



***OCTORARA AREA SCHOOL DISTRICT***

**FINANCIAL AND COMPLIANCE REPORT**

**Year Ended June 30, 2023**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Octorara Area School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Octorara Area School District's basic financial statements as listed in the table of contents.

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 Octorara Area School District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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

#### **Change in Accounting Principle**

As described in Note 1 to the financial statements, effective July 1, 2022, Octorara Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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

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

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

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

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 85 through 89 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Supplementary Information**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2024, on our consideration of Octorara 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 Octorara 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 Octorara Area School District's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
February 22, 2024**

**OCTORARA AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2023**  
**AUN Number: 124156503**

Management's Discussion & Analysis (MD&A) for the Octorara Area School District's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2023. The intent of the MD&A is to look at the financial performance as a whole. Readers should review the basic financial statements and corresponding notes to the financial statements to enhance their understanding of the School's financial performance.

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

**SCHOOL DISTRICT**

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

**MISSION STATEMENT**

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

**SCHOOL DISTRICT FINANCIAL HISTORY**

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

The status of the School District's present indebtedness is shown in note 9 of the notes to basic financial statements section.

**FUTURE FINANCING**

In 2023 the District transferred \$1.5 million of General Fund balance to the Capital Projects account to finance deferred maintenance projects. The District will continue to monitor the market and take advantage of future bond refinancing opportunities.

**FINANCIAL HIGHLIGHTS**

Overall the District ended the 2022-2023 fiscal year with a \$11,225,742 increase in the overall net position. The District’s net position totaled (\$14,662,581) at June 30, 2023. The District’s general fund ended the 2022-23 fiscal year with a surplus of \$162,299. The District’s general fund balance totaled \$10,692,941 at June 30, 2023. The 2022-23 budget approved in June 2022 included the appropriation of \$981,086 of fund balance to balance the budget. The positive variance between actual results and the budgeted use of fund balance can be attributed to both positive variances between budgeted revenues and expenditures. Revenues exceeded the budget by \$1,631,231 due to a positive variance in local revenues of \$1,318,295. Overall expenditures were under budget by \$1,000,906 due to fiscally responsible spending.

**FINANCIAL STATEMENTS**

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

- The first two statements are government-wide financial statements - the Statement of Net position and the Statement of Activities. These provide both long-term and short-term information about the School’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School’s operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the School operates like a business. For the School, this is our Food Service Fund and our Internal Service Fund, used to manage the District’s self insurance program.
- Fiduciary fund statements provide information about financial relationships where the School acts solely as a trustee or agent for the benefit of others.

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

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

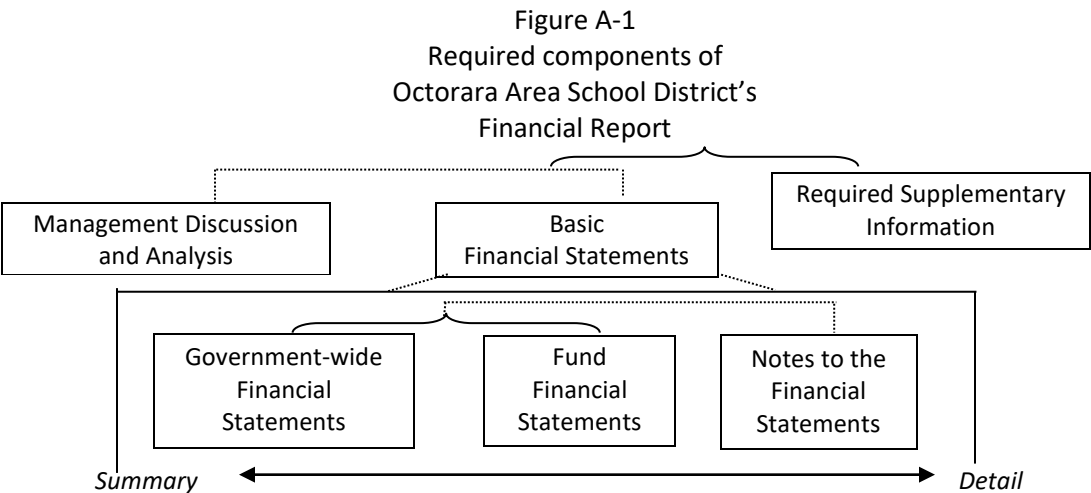




Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

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

Fund Statements

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

## OVERVIEW OF FINANCIAL STATEMENTS

### Government-Wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

- **Governmental activities** - All of the School's basic services are included here, such as instruction, administration and community services. Local tax revenue and state subsidies finance most of these activities.
- **Business-type activities** - The School operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

The School also operates an internal service fund to account for a self-insurance health plan. All health costs are paid by the internal service fund which in turn charges other funds a premium for employee health benefits. The internal service fund is included with governmental activities in the statement of net position.

### Fund Financial Statements

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

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

- *Proprietary funds* - These funds are used to account for the School's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School charges customers for services it provides - whether to outside customers or to other units in the School - these services are generally reported in proprietary funds. The Food Service Fund and the Internal Service Fund are the School's proprietary funds. The food service fund is the same as the business-type activities reported in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The School's total net position was \$(14,662,581) at June 30, 2023.

**Table A-1**  
**Fiscal Years Ended June 30, 2023 and 2022**  
**Statement of Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022 (Restated)	2023	2022	2023	2022 (Restated)
Current and Other Assets	\$ 29,609,489	\$ 28,297,915	\$ 493,981	\$ 578,633	\$ 30,103,470	\$ 28,876,548
Capital Assets	65,650,809	66,664,956	9,016	26,390	65,659,825	66,691,346
<b>TOTAL ASSETS</b>	<b>95,260,298</b>	<b>94,962,871</b>	<b>502,997</b>	<b>605,023</b>	<b>95,763,295</b>	<b>95,567,894</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>12,294,479</b>	<b>13,741,405</b>	<b>470,341</b>	<b>230,062</b>	<b>12,764,820</b>	<b>13,971,467</b>
Current Liabilities	12,678,561	11,155,348	83,069	90,092	12,761,630	11,245,440
Noncurrent Liabilities	102,274,267	109,579,825	1,237,776	912,292	103,512,043	110,492,117
<b>TOTAL LIABILITIES</b>	<b>114,952,828</b>	<b>120,735,173</b>	<b>1,320,845</b>	<b>1,002,384</b>	<b>116,273,673</b>	<b>121,737,557</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>6,795,775</b>	<b>13,386,808</b>	<b>121,248</b>	<b>303,319</b>	<b>6,917,023</b>	<b>13,690,127</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	27,858,181	24,142,359	9,016	26,390	27,867,197	24,168,749
Restricted Fund Balance	4,445,594	5,312,584	-	-	4,445,594	5,312,584
Unrestricted	(46,497,601)	(54,872,648)	(477,771)	(497,008)	(46,975,372)	(55,369,656)
<b>TOTAL NET POSITION</b>	<b>\$ (14,193,826)</b>	<b>\$ (25,417,705)</b>	<b>\$ (468,755)</b>	<b>\$ (470,618)</b>	<b>\$ (14,662,581)</b>	<b>\$ (25,888,323)</b>

Most of the School's deficit net position is pension liability. The pension liability was added to the District's financial statements in 2014-2015 to be in conformity with generally accepted accounting principles by adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The fiscal year 2022-2023 reflects the adoption of GASB 96 related to accounting for subscription-based information technology arrangements.

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

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

Table A-2  
Fiscal Year ended June 30, 2023  
Statement of Activities

Program Revenues					Net (Expense) Revenue and Changes in Net position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
Instruction	\$29,271,290	\$471,355	\$7,871,201	\$0	(\$20,928,734)	\$0	(\$20,928,734)
Instructional Student Support	\$2,883,995	\$0	\$775,551	\$0	(\$2,108,444)	\$0	(\$2,108,444)
Administrative & Financial Support Services	\$5,036,112	\$0	\$494,673	\$0	(\$4,541,439)	\$0	(\$4,541,439)
Operation & Maintenance of Plant Services	\$3,827,274	\$87,373	\$132,798	\$0	(\$3,607,103)	\$0	(\$3,607,103)
Pupil Transportation	\$3,359,659	\$0	\$1,437,975	\$0	(\$1,921,684)	\$0	(\$1,921,684)
Student Activities	\$1,031,019	\$42,785	\$263,841	\$0	(\$724,393)	\$0	(\$724,393)
Community Services	\$94,158	\$0	\$53,368	\$0	(\$40,790)	\$0	(\$40,790)
Interest on long-term debt	\$1,242,650	\$0	\$0	\$97,832	(\$1,144,818)	\$0	(\$1,144,818)
Unallocated Depreciation	<u>\$2,717,298</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,717,298)</u>	<u>\$0</u>	<u>(\$2,717,298)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$49,463,455	\$601,513	\$11,029,407	\$97,832	(\$37,734,703)	\$0	(\$37,734,703)
BUSINESS-TYPE ACTIVITIES							
Food service	<u>\$1,083,228</u>	<u>\$210,362</u>	<u>\$872,578</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$288)</u>	<u>(\$288)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$50,546,683</u>	<u>\$811,875</u>	<u>\$11,901,985</u>	<u>\$97,832</u>	(\$37,734,703)	(\$288)	(\$37,734,991)
GENERAL REVENUES							
Property taxes					\$35,735,357	\$0	\$35,735,357
Other Taxes levied					\$3,772,794	\$0	\$3,772,794
Grants & Subsidies not restricted for purpose					\$8,577,761	\$0	\$8,577,761
Investment earnings					\$759,487	\$0	\$759,487
Miscellaneous					<u>\$113,183</u>	<u>\$2,151</u>	<u>\$115,334</u>
TOTAL GENERAL REVENUES					<u>\$48,958,582</u>	<u>\$2,151</u>	<u>\$48,960,733</u>
CHANGE IN NET POSITION					\$11,223,879	\$1,863	\$11,225,742
NET POSITION BEGINNING OF YEAR					<u>\$(25,417,705)</u>	<u>\$(470,618)</u>	<u>\$(25,888,323)</u>
NET POSITION END OF YEAR					<u>\$(14,193,826)</u>	<u>\$(468,755)</u>	<u>\$(14,662,581)</u>

Table A-2  
Fiscal Year ended June 30, 2022  
Statement of Activities

		Program Revenues			Net (Expense) Revenue and Changes in Net position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction	\$31,466,251	\$311,032	\$7,524,689	\$0	(\$23,630,530)	\$0	(\$23,630,530)
Instructional Student Support	\$3,211,293	\$0	\$689,454	\$0	(\$2,521,839)	\$0	(\$2,521,839)
Administrative & Financial Support Services	\$5,072,226	\$0	\$1,156,549	\$0	(\$3,915,677)	\$0	(\$3,915,677)
Operation & Maintenance of Plant Services	\$3,595,746	\$119,598	\$100,905	\$0	(\$3,375,243)	\$0	(\$3,375,243)
Pupil Transportation	\$3,287,635	\$0	\$1,334,784	\$0	(\$1,952,851)	\$0	(\$1,952,851)
Student Activities	\$1,061,755	\$34,333	\$278,383	\$0	(\$749,039)	\$0	(\$749,039)
Community Services	\$20,723	\$0	\$25,197	\$0	\$4,474	\$0	\$4,474
Interest on long-term debt	\$1,404,621	\$0	\$0	\$483,338	(\$921,283)	\$0	(\$921,283)
Unallocated Depreciation	<u>\$2,586,317</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,586,317)</u>	<u>\$0</u>	<u>(\$2,586,317)</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	\$51,706,567	\$464,963	\$11,109,961	\$483,338	(\$39,648,305)	\$0	(\$39,648,305)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food service	<u>\$1,012,820</u>	<u>\$12,180</u>	<u>\$1,189,629</u>	<u>\$0</u>	<u>\$0</u>	<u>\$188,989</u>	<u>\$188,989</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$52,719,387</u>	<u>\$477,143</u>	<u>\$12,299,590</u>	<u>\$483,338</u>	(\$39,648,305)	\$188,989	(\$39,459,316)
<b>GENERAL REVENUES</b>							
Property taxes					\$35,533,924	\$0	\$35,533,924
Other Taxes levied					\$2,887,905	\$0	\$2,887,905
Grants & Subsidies not restricted for purpose					\$7,903,193	\$0	\$7,903,193
Investment earnings					\$24,037	\$0	\$24,037
Miscellaneous					<u>\$168,520</u>	<u>\$2</u>	<u>\$168,522</u>
<b>TOTAL GENERAL REVENUES</b>					<u>\$46,517,579</u>	<u>\$2</u>	<u>\$46,517,581</u>
<b>CHANGE IN NET POSITION</b>					\$6,869,274	\$188,991	\$7,058,265
<b>NET POSITION BEGINNING OF YEAR</b>					<u>\$(32,286,979)</u>	<u>\$(659,609)</u>	<u>\$(32,946,588)</u>
<b>NET POSITION END OF YEAR</b>					<u>\$(25,417,705)</u>	<u>\$(470,618)</u>	<u>\$(25,888,323)</u>

## Fund Balances

At June 30, 2023, the School's governmental funds reported a combined fund balance of \$17,997,092 which is a decrease of \$531,373 from June 30, 2022.

### General Fund:

The School District will end the 2022-2023 fiscal year with a fund balance of \$10,692,941 in the general fund. Of this amount \$6,286,216 has been assigned for buildings and grounds repairs and fund balance appropriations, \$19,938 is non spendable fund balance and \$4,386,787 is unassigned fund balance.

