Term Debt | <u>\$ 73,729,596</u> | <u>\$ 28,186,662</u> | <u>\$ (33,433,357)</u> | <u>\$ 68,482,901</u> | <u>\$ 5,276,900</u> |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Qualified School Construction Bonds - Series of 2010

During 2010-2011, the District was awarded participation in the Qualified School Construction Bonds Program, a Federally subsidized loan. These taxable bonds, in the amount of \$15,000,000, are financed through the State Public Schools Building Authority. The majority of the interest will be reimbursed through Federal subsidies, resulting in a net interest rate of 0.17%.

General Obligation Bonds - Series of 2013

During 2012-2013, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2013, in an aggregate principal amount of \$9,155,000. The proceeds were used to refund the District's outstanding General Obligation Bonds - Series of 2006 and 2008. The economic gain on the refunding of the 2006 and 2008 Bonds was \$768,009. Interest rates range from 0.29% to 3.00%.

General Obligation Bonds - Series of 2014

During 2013-2014, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2014, in an aggregate principal amount of \$9,980,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2007. The economic gain on the refunding of the 2007 Bonds was \$872,172. Interest rates range from .20% to 2.50%. This bond was fully refinanced in 2020 with the issuance of General Obligation Bond, Series of 2019.

General Obligation Bonds - Series A of 2014

During 2013-2014, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series A of 2014, in an aggregate principal amount of \$9,725,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2005. The economic gain on the refunding of the 2005 Bonds was \$984,212. Interest rates range from 4.50% to 4.75%. This bond was fully refinanced in 2020 with the issuance of General Obligation Bond, Series of 2019.

General Obligation Bonds - Series B of 2015

During 2014-2015, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series B of 2015, in an aggregate principal amount of \$9,995,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2009. The economic gain on the refunding of the 2009 Bonds was \$1,094,817. The interest rate is 2.30%. This bond was fully refinanced in 2020 with the issuance of General Obligation Bond, Series of 2019.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Note - Series of 2016

During 2015-2016, the Board of Directors of Palmyra Area School Board issued General Obligation Note - Series of 2016, in an aggregate principal amount of \$1,265,000. The proceeds were used to provide funding towards the costs of capital projects of the District and to pay the costs of issuing and insuring the note. The interest rate is fixed at 2.10% for 7 years and then at 4.00% for the remaining three years.

General Obligation Bonds - Series of 2017

During 2016-2017, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2017, in an aggregate principal amount of \$12,370,000. The proceeds of the Bonds were used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. Interest rates range from 1.00% to 5.00%.

General Obligation Bonds - Series of 2018

During 2017-2018, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2018, in an aggregate principal amount of \$14,255,000. The proceeds of the Bonds were used to provide funding towards various capital projects of the District and to pay the costs of issuing and insuring the bonds. Interest rates range from 1.70% to 5.00%.

General Obligation Bonds - Series of 2019

During 2019-2020, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2019, in an aggregate principal amount of \$26,620,000. The proceeds were used to (1) currently refund the outstanding General Obligation Bonds, Series of 2014; (2) currently refund the outstanding General Obligation Bonds, Series A of 2014; (3) currently refund the outstanding General Obligation Bonds, Series B of 2015; and (4) pay the costs of issuing the bonds. The economic gain on the refunding of the 2014, 2014A, and 2015 Bonds was \$394,121. Interest rates range from 2.00% to 4.00%.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Annual and aggregate maturities of the long-term debt issues are as follows:

