

**SPRING GROVE AREA SCHOOL DISTRICT**

**INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2020**

**KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

To the Members of the Board:

We have performed the Single Audit of the Spring Grove Area School District for the fiscal year ended June 30, 2020 and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of the Uniform Guidance Compliance Supplement. It entailed: (1) an audit of the general purpose financial statements and our opinion thereon; (2) an examination of the Schedule of Federal Financial Assistance and our opinion thereon; (3) a study and evaluation of internal controls based on an evaluation of the federal financial assistance programs; (4) a review of compliance based on an audit of the general purpose financial statements in accordance with Government Auditing Standards; and (5) a review of compliance with laws and regulations related to the federal financial assistance programs and our opinion thereon.

As part of our report, we have also issued a management letter addressing recommendations we feel should be considered by the school district.

*Kochenour, Earnest, Smyser, & Burg*

Certified Public Accountants

York, Pennsylvania  
November 16, 2020

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
June 30, 2020**

The discussion and analysis of Spring Grove Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended, June 30, 2020. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the financial statements, notes to the financial statements, and related audit information to enhance their understanding of the District's financial performance.

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

**FINANCIAL HIGHLIGHTS**

During the 2019-20 fiscal year, the Spring Grove Area School District continued to experience increases in the collection of the current real estate taxes, earned income taxes, and real estate transfer taxes, considerably more than the prior year. The development growth in the school district has continued to contribute to the real estate tax revenue increase, coupled with an increase in the earned income rate. The real estate tax collection rate continued to be better than budgeted.

For the 2019-20 fiscal year, local revenues were approximately \$2.2 million above the budgeted amount. Expenditures were approximately \$5.6 million below the budgeted amount, in part due to COVID 19 and the mandatory shutdown by PDE of in-person learning as well as the addition to conservative spending on supplies and consumables. In total for the year, General Fund revenues exceeded expenditures, leaving a surplus of about \$1.7 million compared to a budgeted deficit of \$6.0 million.

In the budgeting process for the 2020-21 fiscal year, the Board of School Directors balanced the budget by allocating nearly \$6.1 million from the General Fund Balance with a 0.00% mill increase to the taxpayers. Tax revenue budgeting for the 2020-21 fiscal year includes a mix of increases and decreases in individual line items compared to the prior fiscal year due to the continued uncertain national and regional economic conditions.

For the purpose of financial planning to meet the anticipated increases in expenses in certain areas, the School District has continued to assign a part of its General Fund Balance in the following manner: \$0.5 million future increases in PSERS employer retirement costs, \$3.0 million for Facilities and Capital Upgrades, \$2.0 million for future healthcare costs, \$1.0 million for future Charter School cost and \$1.0 million for ongoing Technology upgrades in accordance with the School District Technology Plan. As projections of future costs are assessed, these assigned amounts may be modified in accordance with Board Policy #006 to meet future expenses.

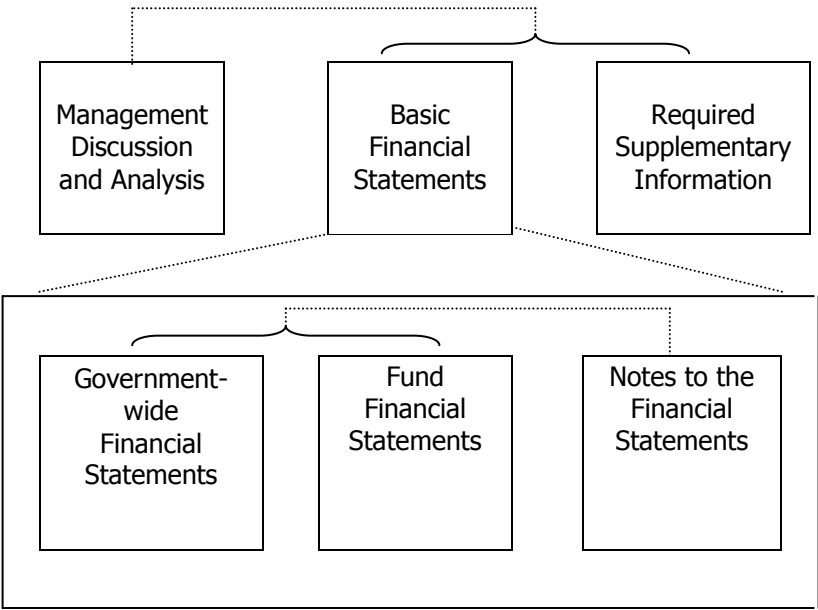
The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements detail how general district services were financed in the short-term as well as remaining future spending. Proprietary fund statements offer short and long-term financial information about school district activities that operate like a business. For the Spring Grove Area School District, it is the Nutrition Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain specific information in the financial statements and provide more detailed data.