### Capital Project Fund:

In 2004, the School District borrowed \$37M in General Obligation Bonds for the construction of a new grade 5-6 Intermediate School, a new maintenance building and renovation and addition projects at the High School. This was the first part of borrowing of the funds for a projected project of approximately \$60M. The School District borrowed \$10M in March of 2009, another \$10M in February of 2010, and \$7.5M in February of 2012. In 2020 all remaining bond issues were refinanced and an additional \$7.5 million was borrowed to fund deferred maintenance projects. In 2022-2023 transfers were made from the General Fund to the Capital Project Fund in the amount of \$1.5 million. Ending restricted fund balance in the capital projects fund is \$6,951,568 at June 30, 2023.

Table A-3  
Fiscal Years ended June 30, 2022 and June 30, 2023  
Fund Balance

	Fund Balance June 30, 2022	Fund Balance June 30, 2023	Increase (Decrease)
General	\$ 10,530,642	\$ 10,692,941	\$ 162,299
Capital Projects	\$ 7,656,454	\$ 6,951,568	\$ (704,886)
Nonmajor Funds	\$ 341,369	\$ 352,583	\$ 11,214
Total	\$ 18,528,465	\$ 17,997,092	\$ (531,373)

## General Fund Budget

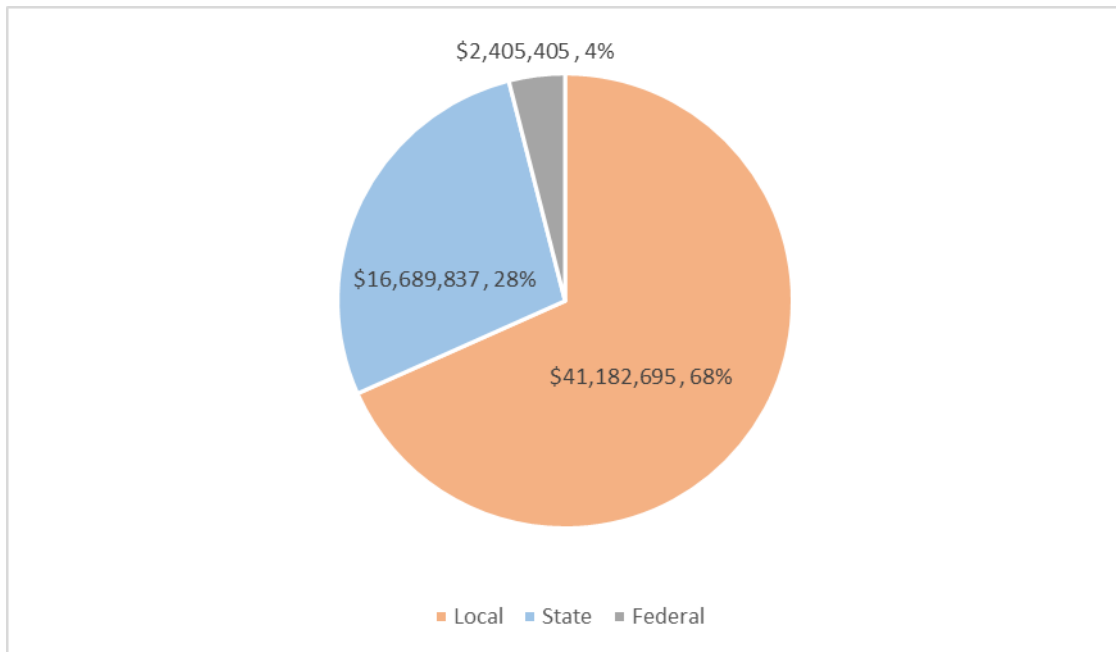
During the fiscal year, the school board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School. A schedule showing the School's original budget amounts compared with amounts actually paid and received is provided in the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

<b>2022-23</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>	\$ 58,646,706	\$ 60,277,937	\$ 1,631,231
<b>Expenses and Other Financing Sources and Uses</b>	\$ 59,627,792	\$ 60,115,638	\$ (487,846)
<b>Net</b>	\$ (981,086)	\$ 162,299	\$ 1,143,385
<b>Contributing Line Items:</b>			
<b>Revenue</b>			
Local Revenue	\$ 39,864,400	\$ 41,182,695	\$ 1,318,295
State Revenue	\$ 16,400,333	\$ 16,689,837	\$ 289,504
Federal Revenue	\$ 2,381,973	\$ 2,405,405	\$ 23,432
Other Financing Sources	\$ 0	\$ 6,170	\$ 6,170
<b>Expense</b>			
Salaries	\$ 20,839,804	\$ 20,543,478	\$ 296,326
Benefits	\$ 13,298,730	\$ 12,458,325	\$ 840,405
Outside Services	\$ 5,290,950	\$ 5,110,693	\$ 180,257
Repairs and Maintenance Services	\$ 2,010,646	\$ 1,995,893	\$ 14,753
Transportation and other Purchased Services	\$ 9,315,452	\$ 9,549,725	\$ (234,273)
Supplies	\$ 2,177,523	\$ 2,148,184	\$ 29,339
Equipment	\$ 717,069	\$ 730,950	\$ (13,881)
Dues, Fees and Interest	\$ 1,851,942	\$ 1,890,735	\$ (38,793)
Fund Transfers and Principal	\$ 4,125,676	\$ 5,687,655	\$ (1,561,979)

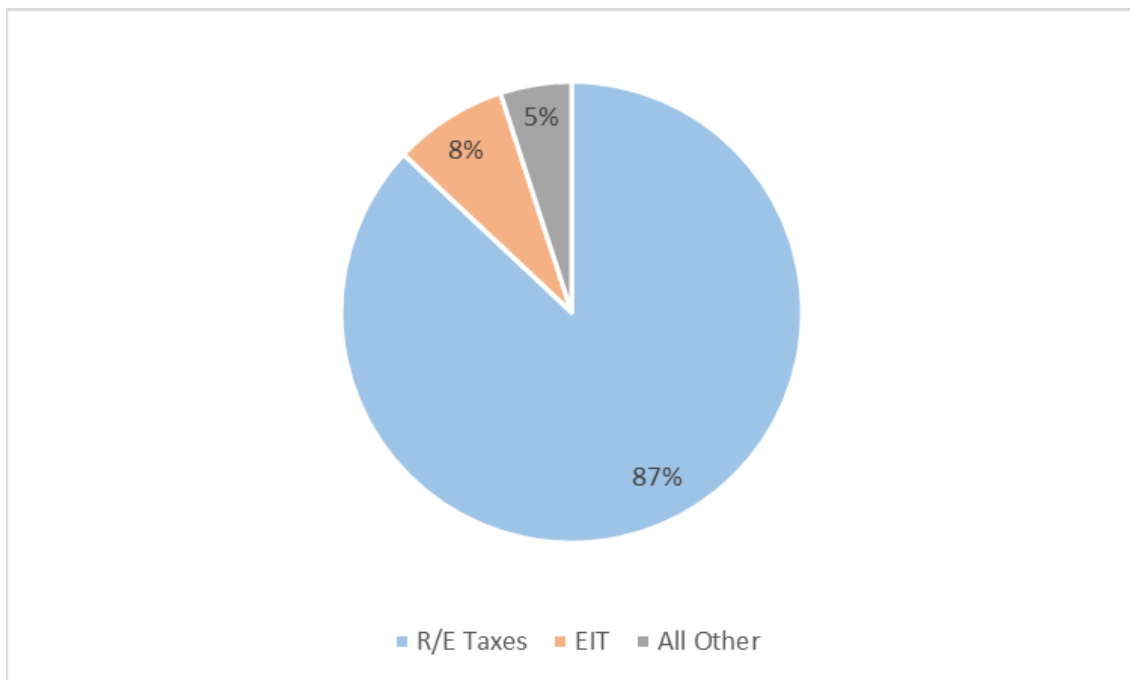
The positive revenue variance was driven by a stronger local and state economy. Expenditures were under budget in benefits due to less health insurance claims in the current year than anticipated and fiscally responsible spending.

Fund Transfer of \$1,500,000 was moved to capital reserve for anticipated capital projects.

The chart below demonstrates the breakdown of the 2022-23 general fund revenues:

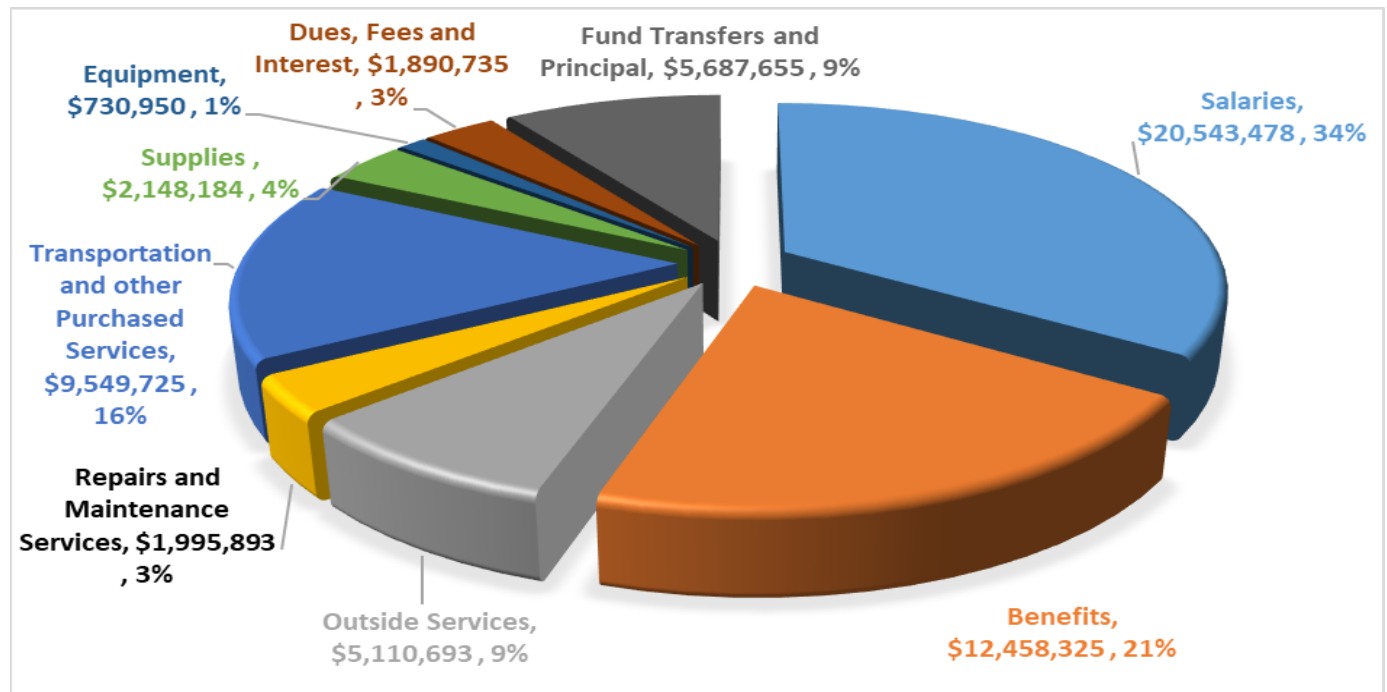


This next chart demonstrates the breakdown of the 2022-23 local revenues:





This next chart demonstrates the breakdown of the 2022-23 expenditures:



## CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2023, the School had \$65,650,809 in Governmental Activities and \$9,016 in Business-Type Activities invested in a broad range of capital assets including land, buildings, furniture and equipment, and right-to-use assets. This amount represents a net decrease (including additions, deletions, and depreciation/amortization) of \$1,014,147 Governmental Activities and a net decrease of \$17,374 from Business-Type Activities from June 30, 2022.

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

	Governmental Activities		Business-Type Activities		Totals	
	2022 (Restated)	2023	2022	2023	2022 (Restated)	2023
<i>(Amounts Expressed in Thousands)</i>						
Capital Assets						
Land & Improvements	\$4,202	\$4,202	\$0	\$0	\$4,202	\$4,202
Construction in Progress	\$1,353	\$748	\$0	\$0	\$1,353	\$748
Site Improvements, Net of Depreciation	\$34	\$18	\$0	\$0	\$34	\$18
Building & Improvements, Net of Depreciation	\$55,425	\$55,956	\$0	\$0	\$55,425	\$55,956
Furniture & Equipment, Net of Depreciation	\$5,464	\$4,653	\$26	\$9	\$5,490	\$4,662
Right-to-use assets, net of amortization	\$187	\$74	\$0	\$0	\$187	\$74
Total Capital Assets	\$66,665	\$65,651	\$26	\$9	\$66,691	\$65,660

**Debt Administration**

Bond Obligations - As of June 30, 2023 the Octorara Area School District has outstanding bond obligations of \$37,120,000. Other obligations include lease payable of \$56,107, subscription liability of \$20,170, accrued vacation pay and sick leave for specific employees of the School amounting to \$1,356,830, net pension liability of \$59,753,000 and other postemployment benefits of \$5,627,586.

For more information on capital assets and debt see the notes to the financial statements.

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

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

ACT 1 of 2006 provides for the School District to limit budget increases to an establish index that changes from year to year. The budget process is limited unless budget exceptions are approved by the PA Department of Education. The index provided by the PA Department of Education for the 2024-25 fiscal year has been established at 6.4%. This is an increase of 1.3% over last year, however the district does not anticipate the need to increase taxes for the upcoming fiscal year due to the positive variance from the previous year.