| Year | General Obligation Debt | | | | |
|-----------|-------------------------|----------------------|----------------------|-----------------------|----------------------|
| | Principal | Interest | Total | Federal Reim. | Net Interest |
| 2021 | \$ 4,985,000 | \$ 2,824,095 | \$ 7,809,095 | \$ (724,500) | \$ 1,668,093 |
| 2022 | 5,150,000 | 2,663,364 | 7,813,364 | (724,500) | 1,444,645 |
| 2023 | 5,170,000 | 2,490,128 | 7,660,128 | (724,500) | 1,311,283 |
| 2024 | 5,295,000 | 2,336,998 | 7,631,998 | (724,500) | 1,203,018 |
| 2025 | 5,445,000 | 2,168,963 | 7,613,963 | (724,500) | 1,101,859 |
| 2026-2030 | 26,225,000 | 7,251,450 | 33,476,450 | (1,811,250) | 3,846,798 |
| 2031-2032 | 10,970,000 | 820,250 | 11,790,250 | - | 1,149,850 |
| | <u>\$ 63,240,000</u> | <u>\$ 20,555,246</u> | <u>\$ 83,795,246</u> | <u>\$ (5,433,750)</u> | <u>\$ 15,121,496</u> |

The District will receive Federal reimbursement for the majority of interest paid on the Qualified School Construction Bonds - Series of 2010. The table above presents the total reimbursement due. The District is in compliance with all debt covenants. Those covenants include the following: the School District shall include the annual debt service in its budget for the fiscal year; shall appropriate these amounts from its general revenues; and shall punctually cause the payment of the principal and interest of each of the Bonds.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Lease-Purchase Obligation

The District leases computer equipment which is located throughout the District. The related lease agreement qualifies as a capital lease, and accordingly, the transactions are recorded at the present values of related future, minimum lease payments as of the inception date. All lease-purchase obligations are funded by the General Fund.

The assets acquired through the capital lease are as follows:

| | Amount |
|---|-------------------|
| Assets | |
| Computer equipment | \$ 1,477,755 |
| Less accumulated depreciation | (730,653) |
| Total computer equipment - net book value | <u>\$ 747,102</u> |

| Years | Amount |
|---|-------------------|
| 2020-2021 | \$ 302,050 |
| 2021-2022 | 233,636 |
| Total minimum lease payments | 535,686 |
| Less amount representing interest | (14,630) |
| Total present value of net minimum lease payments | <u>\$ 521,056</u> |

Compensated Absences

Under the terms of the District's employment policies, employees are reimbursed for accrued sick days upon retirement or termination of employment. Employees are granted sick days per school year and any unused sick days may be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by a pre-established, contractual amount. The employees are also offered options regarding retirement payouts as prescribed in the contract if certain conditions are met. The total liability for accrued sick leave and retirement bonuses is presented in the Statement of Net Position.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2020, was 34.29% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 34.29% rate is composed of a contribution rate of 33.45% for pension benefits and .84% for healthcare insurance premium assistance (OPEB benefits).

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2020, was \$7,521,606, and is equal to the required contribution for the year. For the year ended June 30, 2020, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$4,002,686.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

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

At June 30, 2020, the District reported a liability of \$72,560,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was .1551 percent, which was an increase of .0076 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$9,331,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 400,000 | \$ 2,405,000 |
| Changes in assumptions | 694,000 | - |
| Net difference between projected and actual investment earnings | - | 208,000 |
| Changes in proportion | 3,907,000 | 854,000 |
| Difference between employer contributions and proportionate share of total contributions | 290,000 | - |
| Contributions subsequent to the measurement date | 7,522,000 | - |
| | <u>\$ 12,813,000</u> | <u>\$ 3,467,000</u> |

\$7,522,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

| Year Ended June 30: | Amount |
|---------------------|---------------------|
| 2021 | \$ 1,765,000 |
| 2022 | (311,000) |
| 2023 | 221,000 |
| 2024 | 146,000 |
| 2025 | 3,000 |
| | <u>\$ 1,824,000</u> |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions

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

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

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

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

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

For the year ended June 30, 2019, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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

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

Discount Rate

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

Sensitivity of the District’s Total Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current discount rate:

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|-----------------------|----------------------|-----------------------------------|----------------------|
| Net pension liability | \$ 90,381,000 | \$ 72,560,000 | \$ 57,469,000 |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2020, the District has payables to the PSERS pension plan of \$2,804,505. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2020.

Pension Reform

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, are required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a standalone defined contribution plan. PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6%.