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Figure A-1 shows the arrangement and relationship between the required parts of the Financial Section.

Figure A-1  
Required components of  
Spring Grove Area School District's  
Financial Report



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Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District 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<br>Major Features of Spring Grove Area School District's<br>Government-wide and Fund Financial Statements |                                                                                                      |                                                                                                                                                                                                                       |                                                                                                                                     |                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                      |                                                                                                      | Fund Statements                                                                                                                                                                                                       |                                                                                                                                     |                                                                                                                        |
|                                                                                                                      | Government-<br>wide<br>Statements                                                                    | Governmental<br>Funds                                                                                                                                                                                                 | Proprietary<br>Funds                                                                                                                | Fiduciary Funds                                                                                                        |
| Scope                                                                                                                | Entire District<br>(except<br>fiduciary funds)                                                       | The activities of the<br>District that are not<br>proprietary or<br>fiduciary, such as<br>education,<br>administration and<br>community services                                                                      | Activities the<br>District operates<br>similar to private<br>business –<br>Nutrition<br>Services                                    | Instances in which<br>the District is the<br>trustee or agent to<br>someone else's<br>resources –<br>Scholarship Funds |
| Required financial<br>statements                                                                                     | Statement of<br>net assets;<br>Statement of<br>activities                                            | Balance Sheet;<br>Statement of<br>revenues,<br>expenditures and<br>changes in fund<br>balance                                                                                                                         | Statement of net<br>assets;<br>Statement of<br>revenues,<br>expenses and<br>changes in net<br>assets;<br>Statement of<br>cash flows | Statement of<br>fiduciary net<br>assets;<br>Statement of<br>changes in<br>fiduciary net<br>assets                      |
| Accounting basis<br>and<br>measurement<br>focus                                                                      | Accrual<br>accounting and<br>economic<br>resources<br>focus                                          | Modified accrual<br>accounting and<br>current financial<br>resources focus                                                                                                                                            | Accrual<br>accounting and<br>economic<br>resources focus                                                                            | Accrual<br>accounting and<br>economic<br>resources focus                                                               |
| Type of<br>asset/liability<br>information                                                                            | All assets and<br>liabilities, both<br>financial and<br>capital, and<br>short-term and<br>long-term  | Only assets<br>expected to be<br>used up and<br>liabilities that come<br>due during the year<br>or soon thereafter;<br>no capital assets<br>included                                                                  | All assets and<br>liabilities, both<br>financial and<br>capital, and<br>short-term and<br>long-term                                 | All assets and<br>liabilities, both<br>short-term and<br>long-term                                                     |
| Type of inflow-<br>outflow<br>information                                                                            | All revenues<br>and expenses<br>during year,<br>regardless of<br>when cash is<br>received or<br>paid | Revenues for which<br>cash is received<br>during or soon after<br>the end of the year;<br>expenditures when<br>goods or services<br>have been received<br>and payment is due<br>during the year or<br>soon thereafter | All revenues and<br>expenses during<br>year, regardless<br>of when cash is<br>received or paid                                      | All revenues and<br>expenses during<br>year, regardless of<br>when cash is<br>received or paid                         |

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## **OVERVIEW OF FINANCIAL STATEMENTS**

### Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school district'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 District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one measurement of the District's financial health or position.