**CONTACTING THE SCHOOL FINANCIAL MANAGEMENT**

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

## OCTORARA AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 25,864,543	\$ 165,115	\$ 26,029,658
Internal balances	(210,556)	210,556	-
Taxes receivable, net	1,404,873	-	1,404,873
Intergovernmental receivables	2,077,801	99,131	2,176,932
Other receivables	164,370	351	164,721
Inventories	-	18,828	18,828
Prepaid expenses	19,938	-	19,938
Lease receivable	288,520	-	288,520
Capital assets:			
Capital assets not being depreciated	4,950,464	-	4,950,464
Capital assets, net of accumulated depreciation	60,626,138	9,016	60,635,154
Right-to-use assets, net of accumulated amortization	74,207	-	74,207
<b>TOTAL ASSETS</b>	<b>95,260,298</b>	<b>502,997</b>	<b>95,763,295</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on bond refunding	525,980	-	525,980
Deferred outflows of resources for pension	8,593,188	419,653	9,012,841
Deferred outflows of resources for other postemployment benefits	3,175,311	50,688	3,225,999
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>12,294,479</b>	<b>470,341</b>	<b>12,764,820</b>
<b>LIABILITIES</b>			
Accounts payable	3,584,524	3,279	3,587,803
Accrued interest	372,234	-	372,234
Accrued salaries and benefits	2,081,291	4,940	2,086,231
Payroll deductions and withholdings	2,093,447	-	2,093,447
Unearned revenues	90,209	74,850	165,059
Other current liabilities	54,318	-	54,318
Noncurrent liabilities due within one year	4,402,538	-	4,402,538
Noncurrent liabilities:			
Bonds payable, net	36,820,888	-	36,820,888
Leases payable	9,033	-	9,033
Long-term portion of compensated absences	1,301,536	-	1,301,536
Net pension liability	58,557,940	1,195,060	59,753,000
Net other postemployment benefit liabilities	5,584,870	42,716	5,627,586
<b>TOTAL LIABILITIES</b>	<b>114,952,828</b>	<b>1,320,845</b>	<b>116,273,673</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources for lease revenue	286,395	-	286,395
Deferred inflows of resources for pension	2,668,321	49,740	2,718,061
Deferred inflows of resources for other postemployment benefits	3,841,059	71,508	3,912,567
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>6,795,775</b>	<b>121,248</b>	<b>6,917,023</b>
<b>NET POSITION</b>			
Net investment in capital assets	27,858,181	9,016	27,867,197
Restricted for capital projects	4,093,011	-	4,093,011
Restricted - other	352,583	-	352,583
Unrestricted (deficit)	(46,497,601)	(477,771)	(46,975,372)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (14,193,826)</b>	<b>\$ (468,755)</b>	<b>\$ (14,662,581)</b>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 29,271,290	\$ 471,355	\$ 7,871,201	\$ -	\$ (20,928,734)	\$ -	\$ (20,928,734)
Instructional student support	2,883,995	-	775,551	-	(2,108,444)	-	(2,108,444)
Administrative and financial support services	5,036,112	-	494,673	-	(4,541,439)	-	(4,541,439)
Operation and maintenance of plant services	3,827,274	87,373	132,798	-	(3,607,103)	-	(3,607,103)
Pupil transportation	3,359,659	-	1,437,975	-	(1,921,684)	-	(1,921,684)
Student activities	1,031,019	42,785	263,841	-	(724,393)	-	(724,393)
Community services	94,158	-	53,368	-	(40,790)	-	(40,790)
Interest on long-term debt	1,242,650	-	-	97,832	(1,144,818)	-	(1,144,818)
Unallocated depreciation expense	2,717,298	-	-	-	(2,717,298)	-	(2,717,298)
<b>Total Governmental Activities</b>	<b>49,463,455</b>	<b>601,513</b>	<b>11,029,407</b>	<b>97,832</b>	<b>(37,734,703)</b>	<b>-</b>	<b>(37,734,703)</b>
<b>Business-Type Activities:</b>							
Food services	1,083,228	210,362	872,578	-	-	(288)	(288)
<b>Total Primary Government</b>	<b>\$ 50,546,683</b>	<b>\$ 811,875</b>	<b>\$ 11,901,985</b>	<b>\$ 97,832</b>	<b>(37,734,703)</b>	<b>(288)</b>	<b>(37,734,991)</b>
<b>General Revenues:</b>							
Taxes:							
Property taxes					35,735,357	-	35,735,357
Public utility realty, earned income, transfer and mercantile taxes					3,772,794	-	3,772,794
Grants, subsidies, and contributions not restricted for a specific program					8,577,761	-	8,577,761
Investment earnings					759,487	-	759,487
Miscellaneous revenue					113,183	2,151	115,334
<b>Total General Revenues</b>					<b>48,958,582</b>	<b>2,151</b>	<b>48,960,733</b>
<b>Change in Net Position</b>					<b>11,223,879</b>	<b>1,863</b>	<b>11,225,742</b>
<b>Net Position (Deficit) - Beginning of Year</b>					<b>(25,417,705)</b>	<b>(470,618)</b>	<b>(25,888,323)</b>
<b>Net Position (Deficit) - End of Year</b>					<b>\$ (14,193,826)</b>	<b>\$ (468,755)</b>	<b>\$ (14,662,581)</b>

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**June 30, 2023**

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 19,326,977	\$ 6,188,240	\$ 349,326	\$ 25,864,543
Interfund receivable	177,428	1,500,000	12,907	1,690,335
Taxes receivable	1,427,600	-	-	1,427,600
Intergovernmental receivables	2,077,801	-	-	2,077,801
Other receivables	164,370	-	-	164,370
Prepaid expenditures	19,938	-	-	19,938
Lease receivable	288,520	-	-	288,520
<b>TOTAL ASSETS</b>	<b>\$ 23,482,634</b>	<b>\$ 7,688,240</b>	<b>\$ 362,233</b>	<b>\$ 31,533,107</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Interfund payable	\$ 4,493,272	\$ 94,991	\$ -	\$ 4,588,263
Accounts payable	2,933,193	641,681	9,650	3,584,524
Accrued salaries and benefits	2,081,291	-	-	2,081,291
Payroll deductions and withholdings	2,093,447	-	-	2,093,447
Unearned revenues	90,209	-	-	90,209
Other current liabilities	54,318	-	-	54,318
<b>TOTAL LIABILITIES</b>	<b>11,745,730</b>	<b>736,672</b>	<b>9,650</b>	<b>12,492,052</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	757,568	-	-	757,568
Lease revenue	286,395	-	-	286,395
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,043,963</b>	<b>-</b>	<b>-</b>	<b>1,043,963</b>
<b>FUND BALANCES</b>				
Nonspendable	19,938	-	-	19,938
Restricted	-	6,951,568	352,583	7,304,151
Assigned	6,286,216	-	-	6,286,216
Unassigned	4,386,787	-	-	4,386,787
<b>TOTAL FUND BALANCES</b>	<b>10,692,941</b>	<b>6,951,568</b>	<b>352,583</b>	<b>17,997,092</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 23,482,634</b>	<b>\$ 7,688,240</b>	<b>\$ 362,233</b>	<b>\$ 31,533,107</b>

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

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

June 30, 2023

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

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 17,997,092

Capital and right-to-use assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$117,703,277 and the accumulated depreciation/amortization is \$52,052,468. 65,650,809

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts. 734,841

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ (37,120,000)	
Leases payable	(56,107)	
Subscription liability	(20,170)	
Accrued interest	(372,234)	
Unamortized bond premium	(4,304,905)	
Unamortized bond discount	324,017	
Deferred charge on bond refunding	525,980	
Compensated absences	<u>(1,356,830)</u>	(42,380,249)

The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements. (52,633,073)

The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements. (6,250,618)

An internal service fund is used by the District to charge the cost of health insurance, dental, and prescription drug claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 2,687,372

**TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES** \$ (14,193,826)

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2023**

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources	\$ 41,182,695	\$ 216,679	\$ 175,540	\$ 41,574,914
State sources	16,689,837	-	-	16,689,837
Federal sources	2,405,405	-	-	2,405,405
<b>TOTAL REVENUES</b>	60,277,937	216,679	175,540	60,670,156
<b>EXPENDITURES</b>				
Current:				
Instructional services	35,489,245	-	-	35,489,245
Support services	16,158,201	177,295	-	16,335,496
Operation of noninstructional services	1,117,076	-	164,326	1,281,402
Capital outlay	-	2,244,270	-	2,244,270
Debt service:				
Principal	4,186,658	-	-	4,186,658
Interest	1,653,101	-	-	1,653,101
Refund of prior year revenue	17,527	-	-	17,527
<b>TOTAL EXPENDITURES</b>	58,621,808	2,421,565	164,326	61,207,699
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,656,129	(2,204,886)	11,214	(537,543)
<b>OTHER FINANCING SOURCES</b>				
Sale of capital assets	500	-	-	500
Insurance recoveries	5,670	-	-	5,670
Transfers in	-	1,500,000	-	1,500,000
Transfers out	(1,500,000)	-	-	(1,500,000)
<b>TOTAL OTHER FINANCING SOURCES</b>	(1,493,830)	1,500,000	-	6,170
<b>NET CHANGES IN FUND BALANCES</b>	162,299	(704,886)	11,214	(531,373)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	10,530,642	7,656,454	341,369	18,528,465
<b>FUND BALANCES - END OF YEAR</b>	\$ 10,692,941	\$ 6,951,568	\$ 352,583	\$ 17,997,092

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2023**

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

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (531,373)

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

Capital outlays	\$ 2,864,850	
Less: loss of disposal of capital assets	(88)	
Less: depreciation and amortization expense	<u>(3,878,909)</u>	(1,014,147)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. 11,008

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

Repayment of bond principal	4,115,000	
Repayment of leases payable	51,883	
Repayment of subscription liability	19,775	
Amortization of bond discount	(41,809)	
Amortization of bond premium	555,472	
Amortization of deferred charge on bond refunding	<u>(143,671)</u>	4,556,650

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 40,459

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

Compensated absences	(42,629)	
Net pension liability and related deferred outflows and inflows	3,598,727	
Net OPEB liability and related deferred outflows and inflows	<u>4,449,345</u>	8,005,443

An internal service fund is used by the District to charge the costs of health insurance claims to the individual funds. The excess revenue (expense) is reported with governmental activities. 155,839

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 11,223,879



**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**June 30, 2023**

	Enterprise Fund Food Service	Internal Service Fund
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 165,115	\$ -
Interfund receivable	210,556	2,687,372
Intergovernmental receivables	99,131	-
Other receivables	351	-
Inventories	18,828	-
<b>TOTAL CURRENT ASSETS</b>	493,981	2,687,372
<b>NONCURRENT ASSETS</b>		
Furniture and equipment, net	9,016	-
<b>TOTAL ASSETS</b>	502,997	2,687,372
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources for pension	419,653	-
Deferred outflows of resources for other postemployment benefits	50,688	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	470,341	-
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	3,279	-
Accrued salaries and benefits	4,940	-
Unearned revenues	74,850	-
<b>TOTAL CURRENT LIABILITIES</b>	83,069	-
<b>NONCURRENT LIABILITIES</b>		
Net pension liability	1,195,060	-
Net other postemployment benefit liabilities	42,716	-
<b>TOTAL NONCURRENT LIABILITIES</b>	1,237,776	-
<b>TOTAL LIABILITIES</b>	1,320,845	-
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources for pension	49,740	-
Deferred inflows of resources for other postemployment benefits	71,508	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	121,248	-
<b>NET POSITION</b>		
Investment in capital assets	9,016	-
Unrestricted (deficit)	(477,771)	2,687,372
<b>TOTAL NET POSITION (DEFICIT)</b>	\$ (468,755)	\$ 2,687,372

See accompanying notes.

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2023**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>		
Food service revenue	\$ 210,362	\$ -
Charges for services	-	5,174,386
	<hr/>	<hr/>
<b>TOTAL OPERATING REVENUES</b>	210,362	5,174,386
<b>OPERATING EXPENSES</b>		
Salaries	439,016	-
Employee benefits	214,821	-
Pension and OPEB valuation adjustments	(96,866)	-
Purchased professional services	5,006	-
Supplies	467,748	-
Depreciation	21,098	-
Repairs and maintenance	32,405	-
Payment for health claims and administrative expenses	-	5,018,547
	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	1,083,228	5,018,547
	<hr/>	<hr/>
<b>OPERATING INCOME (LOSS)</b>	(872,866)	155,839
<b>NONOPERATING REVENUES</b>		
Earnings on investments	2,151	-
State sources	125,362	-
Federal sources	747,216	-
	<hr/>	<hr/>
<b>TOTAL NONOPERATING REVENUES</b>	874,729	-
	<hr/>	<hr/>
<b>CHANGES IN NET POSITION</b>	1,863	155,839
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	(470,618)	2,531,533
	<hr/>	<hr/>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ (468,755)</u>	<u>\$ 2,687,372</u>

**OCTORARA AREA SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**For the Year Ended June 30, 2023**

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 195,244	\$ 5,018,547
Payments to employees for services	(475,751)	-
Payments to suppliers for goods and services	(424,546)	-
Payments for health claims and administrative services	-	(5,018,547)
	<u>-</u>	<u>(5,018,547)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	(705,053)	-
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	114,490	-
Federal sources	746,299	-
	<u>746,299</u>	<u>-</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	860,789	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(3,724)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	2,151	-
	<u>2,151</u>	<u>-</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	154,163	-
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>10,952</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 165,115</u></u>	<u><u>\$ -</u></u>

*See accompanying notes.*

**OCTORARA AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2023**

	<u>Enterprise Fund</u> <u>Food Service</u>	<u>Internal</u> <u>Service Fund</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash</u></b>		
<b><u>Used For Operating Activities:</u></b>		
Operating income (loss)	\$ (872,866)	\$ 155,839
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	21,098	-
Donated commodities used	71,459	-
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Interfund receivable	173,146	(155,839)
Inventories	5,875	-
Deferred outflows of resources for pension	(249,397)	-
Deferred outflows of resources for other postemployment benefits	9,118	-
Accounts payable	3,279	-
Accrued salaries and benefits	4,940	-
Unearned revenues	(15,118)	-
Net pension liability	465,060	-
Net other postemployment benefit liabilities	(139,576)	-
Deferred inflows of resources for pension	(216,537)	-
Deferred inflows of resources for other postemployment benefits	34,466	-
Total adjustments	<u>167,813</u>	<u>(155,839)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u><u>\$ (705,053)</u></u>	<u><u>\$ -</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the District used \$71,459 of commodities from the U.S. Department of Agriculture.