Note 9. Other Post-Employment Benefits - District's Single Employer Plan

Plan Description and Benefits Provided

The District provides access to retiree health, vision, dental-care and prescription drug benefits to eligible, retired employees and their qualified spouses/beneficiaries. The plan also provides retirement benefits outlined in employment contracts. This is a single employer, defined-benefit plan administered by the District. Benefits are provided to all academic and support staff who meet the following requirements. Administrative personnel must retire into PSERS. Teaching and support personnel are required to have 10 years with the District or 30 years of PSERS service. Currently, the plan has 325 active participants and 17 retired participants. The plan does not issue a separate, stand-alone set of financial statements.

Funding Policy

The District's medical plans are self-funded, and each plan's premiums are updated annually based on actual claims. Participating employees are responsible for paying the full premiums. The District funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB No. 75.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

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

At June 30, 2020, the District reported a liability of \$2,422,185 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2018. The OPEB liability is composed of the following:

| | Amount |
|--|--------------|
| Total OPEB Liability, beginning | \$ 2,321,619 |
| Changes for the year | |
| Service cost | 203,267 |
| Interest | 73,642 |
| Differences between expected and actual experience | - |
| Changes in assumptions | (77,255) |
| Estimated Benefit payments | (99,088) |
| Net Changes | 100,566 |
| Total OPEB Liability, ending | \$ 2,422,185 |

For the year ended June 30, 2020, the District recognized OPEB expense of \$242,042. At June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 424,249 |
| Changes in assumptions | 35,258 | 72,378 |
| Benefit payments subsequent to the measurement date | 89,347 | - |
| | \$ 124,605 | \$ 496,627 |

Of the total amount reported as deferred outflows of resources related to OPEB, \$89,347 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

| Year Ending June 30: | Amount |
|----------------------|--------------|
| 2021 | \$ (34,867) |
| 2022 | (34,867) |
| 2023 | (34,867) |
| 2024 | (34,867) |
| 2025 | (34,867) |
| Thereafter | (287,034) |
| | \$ (461,369) |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%
- Discount Rate - 3.36%. Based on S&P Municipal Bond 20-year High Grade Rate Index at 7/1/2019.
- Health care cost trend rate - 6.0% in 2018, and 5.5% in 2019-2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

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

The following presents the total OPEB liability of the district calculated using the discount rate of 3.36%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.36%) or one percentage higher (4.36%) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|----------------------|--------------|--------------------------|--------------|
| | 2.36% | 3.36% | 4.36% |
| Total OPEB liability | \$ 2,629,528 | \$ 2,422,185 | \$ 2,228,253 |

The discount rate used to measure the total OPEB liability increased from 2.98% as of July 1, 2018 to 3.36% as of July 1, 2019.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

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

The following presents the total OPEB liability of the district calculated using the health care cost trend rates of (6.0% decreasing to 3.8%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|----------------------|--------------|-----------------------|--------------|
| Total OPEB liability | \$ 2,092,851 | \$ 2,422,185 | \$ 2,821,525 |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan

System Administration

The administrative staff of the System administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). 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. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The control and management of the System, including the investment of its assets is vested in the Board of Trustees (Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of the System by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2020 was 0.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$188,883 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$3,299,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was .1551% percent, which was an increase of .0076% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$181,900. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 19,000 | \$ - |
| Changes in assumptions | 109,000 | 98,000 |
| Changes in proportion | 188,000 | 58,000 |
| Net difference between projected and actual investment earnings | 6,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 3,800 | 300 |
| Contributions subsequent to the measurement date | 189,000 | - |
| | \$ 514,800 | \$ 156,300 |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

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

\$189,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year 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:

| <u>Year ending June 30:</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 2021 | \$ 20,400 |
| 2022 | 20,400 |
| 2023 | 18,600 |
| 2024 | 18,000 |
| 2025 | 56,100 |
| Thereafter | 36,000 |
| | <u>\$ 169,500</u> |

Actuarial Assumptions

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

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Actuarial Assumptions (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017, determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments

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

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

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

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Discount Rate

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

Change in Actuarial Assumptions

The discount rate used to measure the total OPEB liability decreased from 2.98% as of June 30, 2018 to 2.79% as of June 30, 2019.