Long-term increases or decreases in the District's net assets can be an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

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

- **Governmental activities** – All of the District's basic services are included in these statements, such as instruction, administration and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- **Business type activities** –The District operates a food service program and charges fees to staff, students, and visitors to help cover the costs of the food service operation.

### Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required by state law and by bond requirements.

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

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

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

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's total net assets were \$(37,132,240) on June 30, 2020, an increase of \$906,829 from last year.

Table A-1  
Fiscal Year ended June 30, 2020  
Net Assets

|                                                    | <u>Governmental</u><br><u>Activities</u> | <u>Business-type</u><br><u>Activities</u> | <u>Total</u>                 |
|----------------------------------------------------|------------------------------------------|-------------------------------------------|------------------------------|
| Current and other assets                           | \$26,147,054                             | \$630,658                                 | \$26,777,712                 |
| Noncurrent assets                                  | <u>108,472,109</u>                       | <u>17,345</u>                             | <u>108,489,454</u>           |
| <b>Total assets</b>                                | <b>\$134,619,163</b>                     | <b>\$648,003</b>                          | <b>\$135,267,166</b>         |
| Current and Other Liabilities                      | 11,807,037                               | 115,967                                   | 11,923,004                   |
| Noncurrent liabilities                             | <u>160,464,242</u>                       | <u>12,160</u>                             | <u>160,476,402</u>           |
| <b>Total Liabilities</b>                           | <b>\$172,271,279</b>                     | <b>\$128,127</b>                          | <b>\$172,399,406</b>         |
| Net Assets:                                        |                                          |                                           |                              |
| Invested in capital assets,<br>net of related debt | 39,110,382                               | --                                        | 39,110,382                   |
| Unrestricted                                       | <u>(76,762,498)</u>                      | <u>519,876</u>                            | <u>(76,242,622)</u>          |
| <b>Total Net Assets</b>                            | <b><u>\$(37,652,116)</u></b>             | <b><u>\$519,876</u></b>                   | <b><u>\$(37,132,240)</u></b> |

The vast majority of the District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are designated and undesignated amounts. The designated balances are amounts set-aside to fund future purchases or capital projects as planned by the district.

The District's net assets have been at a negative balance for the June 30, 2020 and June 30, 2019 financial years. Those balances were (\$37,652,116) and (\$38,039,069) respectively. These balances resulted from Government Accounting Standards Board Statement Number 68 for Pensions. The Pension Liability for the June 30, 2020, year was \$96,746,000 and at June 30, 2019, \$95,626,000.

The results of this year's operations as a whole are reported in the Statement of Activities in the audited financial statements. 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 District's activities that are supported by other general revenues. The two largest general revenues are the local taxes assessed to community taxpayers and the Basic Education Subsidy provided by the Commonwealth of Pennsylvania.

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Table A-2 extracts the information from the Statement of Activities and rearranges it in a format to better understand the total revenues and expenses for the fiscal year.