## **OCTORARA AREA SCHOOL DISTRICT**

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

**June 30, 2023**

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

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

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

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

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

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

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

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

**June 30, 2023**

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

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**A. Reporting Entity - continued**

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

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

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

**Joint Venture:** The District is a participating member of the Chester County Technical College High School (formerly the Center for Arts and Technology). See Note 12 for details of involvement and financial information of the joint venture.

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

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

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

**June 30, 2023**

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

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

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

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

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

The District currently does not have any fiduciary funds.

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

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

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

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

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

**June 30, 2023**

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

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

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

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

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

**Special Revenue Funds**

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

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

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

***Food Service Fund:*** The food service fund is authorized under Section 504 of the Public School Code of 1949 to account for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

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

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



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

**June 30, 2023**

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

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

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

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

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

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

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

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

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

**June 30, 2023**

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

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

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

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

**E. Budgetary Process**

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

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

**Accelerated Budget Process Option**

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

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

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

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

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##### E. Budgetary Process - continued

###### **Accelerated Budget Process Option - continued**

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

###### **Board Resolution Option**

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

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

##### F. Financial Position

###### **1. Cash and Cash Equivalents**

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

###### **2. Investments**

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**2. Investments - continued**

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

**3. Interfund Transactions**

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

**4. Inventories and Prepaid Items**

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

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

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2023, consist of the following:

Purchased food and supplies	\$ 11,488
Donated commodities	<u>7,340</u>
	<u><u>\$ 18,828</u></u>

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

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization

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

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

Estimated useful lives for depreciable and amortizable assets are as follows:

Assets	Years
Building and building improvements	20 - 50
Site improvements	10 - 20
Furniture and equipment	5 - 10
Right-to-use lease assets	2 - 5
Right-to-use subscription assets	2 - 3

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2023.

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**7. Unearned Revenues**

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

**8. Compensated Absences**

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

**9. Long-Term Obligations**

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**10. Leases and Subscription-Based Information Technology Arrangements**

**Lessor**

Octorara Area School District is a lessor for a noncancellable lease of land. The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, Octorara Area School District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- Octorara Area School District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are qualifying lease renewals or early termination options that the District or lessee is reasonably certain to exercise or not. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**10. Leases and Subscription-Based Information Technology Arrangements - continued**

**Lessee and Subscription -Based Information Technology Arrangements**

Octorara Area School District has agreements for noncancellable leases of equipment and subscription-based information technology arrangements (SBITA). The District recognizes a lease or subscription liability and an intangible right-to-use asset (lease or subscription asset) in the government-wide financial statements.

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

Key estimates and judgments related to leases and SBITAs include how the District determines (1) the discount rate it uses to discount the expected payments to present value, (2) term, and (3) payments.

- The District uses the interest rate charged under the agreement as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are any qualifying lease renewals or early termination options that the District is reasonably certain to exercise or not exercise. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

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

Lease and subscription assets are reported with capital assets as right-to-use assets and related liabilities are reported with noncurrent liabilities on the statement of net position.



**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**F. Financial Position - continued**

**11. Pension**

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

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

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

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

PSERS OPEB Plan

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

District OPEB Plan

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

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

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

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

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

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

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

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

*Deferred inflows of resources for lease revenue* relate to a lessor agreement the District has for use of land by a third party. The deferred inflows of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**14. Net Position and Flow Assumptions**

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets component of net position is comprised of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. If there are unspent related debt proceeds at year-end, the portion of debt attributed to the unspent bond proceeds is not included in the calculation of net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

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

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

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

The nonspendable fund balance classification represents assets in nonspendable form and includes items such as prepaid expenditures and inventory.

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

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

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

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

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

**G. Use of Estimates**

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

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

**June 30, 2023**

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

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**H. Adoption of Accounting Standards**

During the year ended June 30, 2023, the District adopted new accounting guidance GASB Statement No. 96 retroactive to July 1, 2022. GASB Statement No. 96 was issued to (1) define subscription-based information technology arrangements (SBITAs); (2) establish that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. As a result of this standard implementation, right-to-use assets were increased \$39,945 with an offsetting long-term liability of the same amount. There was no change to beginning net position.

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

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

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

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

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

For the year ended June 30, 2023, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created a deficiency in net position at year-end of \$468,755. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at the statutory required rate and future benefit payments.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 3 - CASH AND INVESTMENTS

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

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

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

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

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

The breakdown of total cash and investments at June 30, 2023, is as follows:

Petty cash	\$ 1,900
Cash deposits	11,272,479
Pooled cash	14,674,454
Investments	<u>80,825</u>
	<u>\$ 26,029,658</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

**Deposits**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2023, the carrying amount of the District's deposits was \$11,272,479 and the bank balance was \$11,331,163. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$11,081,163 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

**Pooled Cash and Investments**

As of June 30, 2023, the District had the following pooled cash:

	Fair Value
PA School District Liquid Asset Fund:	
MAX account balance	\$ 484,503
Full Flex Pool	14,225,816
	<hr/>
Total	14,710,319
Less: reconciling items	(35,865)
	<hr/>
Total PSDLAF	<u>\$ 14,674,454</u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$14,710,319 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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



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

**June 30, 2023**

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

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**Pooled Cash and Investments - continued**

The PSDLAF Full Flex Pool, as part of the Fixed-Income Series at PSDLAF, is 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.

As of June 30, 2023, the entire PSDLAF book balance of \$14,674,454 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

**Investments**

As of June 30, 2023, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Level</u>
Invesco Global Strategic Income Fund	N/A	\$ 24,238	1
U.S. Government Securities Class A - American Funds	N/A	19,963	1
Eaton Vance Floating Rate Advantage Fund	N/A	17,141	1
Fidelity Advisor Government Income Fund Class A	N/A	4,525	1
MFS Utilities Fund Class A	N/A	14,958	1
Total investments		<u>\$ 80,825</u>	

The District's investment carrying value of \$80,825 for the year ended June 30, 2023 is assessed using Level 1 inputs based on actively traded markets.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

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

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**Interest Rate Risk**

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

**Credit Risk**

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2023, the District's investments were rated as:

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

\* Mutual funds not subject to credit rating

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

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

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

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

Assessed values for real estate tax are established by the County Board of Assessment. All taxable real property was assessed at \$307,461,200 and \$699,876,536 for Lancaster and Chester County, respectively. In accordance with Act 1 of 2006, the District received \$1,436,661 in property tax reduction refunds for the 2022/2023 fiscal year. The District tax rate for the year ended June 30, 2023, was \$26.06 and \$41.99 per \$1,000 of assessed valuation for Lancaster and Chester County, respectively. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

The balances at June 30, 2023, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate tax	\$ 1,017,840	\$ 22,727	\$ 995,113	\$ 260,272	\$ 757,568
Transfer tax	47,989	-	47,989	47,989	-
Earned income tax	361,771	-	361,771	361,771	-
	<u>\$ 1,427,600</u>	<u>\$ 22,727</u>	<u>\$ 1,404,873</u>	<u>\$ 670,032</u>	<u>\$ 757,568</u>

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

The following schedule represents intergovernmental receivables at June 30, 2023:

	General Fund	Enterprise - Food Service Fund
Pennsylvania Department of Education:		
Retirement Subsidy	\$ 1,201,635	\$ -
Social Security Subsidy	255,002	-
Food Service Program	-	15,472
Transportation Subsidy	7,567	-
Chester County I.U. - Special Education	234,429	-
Federal Subsidies:		
Title I Grants to Local Educational Agencies	103,732	-
Supporting Effective Instruction State Grant	37,215	-
Student Support and Academic Enrichment Program	7,731	-
COVID-19 - Education Stabilization Fund	230,490	-
Child Nutrition Cluster	-	83,659
	<u>\$ 2,077,801</u>	<u>\$ 99,131</u>

**NOTE 6 - LEASE RECEIVABLE**

**Lease Receivable**

The District leases land space to an entity for District owned property. This lease is payable monthly and accrues interest at 3.99%. The outstanding lease matures in December 2045. The District has recorded a lease receivable from this agreement as of June 30, 2023 of \$288,520, and a related deferred inflow of resources of \$286,395.

Lease-related revenue is as follows for the year ended June 30, 2023:

Lease revenue:	
Land	\$ 11,624
Interest revenue	<u>3,542</u>
Total	<u>\$ 15,166</u>

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

**June 30, 2023**

**NOTE 7 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a summary of interfund receivables and payables at June 30, 2023:

	Interfund Receivable	Interfund Payable
General Fund	\$ 177,428	\$ 4,493,272
Capital Projects Fund	1,500,000	94,991
Nonmajor Funds - Student Activities Fund	12,907	-
Enterprise Fund - Food Service	210,556	-
Internal Service Fund	2,687,372	-
	<u>\$ 4,588,263</u>	<u>\$ 4,588,263</u>

Interfund balances represent shared costs which have not yet been reimbursed. All will be paid within one year, except for the interfund related to the internal service fund, which will be repaid as cash is available and may be longer than one year.

Interfund transfers are summarized as follows at June 30, 2023:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 1,500,000
Capital Projects Fund	1,500,000	-
	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

Transfers are made to fund future capital projects.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 8 - CHANGES IN CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2023, were as follows:

	Beginning Balance (Restated)	Increase	Transfers/ Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 4,202,324	\$ -	\$ -	\$ 4,202,324
Construction in progress	1,353,338	945,111	(1,550,309)	748,140
Totals not being depreciated	5,555,662	945,111	(1,550,309)	4,950,464
Capital assets being depreciated:				
Building and building improvements	88,134,025	1,038,949	1,550,309	90,723,283
Site improvements	1,230,838	-	-	1,230,838
Furniture and equipment	19,726,697	880,790	(7,090)	20,600,397
Totals being depreciated	109,091,560	1,919,739	1,543,219	112,554,518
Less accumulated depreciation for:				
Building and building improvements	32,710,026	2,057,397	-	34,767,423
Site improvements	1,197,049	16,188	-	1,213,237
Furniture and equipment	14,262,260	1,692,462	(7,002)	15,947,720
Total accumulated depreciation	48,169,335	3,766,047	(7,002)	51,928,380
Total capital assets being depreciated, net	60,922,225	(1,846,308)	1,550,221	60,626,138
Right-to-use assets being amortized:				
Leased furniture and equipment	297,178	-	(138,828)	158,350
Subscriptions	39,945	-	-	39,945
Total right-to-use assets being amortized	337,123	-	(138,828)	198,295
Less accumulated amortization for:				
Leased furniture and equipment	150,054	92,889	(138,828)	104,115
Subscriptions	-	19,973	-	19,973
Total accumulated amortization	150,054	112,862	(138,828)	124,088
Total right-to-use assets being amortized, net	187,069	(112,862)	-	74,207
<b>GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET</b>	<b>\$ 66,664,956</b>	<b>\$ (1,014,059)</b>	<b>\$ (88)</b>	<b>\$ 65,650,809</b>

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 8 - CHANGES IN CAPITAL ASSETS - CONTINUED**

	Beginning Balance	Increase	Transfers/ Deletions	Ending Balance
<b>Business-Type Activities</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 566,311	\$ 3,724	\$ -	\$ 570,035
Less accumulated depreciation for:				
Furniture and equipment	539,921	21,098	-	561,019
<b>BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET</b>	<u>\$ 26,390</u>	<u>\$ (17,374)</u>	<u>\$ -</u>	<u>\$ 9,016</u>

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

Instructional services	\$ 124,185
Instructional student support	93,634
Administrative and financial support services	835,819
Operation and maintenance of plant services	100,159
Operation of noninstructional services	7,814
Unallocated depreciation	<u>2,717,298</u>
<b>TOTAL DEPRECIATION AND AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES</b>	<u>\$ 3,878,909</u>

**NOTE 9 - LONG-TERM LIABILITIES**

The District issues general obligation bonds to provide resources for major capital improvements. The bonds are direct obligations issued on a pledge of the full faith and credit of the District as well as their general taxing authority. Bonds payable at June 30, 2023, were as follows:

General Obligation Bonds - Series of 2020:

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

	<u>\$ 37,120,000</u>
Total bonds payable	<u>\$ 37,120,000</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

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

	General Obligation Bonds, Series of 2020	
	Principal	Interest
2024	\$ 4,280,000	\$ 1,484,800
2025	4,450,000	1,313,600
2026	4,630,000	1,135,600
2027	4,820,000	950,400
2028	5,010,000	757,600
2029-2031	13,930,000	1,038,000
	<u>\$ 37,120,000</u>	<u>\$ 6,680,000</u>

Events of Default

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

Leases

The District has entered into lease agreements for various technology equipment including copiers and computers. The leases have various termination dates through July 2025. These leases include either monthly or quarterly payments of principal and interest at rates ranging from 2.54% to 3.99%.