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

The following presents the District’s proportionate share of the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current discount rate:

| | 1% Decrease 1.79% | Current Discount Rate 2.79% | 1% Increase 3.79% |
|----------------------|----------------------|-----------------------------------|----------------------|
| Total OPEB liability | \$ 3,758,000 | \$ 3,299,000 | \$ 2,918,000 |

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7.75%) that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

OPEB Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2020, the District has payables to the OPEB plan of \$70,427.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Intermunicipal - Agreement Receivable

During the years 2004-2007, the Lebanon County Earned Income Tax Bureau underpaid earned income tax to the District. In 2011, the District entered into an agreement to settle disputes resulting from the underpayment. The District will receive, by agreement, \$512,129 over a 10-year period, interest free. The District received the ninth payment of \$32,587 in the 2019-2020 year.

Note 12. Joint Venture

Lebanon County Career and Technology Center (LCCTC)

Lebanon County Career and Technology Center is a separate legal entity. LCCTC provides vocational-technical training and education to participating students of the member districts. The District is one of six member school districts of LCCTC. LCCTC is controlled and governed by the Area Vocational-Technical Board for Lebanon County (Vo-Tech Board), which is composed of school-board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The District's financial obligation to LCCTC for the year ended June 30, 2020, was \$932,373 which has been reported in the District's General Fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lebanon County Vo-Tech School Authority

The District is also a member of the Lebanon County Vo-Tech School Authority (Authority). In 1965, the Authority entered into an agreement with the member schools and the Vo-Tech Board to acquire land and construct buildings to provide for the operation of LCCTC.

During fiscal year 2001-02, the Authority issued Lease Revenue Bonds Series of 2002, in the aggregate amount of \$2,100,000 for the purpose of providing funds for the costs of design and construction of improvements, renovations, and extraordinary repairs to and the acquisition and installation of related equipment for the facilities of Lebanon County Vocational Technical School. In April 2008, the 2002 Bonds were refunded and Lease Revenue Bonds Series of 2008 were issued in the aggregate amount of \$9,035,000. The District's allocated principal portion of the lease rentals to the Authority is \$1,526,102. The purpose of the 2008 Bonds is to provide funds to cover costs of renovations, alterations, additions to, and equipping of existing facilities of the LCCTC. Concurrent with the issuance of these Bonds, the District entered into a supplemental, lease agreement with the Authority, the rentals of which act as security for the Bonds. In August 2013, the Lease Revenue Bonds - Series of 2008 bonds were refunded and the Lease Revenue Bonds - Series of 2013 were issued. The purpose of the refunding was to reduce interest rates and refund the 2008 bond series. The bond terms remained the same and District will see a reduction in debt service owed from \$2,071,448 to \$1,981,586. In February 2020, the Lease Revenue Bonds - Series of 2013 bonds were refunded and the Lease Revenue Bonds - Series of 2020 were issued. The purpose of the refunding was to reduce interest rates and refund the 2013 bond series. The bond terms remained the same and District will see a reduction in debt service owed from \$1,187,836 to \$1,079,335.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Joint Venture (Continued)

The District is required, under terms of the lease, to pay lease rentals in connection with the Lease Revenue Bonds, Series of 2020, as follows:

| Year | Principal | Interest | Total |
|-----------|---------------------|-------------------|---------------------|
| 2021 | \$ 59,119 | \$ 20,123 | \$ 79,242 |
| 2022 | 75,165 | 20,537 | 95,702 |
| 2023 | 76,854 | 18,949 | 95,803 |
| 2024 | 79,388 | 17,316 | 96,704 |
| 2025 | 81,077 | 15,639 | 96,716 |
| 2026-2030 | 429,030 | 51,948 | 480,978 |
| 2031-2033 | 278,702 | 8,806 | 287,508 |
| | <u>\$ 1,079,335</u> | <u>\$ 153,318</u> | <u>\$ 1,232,653</u> |