Table A-2  
Fiscal Year ended June 30, 2020  
Changes in Net Assets

|                                          | Governmental<br><u>Activities</u> | Business-type<br><u>Activities</u> | <u>Total</u>               |
|------------------------------------------|-----------------------------------|------------------------------------|----------------------------|
| <b>Revenues:</b>                         |                                   |                                    |                            |
| Program revenues:                        |                                   |                                    |                            |
| Charges for services                     | \$ 982,089                        | \$780,813                          | \$1,762,902                |
| Operating grants and contributions       | 8,706,522                         | 1,469,995                          | 10,176,517                 |
| General revenues:                        |                                   |                                    |                            |
| Property taxes                           | 40,374,179                        | --                                 | 40,374,179                 |
| Other taxes                              | 4,652,505                         | --                                 | 4,652,505                  |
| Grants, subsidies and contributions      | 17,005,915                        | --                                 | 17,005,915                 |
| Investment Earnings                      | 352,955                           | 4,411                              | 357,366                    |
| Other                                    | 129,963                           | 2,395                              | 132,358                    |
| Sale of Fixed Assets                     | --                                | --                                 | --                         |
| <b>Total revenues:</b>                   | <b><u>\$72,204,128</u></b>        | <b><u>\$2,257,614</u></b>          | <b><u>\$74,461,742</u></b> |
| <b>Expenses:</b>                         |                                   |                                    |                            |
| Instruction                              | 46,229,745                        | --                                 | 46,229,745                 |
| Instructional student support            | 8,222,192                         | --                                 | 8,222,192                  |
| Administrative and financial support     | 4,700,998                         | --                                 | 4,700,998                  |
| Operation and maintenance of plant       | 6,028,310                         | --                                 | 6,028,310                  |
| Pupil transportation                     | 3,113,561                         | --                                 | 3,113,561                  |
| Student activities                       | 1,110,635                         | --                                 | 1,110,635                  |
| Community services                       | 31,174                            | --                                 | 31,174                     |
| Interest on long-term debt               | 1,923,329                         | --                                 | 1,923,329                  |
| Unallocated depreciation expense         | --                                | --                                 | --                         |
| Food Services                            | --                                | 2,194,969                          | 2,194,969                  |
| <b>Total expenses:</b>                   | <b><u>\$71,359,944</u></b>        | <b><u>\$2,194,969</u></b>          | <b><u>\$73,554,913</u></b> |
| <b>Increase (decrease) in net assets</b> | <b><u>\$844,184</u></b>           | <b><u>\$62,645</u></b>             | <b><u>\$906,829</u></b>    |

The following tables present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, and long term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

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Table A-3  
Fiscal Year ended June 30, 2020  
Governmental Activities

| <u>Functions/Programs</u>                                  | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
|------------------------------------------------------------|-------------------------------|-----------------------------|
| Instruction                                                | \$46,229,745                  | 39,725,762                  |
| Instructional student support                              | 8,222,192                     | 8,140,964                   |
| Administrative                                             | 4,700,998                     | 4,700,998                   |
| Operation and maintenance                                  | 6,028,310                     | 5,981,973                   |
| Pupil transportation                                       | 3,113,561                     | 917,965                     |
| Student activities                                         | 1,110,635                     | 1,059,797                   |
| Community services                                         | 31,174                        | 31,174                      |
| Interest on long-term debt                                 | 1,923,329                     | 1,112,700                   |
|                                                            |                               | <b>61,671,333</b>           |
| <b>Total Governmental Activities</b>                       | <b>\$71,359,944</b>           |                             |
| Less:                                                      |                               |                             |
| Unrestricted grants, subsidies                             |                               | <u>17,005,915</u>           |
| <b>Total Needs from Local<br/>Taxes and Other Revenues</b> |                               | <b><u>\$44,665,418</u></b>  |

Table A-4 reflects the activities of the Nutrition Service program, the only Business-type activity of the District.

Table A-4  
Fiscal Year ended June 30, 2020  
Business-type Activities

| <u>Functions/Programs</u>                 | <u>Total Cost of Services</u> | <u>Net Income from Services</u> |
|-------------------------------------------|-------------------------------|---------------------------------|
| Food Services                             | \$2,194,969                   | 55,839                          |
| Less:                                     |                               |                                 |
| Investment earnings                       |                               | <u>4,411</u>                    |
| <b>Total business-type<br/>activities</b> |                               | <b><u>\$51,428</u></b>          |

The Statement of Revenues, Expenses and Changes in Fund Net Assets for this proprietary fund included in the complete audited financial statement will further detail the actual results of operations.

## THE DISTRICT FUNDS

At June 30, 2020, the District governmental funds reported total net assets of \$17,075,049, which is a increase of \$1,993,240. The General Fund contributed to this increase, as noted below. General fund operations had an impact on fund balance as follows:

General Fund: The School District received total revenues, including real estate tax collection, more than the original budget by \$2.2 million, in large part due to increases in certain local tax revenues line items. Total expenditures were under budget by \$5.6 million, in part due to the COVID 19 pandemic and the mandatory shutdown by PDE of in-person instruction as well as reduced healthcare benefit expenses, utility costs, and prudent management of other recurring expenses. There were no other significant unexpected expenditures during the year, so the budgetary reserve amount was not needed. Concerns over state-level issues (funding of future pension obligations and state revenue shortfalls) may also have an adverse impact on budget development in future years. Unexpected enrollment growth in charter schools and special education services represents the greatest financial threat to the

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future financial stability of the school district. While the District does prepare a budget in anticipation of known and potential expenditures, annual budgets are dependent upon actual experience during the current fiscal year. The recovery in the housing market and overall economy has maintained a modest growth in the school district and may positively affect the future collection of real estate and earned income taxes, even though commercial development in the district remains limited.