Future lease maturities as of June 30 are as follows:

	Principal	Interest	Total
2024	\$ 47,074	\$ 1,281	\$ 48,355
2025	8,881	104	8,985
2026	152	-	152
	<u>\$ 56,107</u>	<u>\$ 1,385</u>	<u>\$ 57,492</u>



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

**June 30, 2023**

**NOTE 9 - LONG-TERM LIABILITIES - CONTINUED**

**Subscriptions**

The District has entered into various agreements for subscription-based information technology arrangements. The arrangements mature through June 2024. Annual payments are made and interest is accrued at a rate of 5%.

Future subscription liability maturities as of June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	<u>\$ 20,170</u>	<u>\$ 944</u>	<u>\$ 21,114</u>

Long-term liability balance and activity for the year ended June 30, 2023, are as follows:

	Beginning Balance (Restated)	Additions	Reduction/ Transfers	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 41,235,000	\$ -	\$ 4,115,000	\$ 37,120,000	\$ 4,280,000
Discounts	(365,826)		(41,809)	(324,017)	-
Premiums	4,860,377	-	555,472	4,304,905	-
Total bonds payable	45,729,551	-	4,628,663	41,100,888	4,280,000
Leases payable	107,990	-	51,883	56,107	47,074
Subscription liability	39,945	-	19,775	20,170	20,170
Compensated absences	1,314,201	44,866	2,237	1,356,830	55,294
Net pension liability	54,573,000	10,565,707	6,580,767	58,557,940	-
Net other postemployment benefit liabilities	12,069,973	-	6,485,103	5,584,870	-
Total governmental long-term liabilities	<u>\$ 113,834,660</u>	<u>\$ 10,610,573</u>	<u>\$ 17,768,428</u>	<u>\$ 106,676,805</u>	<u>\$ 4,402,538</u>
<b>Business-Type Activities</b>					
Net pension liability	\$ 730,000	\$ 599,467	\$ 134,407	\$ 1,195,060	\$ -
Net other postemployment benefit liabilities	182,292	-	139,576	42,716	-
Total business-type long-term liabilities	<u>\$ 912,292</u>	<u>\$ 599,467</u>	<u>\$ 273,983</u>	<u>\$ 1,237,776</u>	<u>\$ -</u>

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

**June 30, 2023**

**NOTE 9 - LONG-TERM LIABILITIES - CONTINUED**

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Total interest paid during the year ended June 30, 2023, was \$1,653,101. Payments on bonds payable are made by the general fund. The lease, subscription, and compensated absence liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

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**Employee Defined Benefit Pension Plan**

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

Plan Description

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

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.

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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

**Benefits Provided - continued**

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC). To qualify for normal retirement, Class T-G and Class T-H members must work until age 67 with a minimum of 3 years of credited service. Class T-G may also qualify for normal retirement by attaining a total combination of age and service that is equal to or greater than 97 with a minimum 35 years of credited service.

Benefits are generally equal to 1.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (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.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania. The contribution rates based on qualified member compensation for virtually all members are presented below:

<b>Member Contribution Rates</b>				
<b>Membership Class</b>	<b>Continuous Employment Since</b>	<b>Defined Benefit (DB) Contribution Rate</b>	<b>DC Contribution Rate</b>	<b>Total Contribution Rate</b>
<b>T-C</b>	Prior to July 22, 1983	5.25%	N/A	5.25%
				6.25%
<b>T-C</b>	On or after July 22, 1983	6.25%	N/A	6.25%
<b>T-D</b>	Prior to July 22, 1983	6.50%	N/A	6.50%
<b>T-D</b>	On or after July 22, 1983	7.50%	N/A	7.50%
<b>T-E</b>	On or after July 1, 2011	7.50% base rate with shared risk provision	N/A	Prior to 7/1/21: 7.50% After 7/1/21: 8.00%
<b>T-F</b>	On or after July 1, 2011	10.30% base rate with shared risk provision	N/A	Prior to 7/1/21: 10.30% After 7/1/21: 10.80%
<b>T-G</b>	On or after July 1, 2019	5.50% base rate with shared risk provision	2.75%	Prior to 7/1/21: 8.25% After 7/1/21: 9.00%
<b>T-H</b>	On or after July 1, 2019	4.50% base rate with shared risk provision	3.00%	Prior to 7/1/21: 7.50% After 7/1/21: 8.25%
<b>DC</b>	On or after July 1, 2019	N/A	7.50%	7.50%

<b>Shared Risk Program Summary</b>				
<b>Membership Class</b>	<b>Defined Benefit (DB) Base Rate</b>	<b>Shared Risk Increment</b>	<b>Minimum</b>	<b>Maximum</b>
T-E	7.50%	+/- 0.50%	5.50%	9.50%
T-F	10.30%	+/- 0.50%	8.30%	12.50%
T-G	5.50%	+/- 0.75%	2.50%	8.50%
T-H	4.50%	+/- 0.75%	1.50%	7.50%

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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

**Employer Contributions:**

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2023, was 34.31% 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 rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$6,963,059 for the year ended June 30, 2023. The District also contributed \$40,589 to the defined contribution pension plan during the year ended June 30, 2023.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was \$3,568,089.

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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

At June 30, 2023, the District reported a liability of \$59,753,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021 to June 30, 2022. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2023, the District's proportion was 0.1344%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2023, the District recognized pension expense of \$3,363,458. At June 30, 2023, 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	\$ 27,000	\$ 517,000
Changes of assumptions	1,784,000	-
Net difference between projected and actual investment earnings	-	1,013,000
Changes in proportion - plan level	-	957,000
Changes in proportion - internal	231,061	231,061
Difference between employer contributions and proportionate share of total contributions	7,721	-
Contributions made subsequent to the measurement date	6,963,059	-
	<u>\$ 9,012,841</u>	<u>\$ 2,718,061</u>

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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

The \$6,963,059 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2024	\$ (293,814)
2025	(196,610)
2026	(1,596,244)
2027	1,418,389
	<u>\$ (668,279)</u>

**Actuarial Assumptions**

The total pension liability at June 30, 2022, was determined by rolling forward the System's total pension liability at June 30, 2021 to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial valuation date - June 30, 2021.
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.75%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2020.

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

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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

Actuarial Assumptions - continued

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2022 is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	28.0%	5.3%
Private equity	12.0%	8.0%
Fixed income	33.0%	2.3%
Commodities	9.0%	2.3%
Infrastructure/ MLPs	9.0%	5.4%
Real estate	11.0%	4.6%
Absolute return	6.0%	3.5%
Cash	3.0%	0.5%
Leverage	(11.%)	0.5%
	<u>100.0%</u>	

Discount Rate

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



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

**June 30, 2023**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability	\$ 77,286,000	\$ 59,753,000	\$ 44,970,000

Pension Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2023, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,930,929. This amount represents the District's contractually obligated contributions for wages earned in April 2023 through June 2023.

**403(b) Tax Shelter Plan**

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

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS**

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**Employee Defined Benefit Other Postemployment Benefit Plans**

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2023, are as follows:

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	\$ 2,470,000	\$ 456,207	\$ 699,000
District OPEB Plan	3,157,586	2,769,792	3,213,567
Total	<u>\$ 5,627,586</u>	<u>\$ 3,225,999</u>	<u>\$ 3,912,567</u>

**PSERS OPEB Plan**

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

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2022, 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.

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Premium Assistance Eligibility Criteria - continued

For Class DC members to become eligible for Premium Assistance, they must satisfy the following criteria:

- Attain Medicare eligibility with 24 ½ or more eligibility points, or
- Have 15 or more eligibility points and terminated after age 67, and
- Have received all or part of their distributions.

Pension Plan Description

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2023, was 0.75% 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 \$152,207 for the year ended June 30, 2023.

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**PSERS OPEB Plan - continued**

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

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was \$3,568,089.

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

At June 30, 2023, the District reported a liability of \$2,470,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2021 to June 30, 2022. The District's proportion of the net OPEB obligation was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2023, the District's proportion was 0.1342%, which was a decrease of 0.0005% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2023, the District recognized OPEB expense of \$39,050. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 274,000	\$ 583,000
Difference between expected and actual experience	23,000	13,000
Net difference between projected and actual investment earnings	7,000	-
Changes in proportion	-	103,000
Contributions made subsequent to the measurement date	152,207	-
	<u>\$ 456,207</u>	<u>\$ 699,000</u>

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

The \$152,207 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	\$ (94,000)
2025	(66,000)
2026	(75,000)
2027	(77,000)
2028	(83,000)
	<u>\$ (395,000)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2022, was determined by rolling forward the System's total OPEB liability as of June 30, 2021 to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial valuation date - June 30, 2021.
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 4.09% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale
- Participation rate:
  - Eligible retirees will elect to participate Pre-age 65 at 50%
  - Eligible retirees will elect to participate Post-age 65 at 70%

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Actuarial Assumptions - continued

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2020, determined the employer contribution rate for fiscal year 2022.
- 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 The actual data for retirees benefiting under the Plan as of June 30, 2021 was used in lieu of the 63% utilization assumptions for eligible retirees.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Actuarial Assumptions - continued

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2022 is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	100.0%	0.5%

Discount Rate

The discount rate used to measure the total OPEB liability was 4.09%. 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 4.09%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2022, was applied to all projected benefit payments to measure the total OPEB liability.

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**PSERS OPEB Plan - continued**

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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2022, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2022, 93,293 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2022, 582 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2022 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 2,470,000	\$ 2,470,000	\$ 2,471,000

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

The following presents the net OPEB liability, calculated using the discount rate of 4.09%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (3.09%) or one-percentage point higher (5.09%) than the current rate:

	<u>1% Decrease 3.09%</u>	<u>Current Discount Rate 4.09%</u>	<u>1% Increase 5.09%</u>
District's proportionate share of the net OPEB liability	\$ 2,794,000	\$ 2,470,000	\$ 2,200,000



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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2023 the District had an accrued balance due to PSERS of \$1,930,929, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2023 through June 2023.

**District OPEB Plan**

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

Plan Description

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

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided

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

*Administrators*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Former Superintendent  N/A - Already Retired	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision  <u>Premium Sharing</u> District pays 90% premium for Employee and Spouse until such age as the Employee/Spouse reaches the age when such coverage becomes available through Medicare. Member and spouse may continue prescription drug coverage past Medicare age by paying the full premium.  <u>Dependents</u> Spouse	Member and Spouse - coverage continues until Medicare age. Member and Spouse - Prescription drug coverage for life
Current Superintendent  Must meet one of the following conditions to be eligible, unless otherwise described in contract: i) Must be age 62 or older and be eligible for PSERS retirement, ii) Act 110/43	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision  <u>Premium Sharing</u> If member is age 62 or older, and is eligible for PSERS retirement, District contributions are based on the member's service level. Years of Service 10-14: member share is 25% 15-19: member share is 50% 20-24: member share is 75% 25+: member share is 100%  Members must pay remainder of premium which includes the remaining percentage for single coverage, any additional premium due to coverage of spouse and any eligible dependents, and any future increases in premium that occur after retirement.	Coverage continues until Medicare age for Employee/Spouse  Children, age 26 for Medical and Prescription and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided - continued

*Administrators - continued*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Current Superintendent - continued	<p>After age 65, member must pay full premium to continue coverage.</p> <p>If the member does not meet the requirements for the District subsidy but requirements are met for the Act 110/43 benefit, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</p> <p><u>Dependents</u> Spouse and Family Included.</p>	
<p><i>Current Business Manager</i></p> <p>Must be eligible for PSERS retirement or disability.</p>	<p><u>Coverage</u> Benefits existing at the time of separation, Medical, Prescription Drug, Dental and Vision</p> <p><u>Premium Sharing</u> District pays 95% premium for Employee, Spouse and dependent until the Employee/Spouse reaches the age when such coverage becomes available through Medicare.</p> <p><u>Dependents</u> Spouse and Family included.</p>	<p>Coverage continues until Medicare age for Employee/Spouse</p> <p>Children, age 26 for Medical and Prescription and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.</p>

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

Benefits Provided - continued

*Administrators - continued*

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Current Other Administrators	<u>Coverage</u> Medical, Prescription Drug, Dental and Vision	Age 65 for Employee/Spouse
Must meet one of the following conditions to be eligible:  i) Must be age 62 or older, have at least 10 years of District service and be eligible for PSERS retirement  ii) ACT 110/43	<u>Premium Sharing</u> If member is age 62 or older, and is eligible for PSERS retirement, District contributions are based on the member's service level. The member must also have 10 years of service with Octorara School District.  Years of Service 10-14: member share is 25% 15-19: member share is 50% 20-24: member share is 75% 25+: member share is 100%  Members must pay remainder of premium which includes the remaining percentage for single coverage, any additional premium due to coverage of spouse and any eligible dependents, and any future increases in premium that occur after retirement. After age 65, member must pay full premium to continue coverage.  If the member does not meet the requirements for the District subsidy but requirements are met for the Act 110/43 benefit, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.  <u>Dependents</u> Spouse and Family Included.	Children, age 26 for Medical and age 23 or remaining as full-time college student, whichever comes first, for Dental and Vision.