The District treats these lease payments as operating rentals as no assets or additional rights have been conveyed to the District. If the Authority and LCCTC cease to be going concerns, the District will be obligated to satisfy its allocable portion of the debt obligations. Concurrently, under terms of the organizing documents, the allocable assets of the defunct, participating entities will be transferred to the District. Complete financial statements for the Authority can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lancaster-Lebanon Joint Authority

The District is a member in the Lancaster-Lebanon Joint Authority (Authority), which is a separate legal entity. The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P.L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon Counties. The school districts established the Authority for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of Lancaster-Lebanon Intermediate Unit No.13. The District did not have any financial transactions with the Authority during the year ended June 30, 2020. Complete financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Joint Venture (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 20 members from the IU's constituent school districts. The LLIU Board members are school-district board members, who are elected by the public, and are appointed to the LLIU Board by the member districts' Boards of Directors. Palmyra Area School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Palmyra Area School District contracts with LLIU for special education services for District students and for computer consortium services. The direct and indirect amounts paid for these services during the year ended June 30, 2020, approximated \$995,035. Complete financial information for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Lebanon School District

Palmyra Area School District is affiliated with the Lebanon School District. On September 12, 2002, the affiliates entered into a 15-year sublease agreement for the building located at One Cumberland Street, Lebanon City, Lebanon County, PA. During the year ended June 30, 2010, the Lancaster-Lebanon Intermediate Unit agreed to sublease the space to the extent possible in order to reduce costs. The District still maintains the contractual obligation for future lease payments if the IU is not able to sublease the space. In the 2019-2020 year, the LLIU was able to fully use the building space, and the District incurred no expense.

Note 13. Employee Insurance Program

Effective January 1, 2004, the District instituted a self-funded insurance program to cover up to \$1,500 of dental costs per participant. During the year ended June 30, 2020, the District paid claims of \$207,992 under the program. In addition, based on the history of benefits paid under private insurance, the District has assigned \$19,747 of additional fund balance to provide for future claims.

Beginning July 1, 2016, the District entered into an agreement for self-insurance of medical benefits. The program is a point-of-service, managed care plan with an opt-out feature. Under the medical plan, the District reimburses the third-party administrator for actual claims paid, and additionally, incurs expenses for administrative, reinsurance, capitation fees, and other fees associated with administration of program. During the year ended June 30, 2020, the District paid claims of \$3,518,271 under the program. The District assigned \$1,100,000 of additional fund balance to provide for future medical claims.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments

Operating Leases

The School District maintains copying machines under long-term, operating leases. Future minimum rental payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2020, are:

| Years | Minimum Lease Obligation |
|-----------|--------------------------------|
| 2020-2021 | \$ 85,414 |
| 2021-2022 | 26,909 |
| | <u>\$ 112,323</u> |

Rental expense for these leases is \$77,938 for the year ended June 30, 2020. There are no options under the current leases for renewal or purchase of the copying machines.

The District has approved approximately \$8.9 million in construction projects as of June 30, 2020. The District expended approximately \$5.3 million through the 2019-2020 school year. The approximate \$3.6 million remains as an outstanding commitment of the District.

Note 15. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage.

Note 16. Subsequent Events

COVID-19 Pandemic

Recent developments arising from the coronavirus pandemic and efforts to mitigate the disease's domestic and global impacts have impacted the operations and finances of school districts. Changes in service approach, labor and personnel changes, facility closings, contracted service disruptions, personal protective equipment purchases, and technological equipment acquisitions have affected all school districts. Unstable conditions enhance school district's risk factors as they have significant reliance on revenues from taxpayers and governmental agencies to fund their operations. These factors impact revenue recognition, cash flows and liquidity, and contingencies. Presently, the ultimate, effects of this crisis on financial position, results of operations, and cash flows are indeterminable because the duration of the crisis is also indeterminable; however, management continues to monitor developments.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 16. Subsequent Events (continued)

Capital Leases

In June and July of 2020, the Board of School Directors authorized the District to enter into two new lease agreements with Apple, Inc. for three and four years, respectively, beginning in fiscal year 2020-2021. These new leases totaled approximately \$453,620 and are to be used to enhance the District's learning technology.

REQUIRED SUPPLEMENTARY INFORMATION

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
SINGLE EMPLOYER DISTRICT PLAN**

Year Ended June 30,

| | 2020 | 2019 | 2018 |
|---|----------------------|----------------------|----------------------|
| Total OPEB liability | | | |
| Service cost | \$ 203,267 | \$ 210,627 | \$ 206,809 |
| Interest | 73,642 | 87,130 | 64,376 |
| Differences between Expected and Actual Experience | - | (489,517) | - |
| Changes in assumptions | (77,255) | (315) | 44,072 |
| Benefit payments | (99,088) | (129,610) | (110,262) |
| Net change in total OPEB liability | 100,566 | (321,685) | 204,995 |
| Total OPEB Liability - beginning | 2,321,619 | 2,643,304 | 2,438,309 |
| Total OPEB Liability - ending | <u>\$ 2,422,185</u> | <u>\$ 2,321,619</u> | <u>\$ 2,643,304</u> |
| District's Covered Payroll | <u>\$ 18,283,643</u> | <u>\$ 18,283,643</u> | <u>\$ 16,811,686</u> |
| Total OPEB liability as a percentage of covered payroll | 13.25% | 12.70% | 15.72% |

Note: This information will be shown for the most recent 10 years, when available.

Notes to Required Supplementary Information schedule above:

Changes of Assumptions

The discount rate changed from 2.98% to 3.36%. The trend assumption was updated.

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 PSERS COST SHARING PLAN**

Year Ended June 30,

| | 2020 | 2019 | 2018 |
|---|----------------------|----------------------|----------------------|
| District's proportion of the net OPEB liability | 0.1551% | 0.1475% | 0.1442% |
| District's proportionate share of the net OPEB liability | <u>\$ 3,299,000</u> | <u>\$ 3,075,000</u> | <u>\$ 2,938,000</u> |
| District's covered payroll | <u>\$ 21,391,707</u> | <u>\$ 19,858,281</u> | <u>\$ 19,196,061</u> |
| District's proportionate share of net OPEB liability as a percentage of its covered payroll | 15.42% | 15.48% | 15.31% |

Note: This information will be shown for the most recent 10 years, when available.

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS - PSERS COST SHARING PLAN
Year Ended June 30,**

| | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|----------------------|
| Contractually required contribution | \$ 188,883 | \$ 178,552 | \$ 168,950 |
| Contributions in relation to the contractually required contribution | (188,883) | (178,552) | (168,950) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | <u>\$ 22,793,658</u> | <u>\$ 21,391,707</u> | <u>\$ 19,196,061</u> |

Note: This information will be shown for the most recent 10 years, when available.

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Year Ended June 30,**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| District's proportion of the net pension liability | 0.1551% | 0.1475% | 0.1442% | 0.1489% | 0.1438% | 0.1433% |
| District's proportionate share of the net pension liability | <u>\$ 72,560,000</u> | <u>\$ 70,807,000</u> | <u>\$ 71,218,000</u> | <u>\$ 73,790,000</u> | <u>\$ 62,287,000</u> | <u>\$ 56,719,000</u> |
| District's covered payroll | <u>\$ 21,391,707</u> | <u>\$ 19,858,281</u> | <u>\$ 19,196,061</u> | <u>\$ 19,285,286</u> | <u>\$ 18,499,827</u> | <u>\$ 18,292,453</u> |
| District's proportionate share of net pension liability as a percentage of its covered payroll | 339.20% | 356.56% | 371.00% | 382.62% | 336.69% | 310.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 55.66% | 54.00% | 51.84% | 50.14% | 54.36% | 57.24% |

Note: This information will be shown for the most recent 10 years, when available.