**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

Benefits Provided - continued

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

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

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

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

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

**Benefits Provided - continued**

**PSERS Retirement:**

- 1) Pension Class T-C or T-D: An employee is eligible for PSERS retirement if he (or she) is eligible for either:  
a) PSERS early retirement while under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service, or 35 years of PSERS service regardless of age. In general, these pension classes apply to individuals who were members of PSERS prior to July 1, 2011.
- 2) Pension Class T-E or T-F: An employee is eligible for PSERS retirement if he (or she) is eligible for either:  
a) PSERS early retirement while under 65 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. In general, these pension classes apply to individuals who became members of PSERS on or after July 1, 2011 and prior to July 1, 2019.
- 3) Pension Class T-G: An employee is eligible for PSERS retirement if he (or she) is eligible for either:  
a) PSERS early retirement while under 67 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 97 with a minimum of 35 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.
- 4) Pension Class T-H: An employee is eligible for PSERS retirement if he (or she) is eligible for either:  
a) PSERS early retirement while under 67 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.
- 5) All individuals except those in Pension Class T-G are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service. Individuals in Pension Class T-G are eligible for a special early retirement upon reaching age 57 with 25 years of PSERS service.

Grandfathered Retirees: Members who retired before 7/1/2014 receive coverage for life by paying the full premium. These members are required to join a Medicare supplement plan upon reaching Medicare age, however they may continue prescription drug coverage through the school district. It is assumed that only hidden subsidy liability comes from the continuation of prescription drug coverage. There are two teachers who retired after 7/1/2014 that are eligible to continue prescription drug coverage for life by paying the full premium.

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

Benefits Provided - continued

Employees Covered by Benefit Terms

At July 1, 2022, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	229
Retired participants	<u>78</u>
Total	<u><u>307</u></u>

***OPEB Liability***

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2022, was determined by rolling forward the District's total OPEB liability as of June 30, 2021 to June 30, 2022, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1.5% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 4.06% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at July 1, 2022.
- Mortality rates - PubT-2010 headcount-weighted mortality table including rates for contingent survivors for teachers. PubG-2010 headcount-weighted mortality table including rates for contingent survivors for all other employees. Incorporated into the tables are rates projected generationally using Scale MP-2021 to reflect mortality improvement.
- Healthcare cost trend rates - 6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025. Rates gradually decrease from 5.4% in 2026 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 100% of Administrators and 60% of all other groups are assumed to elect coverage. Upon reaching age 65, 50% of retirees are assumed to continue coverage.

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

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

**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

	<u>Total OPEB Liability</u>
Balance at July 1, 2022	\$ 9,059,265
Changes for the year:	
Service cost	490,888
Interest	215,824
Changes of benefit terms	(5,005,368)
Differences between expected and actual experience	(628,411)
Changes of assumptions or other inputs	(819,208)
Benefit payments	(155,404)
Net changes	<u>(5,901,679)</u>
Balance at June 30, 2023	<u><u>\$ 3,157,586</u></u>

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.28% to 4.06%, (2) the trend assumption was updated, and (3) assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

Changes of benefit terms: (1) Members who retired after 7/1/2014 are not eligible for prescription drug coverage after Medicare age.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (3.06%) or one-percentage point higher (5.06%) than the current discount rate:

	<u>1% Decrease 3.06%</u>	<u>Current Discount Rate 4.06%</u>	<u>1% Increase 5.06%</u>
OPEB Plan - Total OPEB Liability	\$ 3,440,000	\$ 3,157,586	\$ 2,903,399



**OCTORARA AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

***Changes in the Total OPEB Liability - continued***

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB liability	\$ 2,850,600	\$ 3,157,586	\$ 3,512,489

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

For the year ended June 30, 2023, the District recognized OPEB expense of \$(4,256,821). At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 2,279,289	\$ 1,578,044
Differences between expected and actual experience	315,144	1,635,523
Benefit payments made subsequent to the measurement date	175,359	-
	<u>\$ 2,769,792</u>	<u>\$ 3,213,567</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The \$175,359 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	\$ 41,835
2025	41,835
2026	41,835
2027	41,833
2028	(224,625)
Thereafter	<u>(561,847)</u>
Total	<u>\$ (619,134)</u>

NOTE 12 - JOINT VENTURE

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

Summary financial information as of June 30, 2023 (the most recent information available) is as follows:

CCTCHS - Governmental Activities	
Total assets and deferred outflows of resources	\$ 54,031,057
Total liabilities and deferred inflows of resources	<u>89,081,630</u>
Total net position (deficit)	<u>\$ (35,050,573)</u>

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

The District's share of annual operating and capital costs for the year ended June 30, 2023 were \$862,000.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS**

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

The District has entered into an agreement for the transportation of students. The Agreement is for the period of July 1, 2018 through June 30, 2023. A new contract was entered into for the period July 1, 2023 through June 30, 2024. The contractor provides all equipment, fuel and labor necessary. The cost for the transportation services is determined based on routes and supplemental transportation provided, plus an annual fee for transportation management services.

At June 30, 2023, the District has entered into a number of contracts related to school renovation projects. Commitments outstanding are as follows at June 30, 2023 and will be satisfied through the general and capital projects funds:

	<u>Contract Amount</u>	<u>Commitment Remaining</u>
Roof restoration	\$ 974,712	\$ 281,724
Phone system replacement	197,083	197,083
Control system upgrades	795,000	795,000
High school auditorium lighting	<u>73,447</u>	<u>18,296</u>
	<u>\$ 2,040,242</u>	<u>\$ 1,292,103</u>

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

**June 30, 2023**

**NOTE 14 - RISK MANAGEMENT**

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The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. The District monitors its insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. There were no significant reductions in insurance coverages for the 2022/2023 year.

Currently, the District is self-insured for medical, dental, vision, and prescription insurance for employees and their dependents. The District uses a third-party administrator to provide consulting and administrative services to process claims. All claims are accounted for in the general fund and flowed through the internal service fund. For the year ended June 30, 2023, the District has coverage for claims in excess of \$225,000 per person with an annual aggregate limit of \$1,000,000.

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

	<u>2023</u>	<u>2022</u>
Claims payable	<u>\$ 728,129</u>	<u>\$ 638,014</u>

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

	<u>2023</u>	<u>2022</u>
Claims payable, beginning of year	\$ 638,014	\$ 459,630
Benefits earned	5,108,662	4,487,874
Claims paid	<u>(5,018,547)</u>	<u>(4,309,490)</u>
Claims payable, end of year	<u>\$ 728,129</u>	<u>\$ 638,014</u>

Claims payable is reported in the general fund with accounts payable.

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

#### NOTE 15 - FUND BALANCE

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Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2023, were as follows:

##### **General Fund**

The general fund has nonspendable funds of \$19,938 relating to prepaid expenditures, assigned funds of \$6,286,216 consisting of: \$5,149,556 for building/ground repairs, and \$1,136,660 for the 2023/2024 budget appropriations, and unassigned fund balance of \$4,386,787. The assignments were authorized by the District's finance committee.

##### **Capital Projects**

The capital projects fund has restricted funds of \$6,951,568 consisting of \$2,858,557 of unspent bond funds, and \$4,093,011 comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

##### **Nonmajor Funds**

The nonmajor fund has restricted funds of \$352,583 consisting of funds for student activities and scholarship activities.

#### NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**OCTORARA AREA SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**

**For the Year Ended June 30, 2023**

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP) Basis	Final to Actual
<b>REVENUES</b>				
Local sources	\$ 39,864,400	\$ 39,864,400	\$ 41,182,695	\$ 1,318,295
State sources	16,400,333	16,400,333	16,689,837	289,504
Federal sources	2,381,973	2,381,973	2,405,405	23,432
<b>TOTAL REVENUES</b>	<b>58,646,706</b>	<b>58,646,706</b>	<b>60,277,937</b>	<b>1,631,231</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTIONAL SERVICES:</b>				
Regular programs - elementary/secondary	22,872,912	22,862,976	22,796,837	66,139
Special programs - elementary/secondary	10,030,955	9,807,506	9,292,431	515,075
Vocational education	2,547,986	2,641,976	2,478,706	163,270
Other instructional programs - elementary/secondary	847,516	991,516	921,271	70,245
<b>TOTAL INSTRUCTIONAL SERVICES</b>	<b>36,299,369</b>	<b>36,303,974</b>	<b>35,489,245</b>	<b>814,729</b>
<b>SUPPORT SERVICES:</b>				
Students	1,491,527	1,722,105	1,526,423	195,682
Instructional staff	1,476,043	1,583,993	1,430,645	153,348
Administration	3,037,543	3,118,865	2,910,473	208,392
Pupil health	601,114	600,314	535,541	64,773
Business	744,130	744,130	728,825	15,305
Operation and maintenance of plant	3,352,005	3,640,328	4,055,699	(415,371)
Student transportation	3,407,856	3,407,856	3,449,481	(41,625)
Central	1,275,740	1,461,468	1,506,834	(45,366)
Other	17,000	17,000	14,280	2,720
<b>TOTAL SUPPORT SERVICES</b>	<b>15,402,958</b>	<b>16,296,059</b>	<b>16,158,201</b>	<b>137,858</b>
<b>OPERATION OF NONINSTRUCTIONAL SERVICES:</b>				
Student activities	1,166,065	1,166,065	1,022,918	143,147
Community services	80,000	87,216	94,158	(6,942)
<b>TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES</b>	<b>1,246,065</b>	<b>1,253,281</b>	<b>1,117,076</b>	<b>136,205</b>
<b>DEBT SERVICE PAYMENTS</b>	<b>5,769,400</b>	<b>5,769,400</b>	<b>5,839,759</b>	<b>(70,359)</b>
<b>REFUND OF PRIOR YEAR REVENUE</b>	<b>-</b>	<b>-</b>	<b>17,527</b>	<b>(17,527)</b>
<b>TOTAL EXPENDITURES</b>	<b>58,717,792</b>	<b>59,622,714</b>	<b>58,621,808</b>	<b>1,000,906</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(71,086)</b>	<b>(976,008)</b>	<b>1,656,129</b>	<b>2,632,137</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	500	500
Insurance recoveries	-	-	5,670	5,670
Transfers out	(10,000)	(10,000)	(1,500,000)	(1,490,000)
Budgetary reserve	(900,000)	4,922	-	(4,922)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(910,000)</b>	<b>(5,078)</b>	<b>(1,493,830)</b>	<b>(1,488,752)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (981,086)</b>	<b>\$ (981,086)</b>	<b>162,299</b>	<b>\$ 1,143,385</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>10,530,642</b>	
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 10,692,941</b>	

See note to required supplementary information.

**OCTORARA AREA SCHOOL DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2023**

**BUDGETARY DATA**

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2022/2023 budget transfers.

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

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

**Budgetary Compliance**

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2023. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.



**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1344%	0.1347%	0.1378%	0.1387%	0.1416%	0.1423%	0.1445%	0.1445%	0.1456%	0.1410%
District's proportionate share of the collective net pension liability	\$ 59,753,000	\$ 55,303,000	\$ 67,851,000	\$ 64,887,000	\$ 67,975,000	\$ 70,280,000	\$ 71,610,000	\$ 62,591,000	\$ 57,630,000	\$ 57,720,000
District's covered payroll	\$ 19,738,944	\$ 19,100,158	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711
District's proportionate share of the net pension liability as a percentage of its covered payroll	302.72%	289.54%	351.23%	339.25%	356.57%	371.04%	382.64%	336.76%	310.19%	318.94%
Plan fiduciary net position as a percentage of the total pension liability	61.34%	63.67%	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

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

**NOTES TO SCHEDULE**

***Changes in benefit terms***

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

***Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2021***

- The Discount Rate decreased from 7.25% to 7.00%. The inflation assumption was decreased from 2.75% to 2.50%. Payroll growth assumption decreased from 3.50% to 3.25%.
- Salary growth changed from an effective average of 5.00%, which was comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, to an effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2014 Mortality Tables for Males and Females to a blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.
- For disabled annuitants the rates were modified from the RP-2014 Mortality Tables for Males and Females to Pub-2010 Disability Mortality Non-Safety Headcount Weighted table, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020.

***Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016***

- The Investment Rate of Return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to 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. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

OCTORARA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 6,963,059	\$ 6,715,174	\$ 6,359,314	\$ 6,456,729	\$ 6,274,975	\$ 6,064,139	\$ 5,584,474	\$ 4,705,404	\$ 3,839,745	\$ 2,991,923
Contributions in relation to the contractually required contribution	6,963,059	6,715,174	6,359,314	6,456,729	6,274,975	6,064,139	5,584,474	4,705,404	3,839,745	2,991,923
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 20,192,518	\$ 19,738,944	\$ 19,100,158	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965
Contributions as a percentage of covered payroll	34.48%	34.02%	33.29%	33.42%	32.81%	31.81%	29.48%	25.14%	20.66%	16.10%

**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	2023	2022	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.1342%	0.1347%	0.1376%	0.1387%	0.1416%	0.1423%	0.1445%
District's proportionate share of the collective net PSERS OPEB liability	\$ 2,470,000	\$ 3,193,000	\$ 2,973,000	\$ 2,950,000	\$ 2,952,000	\$ 2,899,000	\$ 3,113,000
District's covered employee payroll	\$ 19,738,944	\$ 19,100,158	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	12.51%	16.72%	15.39%	15.42%	15.48%	15.31%	16.63%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	6.86%	5.30%	5.69%	5.56%	5.56%	5.73%	5.47%

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

**NOTES TO SCHEDULE**

***Changes in benefit terms***

None.