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION
Year Ended June 30,**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 7,521,606 | \$ 7,013,034 | \$ 6,460,814 | \$ 5,768,220 | \$ 4,989,032 | \$ 3,711,595 |
| Contributions in relation to the contractually required contribution | (7,521,606) | (7,013,034) | (6,460,814) | (5,768,220) | (4,989,032) | (3,711,595) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered payroll | \$ 22,334,106 | \$ 21,391,707 | \$ 19,860,638 | \$ 18,431,696 | \$ 19,301,774 | \$ 18,497,483 |
| Contributions as a percentage of covered payroll | 33.68% | 32.78% | 32.53% | 31.30% | 25.85% | 20.07% |

Note: This information will be shown for the most recent 10 years, when available.

SUPPLEMENTARY INFORMATION

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

Board of School Directors
Palmyra Area School District
Palmyra, 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 Palmyra Area School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Palmyra Area School District's basic financial statements, and have issued our report thereon dated November 11, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
November 11, 2020

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

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

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

We believe 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 Palmyra Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Palmyra 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 Palmyra Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palmyra Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Palmyra Area School District's internal control over compliance.

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

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

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

A handwritten signature in cursive script that reads "Boyer & Fitter". The signature is written in black ink and is positioned in the lower right quadrant of the page.

Camp Hill, Pennsylvania
November 11, 2020

PALMYRA AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency(ies) identified that is not considered to be a material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency(ies) identified that is not considered to be a material weakness (es)? Yes None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)3? Yes No

PALMYRA AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020

Identification of the major programs:

| CFDA Number(s) | Name of Federal Programs/Cluster |
|----------------|---|
| 10.555 | Child Nutrition Cluster - National School Lunch Program |
| 10.553 | Child Nutrition Cluster - School Breakfast Program |
| 10.555 | Child Nutrition Cluster - Food Donation |

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

Auditee qualified as low-risk auditee? X Yes ___ No

Section II - Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

Section III - Federal Award Findings and Questioned Costs

A. Compliance Findings

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

B. Significant Deficiency(ies) in Internal Control

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

PALMYRA AREA SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020**

| | Federal C.F.D.A. Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received (Refunded) in Fiscal Year | Accrued (Deferred) Revenue at July 1, 2019 | Revenue Recognized | Expenditures | Accrued (Deferred) Revenue at June 30, 2020 | Provided to Subrecipients |
|--|-------------------------------|--|-----------------|-------------------------------|---|---|-----------------------|--------------|--|------------------------------|
| U.S. Department of Education | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education: | | | | | | | | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-190318 | 18-19 | \$ 313,718 | \$ 41,828 | \$ 41,828 | \$ - | \$ - | \$ - | \$ - |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-200318 | 19-20 | \$ 308,246 | 308,246 | - | 308,246 | 308,246 | - | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-190318 | 18-19 | \$ 73,304 | 14,662 | 14,662 | - | - | - | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-200318 | 19-20 | \$ 69,916 | 23,237 | - | 69,916 | 69,916 | 46,679 | - |
| Title IV - Student Support and Academic Enrichment | 84.424 | 144-190318 | 18-19 | \$ 22,842 | 16,751 | 16,751 | - | - | - | - |
| Title IV - Student Support and Academic Enrichment | 84.424 | 144-200318 | 19-20 | \$ 23,480 | 21,915 | - | 23,480 | 23,480 | 1,565 | - |
| | | | | | 426,639 | 73,241 | 401,642 | 401,642 | 48,244 | - |
| Passed through the Lancaster-Lebanon Area Intermediate Unit: | | | | | | | | | | |
| Special Education Cluster | | | | | | | | | | |
| Early Intervention - Special Education Preschool Grants | 84.173 | N/A | 18-19 | \$ 3,401 | 3,401 | 3,401 | - | - | - | - |
| Early Intervention - Special Education Preschool Grants | 84.173 | N/A | 19-20 | \$ 2,244 | - | - | 2,244 | 2,244 | - | - |
| Special Education - Grants to States - IDEA Part B | 84.027 | 062-20-0-013 | 19-20 | \$ 213,307 | 213,307 | - | 213,307 | 213,307 | - | - |
| Special Education - Grants to States - IDEA Part B | 84.027 | 062-20-0-013 | 19-20 | \$ 497,017 | 497,017 | - | 497,017 | 497,017 | - | - |
| Total Special Education Cluster | | | | | 713,725 | 3,401 | 712,568 | 712,568 | - | - |
| Total passed through Lancaster Lebanon Area Intermediate Unit: | | | | | 713,725 | 3,401 | 712,568 | 712,568 | - | - |
| Total U.S. Department of Education | | | | | 1,140,364 | 76,642 | 1,114,210 | 1,114,210 | 48,244 | - |

(Continued)

PALMYRA AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2020

| | Federal C.F.D.A. Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received (Refunded) in Fiscal Year | Accrued (Deferred) Revenue at July 1, 2019 | Revenue Recognized | Expenditures | Accrued (Deferred) Revenue at June 30, 2020 | Provided to Subrecipients |
|---|-------------------------------|--|-----------------|-------------------------------|---|---|-----------------------|---------------------|--|------------------------------|
| U.S. Department of Homeland Security | | | | | | | | | | |
| Passed through the Pennsylvania | | | | | | | | | | |
| Emergency Management Agency | | | | | | | | | | |
| Disaster Grants - Public Assistance | 97.036 | FEMA-4506DR-PA | 19-20 | \$ 27,324 | - | - | 27,324 | 27,324 | 27,324 | - |
| Total U.S. Department of Homeland Security | | | | | - | - | 27,324 | 27,324 | 27,324 | - |
| U.S. Department of Treasury | | | | | | | | | | |
| Passed through the Pennsylvania | | | | | | | | | | |
| Commission on Crime & Delinquency | | | | | | | | | | |
| School Health & Security Grant (Cares Act) | 21.019 | 2020-CS-01-33957 | 19-20 | \$ 256,153 | - | - | 13,531 | 13,531 | 13,531 | - |
| Total U.S. Department of Treasury | | | | | - | - | 13,531 | 13,531 | 13,531 | - |
| U.S. Department of Agriculture | | | | | | | | | | |
| Passed through the Pennsylvania | | | | | | | | | | |
| Department of Education: | | | | | | | | | | |
| National School Lunch Program * | 10.555 | N/A | 18-19 | N/A | 7,727 | 7,727 | - | - | - | - |
| National School Lunch Program * | 10.555 | N/A | 19-20 | N/A | 365,237 | - | 397,434 | 397,434 | 32,197 | - |
| School Breakfast Program * | 10.553 | N/A | 18-19 | N/A | 1,224 | 1,224 | - | - | - | - |
| School Breakfast Program * | 10.553 | N/A | 19-20 | N/A | 70,407 | - | 72,365 | 72,365 | 1,958 | - |
| Passed through the Pennsylvania | | | | | | | | | | |
| Department of Agriculture: | | | | | | | | | | |
| National School Lunch Program * | 10.555 | N/A | 19-20 | N/A | 69,409 | - | 69,409 | 69,409 | - | - |
| Total U.S. Department of Agriculture | | | | | 514,004 | 8,951 | 539,208 | 539,208 | 34,155 | - |
| Total Expenditures of Federal Awards | | | | | <u>\$ 1,654,368</u> | <u>\$ 85,593</u> | <u>\$ 1,694,273</u> | <u>\$ 1,694,273</u> | <u>\$ 123,254</u> | <u>\$ -</u> |

* Programs in the Child Nutrition Cluster

| | |
|---|-------------------|
| National School Lunch Program | \$ 397,434 |
| School Breakfast Program | 72,365 |
| National School Lunch Program - Food Donation | 69,409 |
| | <u>\$ 539,208</u> |

See Notes to Schedule of Expenditures of Federal Awards.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the District's under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2. Significant Accounting Policies

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

PALMYRA AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2020

There were no prior year's audit findings.