***Changes in assumptions used in measurement of the Total OPEB Liability beginning June 30, 2021***

- The inflation assumption was decreased from 2.75% to 2.50%. Payroll growth assumption decreased from 3.50% to 3.25%.
- Salary growth changed from an effective average of 5.00%, which was comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, to an effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2014 Mortality Tables for Males and Females to a blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.
- For disabled annuitants the rates were modified from the RP-2014 Mortality Tables for Males and Females to Pub-2010 Disability Mortality Non-Safety Headcount Weighted table, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020.

***Changes in assumptions used in measurement of the Total OPEB liability beginning June 30, 2016***

- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to 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. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to 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.

**For each year presented, the discount rate is updated using the S&P 20-year Municipal Bond Rate.**

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

OCTORARA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 152,207	\$ 158,050	\$ 155,614	\$ 162,580	\$ 159,762	\$ 158,577	\$ 158,737	\$ 158,102	\$ 168,574	\$ 173,905
Contributions in relation to the contractually required contribution	152,207	158,050	155,614	162,580	159,762	158,577	158,737	158,102	168,574	173,905
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 20,192,518	\$ 19,738,944	\$ 19,100,158	\$ 19,318,306	\$ 19,126,705	\$ 19,063,690	\$ 18,941,293	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965
Contributions as a percentage of covered payroll	0.75%	0.80%	0.81%	0.84%	0.84%	0.83%	0.84%	0.84%	0.91%	0.94%

**OCTORARA SCHOOL DISTRICT**

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

**LAST TEN FISCAL YEARS**

	2023	2022	2021	2020	2019	2018
Total OPEB liability:						
Service cost	\$ 490,888	\$ 524,756	\$ 358,089	\$ 377,821	\$ 351,035	\$ 270,088
Interest	215,824	179,286	285,499	255,353	240,824	140,962
Changes of benefit terms	(5,005,368)	-	(162,893)	-	(445,674)	-
Differences between expected and actual experience	(628,411)	-	(1,538,479)	-	709,074	-
Changes of assumptions	(819,208)	(694,505)	2,183,715	(529,660)	150,535	1,709,467
Benefit payments	(155,404)	(140,836)	(162,088)	(148,083)	(169,151)	(167,803)
Net change in total OPEB liability	(5,901,679)	(131,299)	963,843	(44,569)	836,643	1,952,714
Total OPEB liability, beginning	9,059,265	9,190,564	8,226,721	8,271,290	7,434,647	5,481,933
Total OPEB liability, ending	<u>\$ 3,157,586</u>	<u>\$ 9,059,265</u>	<u>\$ 9,190,564</u>	<u>\$ 8,226,721</u>	<u>\$ 8,271,290</u>	<u>\$ 7,434,647</u>
<b>Covered Employee Payroll</b>	<u>\$ 17,334,585</u>	<u>\$ 17,413,182</u>	<u>\$ 17,413,182</u>	<u>\$ 17,165,391</u>	<u>\$ 17,165,391</u>	<u>\$ 16,856,015</u>
<b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	18.22%	52.03%	52.78%	47.93%	48.19%	44.11%

**NOTES TO SCHEDULE**

*Changes of Benefit Terms*

- Members who retired after 7/1/2014 are not eligible for prescription drug coverage after Medicare age.

*Changes of Assumptions*

Significant changes in assumptions for the July 1, 2022 measurement date are as follows:

- The discount rate changed from 2.28% to 4.06%.
- The trend assumption was updated.
- Assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS assumptions.

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

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

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

## **SUPPLEMENTARY INFORMATION**

**OCTORARA SCHOOL DISTRICT**

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

**June 30, 2023**

	Student Activities Fund	Scholarship Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 155,905	\$ 193,421	\$ 349,326
Interfund receivable	12,907	-	12,907
	<u>12,907</u>	<u>-</u>	<u>12,907</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 168,812</u></u>	<u><u>\$ 193,421</u></u>	<u><u>\$ 362,233</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 9,650	\$ -	\$ 9,650
<b>FUND BALANCES</b>			
Restricted	159,162	193,421	352,583
	<u>159,162</u>	<u>193,421</u>	<u>352,583</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 168,812</u></u>	<u><u>\$ 193,421</u></u>	<u><u>\$ 362,233</u></u>

**OCTORARA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2023**

	Student Activities Fund	Scholarship Fund	Total Nonmajor Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUES</b>			
Local sources	\$ 154,141	\$ 21,399	\$ 175,540
<b>EXPENDITURES</b>			
Current:			
Operation of noninstructional services	<u>139,333</u>	<u>24,993</u>	<u>164,326</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	14,808	(3,594)	11,214
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>144,354</u>	<u>197,015</u>	<u>341,369</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 159,162</u></u>	<u><u>\$ 193,421</u></u>	<u><u>\$ 352,583</u></u>



**OCTORARA AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2023**

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2022	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
<b>U.S. DEPARTMENT OF EDUCATION</b>									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-22-0308	08/23/21-09/30/22	\$ 749,596	\$ 156,731	\$ 156,731	\$ -	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-23-0308	08/18/22-09/30/23	726,168	622,436	-	726,168	103,732
Subtotal ALN 84.010						779,167	156,731	726,168	103,732
Career and Technical Education - Basic Grants to States	I	84.048	380-22-0013	07/01/21-06/30/22	39,773	6,629	6,629	-	-
Career and Technical Education - Basic Grants to States	I	84.048	380-23-0058	07/01/22-06/30/23	41,362	41,362	-	41,362	-
Subtotal ALN 84.048						47,991	6,629	41,362	-
Supporting Effective Instruction State Grant	I	84.367	020-22-0308	08/23/21-09/30/22	117,604	50,342	50,342	-	-
Supporting Effective Instruction State Grant	I	84.367	020-23-0308	08/18/22-09/30/23	104,140	66,925	-	104,140	37,215
Subtotal ALN 84.367						117,267	50,342	104,140	37,215
English Language Acquisition State Grant	I	84.365	010-23-0308	08/18/22-09/30/23	15,386	12,730	-	9,202	(3,528)
Student Support and Academic Enrichment Program	I	84.424	144-22-0308	08/23/21-09/30/22	45,800	29,426	29,453	(27)	-
Student Support and Academic Enrichment Program	I	84.424	144-23-0308	08/18/22-09/30/23	57,762	44,798	-	52,529	7,731
Subtotal ALN 84.424						74,224	29,453	52,502	7,731
<b>Education Stabilization Fund</b>									
COVID-19 - Education Stabilization Fund	I	84.425C	224-21-0308	03/13/20-09/30/24	59,213	16,149	-	-	(16,149)
COVID-19 - Education Stabilization Fund	I	84.425D	200-21-0308	03/13/20-09/30/23	2,248,949	1,359,830	1,210,791	149,039	-
COVID-19 - Education Stabilization Fund	I	84.425U	223-21-0308	03/13/20-09/30/24	4,548,973	744,377	(154,149)	996,500	97,974
COVID-19 - Education Stabilization Fund	I	84.425U	225-21-0308	03/13/20-09/30/24	252,540	87,241	-	189,782	102,541
COVID-19 - Education Stabilization Fund	I	84.425U	225-21-0308	03/13/20-09/30/24	50,508	17,448	31,223	9,691	23,466
COVID-19 - Education Stabilization Fund	I	84.425U	225-21-0308	03/13/20-09/30/24	50,508	17,448	-	10,058	(7,390)
Subtotal ALN 84.425U						866,514	(122,926)	1,206,031	216,591
COVID-19 - Education Stabilization Fund	I	84.425W	181-21-2305	07/01/21-09/30/24	19,527	12,017	(1,001)	19,527	6,509
Total Education Stabilization Fund						2,254,510	1,086,864	1,374,597	206,951
<b>Special Education Cluster (IDEA)</b>									
Passed through Chester County Intermediate Unit:									
Special Education - Grants to States	I	84.027	62-2200024	07/01/21-09/30/22	364,798	340,478	340,478	-	-
Special Education - Grants to States	I	84.027	62-2300024	07/01/22-09/30/23	310,800	165,760	-	310,800	145,040
COVID-19 - Special Education Grants to States	I	84.027X	62-2200024	07/01/21-09/30/23	87,981	-	-	87,981	87,981
Subtotal ALN 84.027						506,238	340,478	398,781	233,021
Special Education - Preschool Grants	I	84.173	131-230024B	07/01/22-06/30/23	1,408	-	-	1,408	1,408
Total Special Education Cluster (IDEA)						506,238	340,478	400,189	234,429
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						3,792,127	1,670,497	2,708,160	586,530

See notes to schedule of expenditures of federal awards.

**OCTORARA AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

**For the Year Ended June 30, 2023**

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2022	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>									
<b>Medicaid Cluster</b>									
Passed through the Pennsylvania Department of Human Services: Medical Assistance Program	I	93.778	N/A	07/01/22-06/30/23	24,499	24,499	-	24,499	-
<b>TOTAL MEDICAID CLUSTER AND U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						24,499	-	24,499	-
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>									
<b>Child Nutrition Cluster</b>									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program	I	10.553	N/A	07/01/21-06/30/22	N/A	39,485	39,485	-	-
School Breakfast Program	I	10.553	N/A	07/01/22-06/30/23	N/A	138,763	-	163,293	24,530
Subtotal ALN 10.553						178,248	39,485	163,293	24,530
COVID-19 - National School Lunch Program	I	10.555	N/A	07/01/21-06/30/23	N/A	76,082	(55,370)	69,219	(62,233)
National School Lunch Program	I	10.555	N/A	07/01/21-06/30/22	N/A	107,853	107,853	-	-
National School Lunch Program	I	10.555	N/A	07/01/22-06/30/23	N/A	384,116	-	443,245	59,129
Passed through the Commonwealth of Pennsylvania Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	07/01/22-06/30/23	N/A	64,472	(14,327)	71,459	(7,340)
Subtotal ALN 10.555						632,523	38,156	583,923	(10,444)
<b>TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE</b>						810,771	77,641	747,216	14,086
<b>TOTAL FEDERAL AWARDS</b>						<u>\$ 4,627,397</u>	<u>\$ 1,748,138</u>	<u>\$ 3,479,875</u>	<u>\$ 600,616</u>

Source Codes: I = Indirect source of funding

Note: No funds were passed through to subrecipients in the year ended June 30, 2023.

## OCTORARA AREA SCHOOL DISTRICT

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

#### NOTE 1 - BASIS OF PRESENTATION

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The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Octorara Area School District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Octorara Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Octorara Area School District.

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

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

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

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

#### NOTE 4 - ACCESS PROGRAM

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The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2023 was \$72,936.

#### NOTE 5 - FOOD COMMODITIES

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Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2023, the District had \$7,340 of food commodity inventory.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Octorara Area School District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Octorara Area School District’s basic financial statements, and have issued our report thereon dated February 22, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Item 2023-001 that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

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

## **Octorara Area School District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on Octorara Area School District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Octorara Area School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of This Report**

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**February, 22, 2024**

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

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

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

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

We have audited Octorara Area School District’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Octorara Area School District’s major federal programs for the year ended June 30, 2023. Octorara Area School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Octorara Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

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

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

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

***Responsibilities of Management for Compliance***

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

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

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Octorara Area School District's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Octorara Area School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on Octorara Area School District's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Octorara Area School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**February 22, 2024**



OCTORARA AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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**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? X yes        no

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

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal Control Over Major Programs:

Material weakness(es) identified?        yes   X   no

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

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

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

**Identification of Major Program:**

Assistance Listing Number    Name of Federal Program or Cluster

84.425                      COVID-19 - Education Stabilization Fund

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

Auditee qualified as low-risk auditee?   X   yes        no

OCTORARA AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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**Section II - Financial Statement Findings**

**2023-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS**

Criteria

AU-C Section 265 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control" should be considered a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts. Specifically, material adjustments were required related to: (1) accurate reporting of grant receivables, unearned revenue, and revenue (2) accurate reporting of self-insurance activity, (3) accurate reporting of taxes receivable balances and tax revenue, (4) reclassifications to properly report revenue, and (5) accurate reporting of accounts payable balances.

Cause

Turnover in the business office, coupled with lack of cross-training of employees, caused certain year-end reconciliations and entries to go uncompleted.

Effect

Significant adjustments were posted at year end to bring numerous accounts into compliance with reporting under U.S. generally accepted accounting principles.

Recommendation

We recommend that the District evaluate the staff capacity and job responsibilities so key accounts can be reconciled timely. This process should involve cross-training of employees so that at least 2 individuals are able to complete the reconciliations and adjusting journal entries. It is important to develop proper oversight and accountability for tasks assigned, including the assignment of responsibility, as well as a review of documentation to ensure completion.

Management Response

See corrective action plan included in this report package.

## OCTORARA AREA SCHOOL DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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

##### 2023-002 ALLOWABLE ACTIVITIES, ALLOWABLE COST - SIGNIFICANT DEFICIENCY

###### Federal Program

COVID-19 - *Education Stabilization Fund* ALN 84.425; passed through the Pennsylvania Department of Education

###### Criteria

The grant agreements under the Education Stabilization Fund programs outline costs that are allowable for the program. Recipients of funds are required to establish internal controls over allowable activities and allowable costs to ensure only allowable expenditures are being charged to the grant.

###### Condition/Cause

We tested a sample of 8 nonpayroll invoices charged to the Education Stabilization Fund. For 1 out of the 8 invoices tested, the invoice was miscoded to the grant and should have been charged to a different program. Controls at the District did not catch this miscoding prior to the audit.

In addition, the Board of Directors approves all salaried positions that are funded by the Education Stabilization Fund. For one of the individuals charged to the program, the Board did not approve their position as a grant funded position. Instead, a different individual was approved but not charged to the grant. Controls at the District did not catch this miscoding prior to the audit; however, the individual charged to the grant was in a position that was allowable under the grant requirements.

###### Effect

Grant funds were utilized to fund expenditures not intended to be funded with Education Stabilization Fund monies.

###### Questioned Costs

Less than \$25,000.

###### Context

There were 7 salaried positions funded with Education Stabilization Fund grants during the year. Our audit procedures did not utilize sampling and all 7 positions were tested. The 1 individual who was coded to the grant but was not approved by the Board of Directors to be funded with Education Stabilization Fund grants had recently transferred positions. The individual who was approved to be funded with Education Stabilization Fund grants but was not charged to the program had the same salary as the individual who was charged to the program but not approved. Because of this, there are no questioned costs, but internal controls did not operate as designed to ensure only individuals approved by the Board of Directors were charged to the program.

The invoice erroneously charged to the Education Stabilization Fund due to a coding error totaled \$2,613. This was 6.16% of total costs tested as part of our sample.

###### Repeat Finding

No.

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

**For the Year Ended June 30, 2023**

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

**2023-002 ALLOWABLE ACTIVITIES, ALLOWABLE COST - SIGNIFICANT DEFICIENCY - CONTINUED**

Recommendation

We recommend the District review their internal controls over allowable activities and allowable costs charged to the Education Stabilization Fund to ensure they are designed and operating to detect coding errors that may result in noncompliance with grant requirements.

Management Response

See corrective action plan included in this report package.



## OCTORARA AREA SCHOOL DISTRICT

### STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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#### Section II - Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2022.

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

##### 2022-001 ALLOWABLE ACTIVITIES - SIGNIFICANT DEFICIENCY

###### Federal Program

###### *Child Nutrition Cluster*

COVID-19 - National School Lunch Program ALN 10.555; passed through the Pennsylvania Department of Education; Grant Period 7/1/21-6/30/22

COVID-19 - School Breakfast Program ALN 10.553; passed through the Pennsylvania Department of Education; Grant Period 7/1/21-6/30/22

###### Criteria

Title 7 CFR 210 covers the reimbursement process under the Child Nutrition Cluster. It requires the submission of claims for reimbursement that include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. As a subrecipient of funds passed through the Pennsylvania Department of Education (PDE), Octorara Area School District must submit monthly claim forms to PDE, which include the number of reimbursable meals served by category (free, reduced, paid) and type (breakfast, lunch).

###### Condition/Cause

The District manually inputs the amount of meals served by location into a spreadsheet in order to obtain totals to type into the monthly claim reimbursement form. A data input error, failing to include a location in the spreadsheet for certain days, led to an incorrect number of meals reported on one claim report from our sample. Controls in place over claim reporting did not detect and correct this error before submission.

## OCTORARA AREA SCHOOL DISTRICT

### STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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#### Section III - Federal Awards Findings and Questioned Costs - continued

##### 2022-001 ALLOWABLE ACTIVITIES - SIGNIFICANT DEFICIENCY - CONTINUED

###### Effect

As a result of the claim report not being filed accurately, the District lost approximately \$730 of federal subsidies that would have been received if the correct meal count was used.

###### Questioned Costs

Less than \$25,000

###### Context

We examined 4 of the monthly reimbursement claim reports submitted during the year by the District and noticed the deviations noted above in one of those reports. Total subsidy revenue for the District for the year ended June 30, 2022 was \$981,173. Had the District filed an accurate claim report for the month noted above, subsidy revenue would have been \$981,903. The lost revenue is 0.074% of total federal subsidy revenue for the year.

No statistical sampling was used in our testing.

###### Repeat Finding

No.

###### Recommendation

We recommend that the District revisit the current procedure for verifying accuracy of meal counts prior to claim submission for areas where the control could be strengthened. The review should include comparison of the report to meal count reports for all locations to verify accuracy. The review should also include a comparison to prior monthly reports for reasonableness. We recommend that the reviewer initial the report draft or otherwise maintain support of this review.

###### Management Response

This finding has been resolved by management.



## OCTORARA AREA SCHOOL DISTRICT

### CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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U.S. Department of Education:

Octorara Area School District respectfully submits the following corrective action plan for the year ended June 30, 2023.

Name and address of independent public accounting firm: Herbein + Company, Inc., 2763 Century Boulevard, Reading, PA 19610

Audit Period: Year Ended June 30, 2023

Contact Person: Scott Domowicz, Business Manager

Anticipated Completion Date: June 30, 2024

The findings from the June 30, 2023 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

#### Section II - Financial Statement Findings

##### 2023-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

###### Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts. Specifically, material adjustments were required related to: (1) accurate reporting of grant receivables, unearned revenue, and revenue (2) accurate reporting of self-insurance activity, (3) accurate reporting of taxes receivable balances and tax revenue, (4) reclassifications to properly report revenue, and (5) accurate reporting of accounts payable balances.

###### Recommendation

We recommend that the District evaluate the staff capacity and job responsibilities so key accounts can be reconciled timely. This process should involve cross-training of employees so that at least 2 individuals are able to complete the reconciliations and adjusting journal entries. It is important to develop proper oversight and accountability for tasks assigned, including the assignment of responsibility, as well as a review of documentation to ensure completion.

## OCTORARA AREA SCHOOL DISTRICT

### CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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#### Section II - Financial Statement Findings - continued

#### 2023-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS - CONTINUED

##### Management Response

##### **Objective**

Address the material adjustments posted as a result of the audit and the identified material weakness in internal controls.

##### **1. Immediate Actions**

- Assign a dedicated team to review and validate all material adjustments proposed during the audit.
- Conduct an urgent assessment of the current internal control framework to identify areas of weakness.
- Initiate a comprehensive review of the turnover in the business office and assess the impact on financial reporting.

##### **2. Internal Control Strengthening**

- Develop and implement a cross-training program for employees within the business office to ensure continuity and completeness of year-end reconciliations and entries.
- Review and update internal control procedures, placing emphasis on controls related to grant receivables, unearned revenue, self-insurance activity, taxes receivable, tax revenue, revenue reporting, and accounts payable.
- Implement a periodic internal control self-assessment process to identify and rectify potential weaknesses proactively.

##### **3. Process Improvement**

- Establish clear guidelines for year-end reconciliations and entries, ensuring that all necessary tasks are completed in a timely manner.
- Implement a robust system for tracking and documenting financial transactions, reducing the likelihood of inaccuracies and omissions.
- Enhance communication channels within the business office to ensure a seamless flow of information and knowledge transfer.

##### **4. Training and Development**

- Provide additional training to staff involved in financial reporting, focusing on the specific areas where material adjustments were required.
- Develop a training schedule to ensure ongoing skill development and cross-functional knowledge transfer.



## OCTORARA AREA SCHOOL DISTRICT

### CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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#### Section II - Financial Statement Findings - continued

#### 2023-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS - CONTINUED

##### Management Response - continued

#### 5. Monitoring and Reporting

- Implement a monitoring system to track the progress of internal control improvements and corrective actions.
- Establish regular reporting mechanisms to keep key stakeholders informed of the status of material adjustments and internal control enhancements.

#### 6. External Consultation

- Engage external auditors or consultants to conduct an independent review of the corrective actions taken and provide recommendations for further improvements.

#### 7. Documentation

- Maintain thorough documentation of all corrective actions taken, including the rationale, responsible parties, and implementation dates.
- Regularly update internal control documentation to reflect changes and improvements.

#### 8. Continuous Improvement Culture

- Foster a culture of continuous improvement within the finance and business office teams, encouraging proactive identification and resolution of issues.
- Conduct periodic reviews of the effectiveness of implemented corrective actions and make adjustments as necessary.

#### 9. Communication

- Communicate the corrective action plan, its objectives, and progress to all relevant stakeholders, including senior management and the board.

#### 10. Review and Report

- Periodically review the effectiveness of the corrective action plan and report the outcomes to the audit committee and relevant stakeholders.

By diligently implementing this corrective action plan, we aim to address the material adjustments, strengthen internal controls, and mitigate the risk of similar issues in the future. Regular monitoring and a commitment to continuous improvement will be essential for sustained success.

## OCTORARA AREA SCHOOL DISTRICT

### CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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

##### 2023-002 ALLOWABLE ACTIVITIES, ALLOWABLE COST - SIGNIFICANT DEFICIENCY

###### Federal Program

*COVID-19 - Education Stabilization Fund* ALN 84.425; passed through the Pennsylvania Department of Education

###### Condition/Cause

We tested a sample of 8 nonpayroll invoices charged to the Education Stabilization Fund. For 1 out of the 8 invoices tested, the invoice was miscoded to the grant and should have been charged to a different program. Controls at the District did not catch this miscoding prior to the audit.

In addition, the Board of Directors approves all salaried positions that are funded by the Education Stabilization Fund. For one of the individuals charged to the program, the Board did not approve their position as a grant funded position. Instead, a different individual was approved but not charged to the grant. Controls at the District did not catch this miscoding prior to the audit; however, the individual charged to the grant was in a position that was allowable under the grant requirements.

###### Recommendation

We recommend the District review their internal controls over allowable activities and allowable costs charged to the Education Stabilization Fund to ensure they are designed and operating to detect coding errors that may result in noncompliance with grant requirements.

###### Management Response

###### **Objective**

Address the identified issues related to the misallocation of costs and lapses in internal controls within the Education Stabilization Fund program.

##### **1. Immediate Actions**

- Correct the miscoded invoice immediately, ensuring that the \$2,613 erroneously charged to the Education Stabilization Fund is properly allocated to the correct program.
- Conduct a thorough review of all nonpayroll invoices charged to the Education Stabilization Fund to identify and rectify any other miscoding errors.

##### **2. Internal Controls Enhancement**

- Review and strengthen internal controls over allowable activities and costs within the Education Stabilization Fund program.
- Implement a systematic process for verifying the appropriateness of each cost before it is charged to the grant, including a cross-check against grant agreements and Board approvals.

## OCTORARA AREA SCHOOL DISTRICT

### CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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

##### 2023-002 ALLOWABLE ACTIVITIES, ALLOWABLE COST - SIGNIFICANT DEFICIENCY

Management Response - continued

#### 3. Board Approval Process

- Establish a clear and documented process for obtaining Board approval for salaried positions funded by the Education Stabilization Fund.
- Ensure that all individuals charged to the program have received explicit approval from the Board, and that the approval is well-documented.

#### 4. Training and Awareness

- Provide training to relevant staff involved in coding and approving expenses related to the Education Stabilization Fund.
- Enhance awareness among employees about the importance of accurately coding expenses and obtaining proper approvals.

#### 5. Review of All Salaried Positions

- Conduct a comprehensive review of all salaried positions funded by the Education Stabilization Fund, ensuring that each position aligns with Board approvals and grant requirements.
- Verify that individuals charged to the program have the necessary approvals and qualifications.

#### 6. Documentation and Record-Keeping

- Establish a centralized and well-maintained repository for all documentation related to Education Stabilization Fund expenditures.
- Ensure that records of Board approvals, coding decisions, and supporting documentation for all expenses are readily accessible for audit purposes.

#### 7. Periodic Internal Audits

- Implement a schedule for periodic internal audits specifically focused on the Education Stabilization Fund program.
- Conduct random checks and audits to verify the accuracy of coding and compliance with internal controls.

#### 8. Reporting and Transparency

- Develop a reporting mechanism to keep the Board of Directors and relevant stakeholders informed of expenditures under the Education Stabilization Fund.
- Periodically report on the status of internal controls and any corrective actions taken.

OCTORARA AREA SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

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Section III - Federal Awards Findings and Questioned Costs

2023-002 ALLOWABLE ACTIVITIES, ALLOWABLE COST - SIGNIFICANT DEFICIENCY

Management Response - continued

9. Continuous Monitoring:

- Establish a continuous monitoring process to detect and address any deviations from established internal controls promptly.
- Implement real-time alerts or notifications for potential coding errors or deviations from approved positions.

10. External Review

- Consider engaging external auditors to perform an independent review of the strengthened internal controls and corrective actions taken.
- Seek recommendations for further improvements and best practices.

By implementing these corrective actions, we aim to enhance internal controls, ensure compliance with grant requirements, and prevent the misallocation of funds within the Education Stabilization Fund program. Regular monitoring and a commitment to continuous improvement will be critical for sustained success.

If the Department has any questions regarding this plan, you can contact the business office at (610) 593-8238 or 228 Highland Road, Atglen, PA 19310.

Sincerely,

  
\_\_\_\_\_  
R. Scott Domowicz, Business Manager