Capital Reserve Fund: The District is actively reviewing proposed capital projects each year. In order to fund these projects with limited need for borrowing, the District has established this fund and periodically makes transfers from the available fund balance of the General Fund. In the year ended June 30, 2020, the District transferred \$750,000 into the Capital Reserve Fund for use on future projects.

**General Fund Budget**

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments, which are permitted by State Law, are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the audited financial statements.

The District applies for federal, state, and local grants. These grants cannot always be anticipated in the budgeting process. Budgeted expenditures and other financing uses also increased by a similar amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year to recognize changes in priorities since the original adoption of the budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2020, the District had \$91,985,684 invested in a broad range of capital assets, including land, buildings, furniture and equipment and construction in progress. Under GASB #34 financial statements, a comparative analysis is provided comparing prior year totals to determine the net increase or decrease in capital assets.

Table A-5  
Governmental Activities  
Capital assets - Net of Depreciation

|                       | 2019         | 2020         |
|-----------------------|--------------|--------------|
| Land                  | \$1,811,622  | \$1,811,622  |
| Buildings             | \$91,878,660 | \$89,661,464 |
| Furniture & Equipment | \$869,101    | \$529,941    |

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**DEBT ADMINISTRATION**

The following Table represents the District's outstanding Debt as of June 30, 2020:

Table A-6  
Outstanding Debt

| <u>General Obligation Debt</u> |                     |
|--------------------------------|---------------------|
| G. O. Bonds, Series AA of 2012 | \$3,185,000         |
| G. O. Bonds, Series of 2014    | \$6,377,800         |
| G. O. Bonds, Series A of 2015  | \$23,220,000        |
| G. O. Note, Series of 2017     | \$6,595,930         |
| G. O. Note, Series A of 2017   | \$3,856,570         |
| G.O. Note, Series 2018         | <u>\$9,640,000</u>  |
| Total                          | <u>\$52,875,300</u> |

Other obligations include accrued payroll, vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in Note 5 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEARS' BUDGETS**

The School District enrollment remained level during the 2019-20 school year. The School District's long-range projections suggest a slow decline in student enrollment with moderate declines noted in the latest Pennsylvania Department of Education (PDE) data. The trends will be monitored in light of recent economic improvements that may suggest an increase in new construction rates. The School District has not experienced voluminous assessment appeals and does not expect a significant erosion of the tax base. Changes in the collection of earned income tax through the York Adams Tax Bureau have not had a negative impact on the collected amount for the School District. Overall, the primary tax bases of the School District, taxable assessed values and earned income, are expected to remain stable.

The current collective bargaining agreement was settled during the 2018-19 fiscal year; the new contract is effective through the 2023-24 fiscal year. The new contract provides regionally-competitive salary terms and comparable healthcare benefits. Through the negotiations process, the School District has initiated changes to the healthcare plan to provide cost-effective benefits to its staff at a sustainable cost. The School District continues to promote and maintain positive labor relations with its entire staff.

The state budget challenges, while troubling, have not negatively affected the School District other than the uncertainty of future funding. The School District's fund balance has been used to maintain a positive cash flow without adversely impacting programs and services.

The impact of the COVID-19 pandemic has pressed the School District's staff to design and sustain alternate instructional models, as well as develop new ways to support its new mode of service delivery. These changes have resulted in new expenditures and, at the same time, created opportunities for efficiencies and cost-avoidance. Federal and state funding helped offset the initial expenditure investments.

The expenditure budget for the 2020-21 fiscal year is \$1.8 million more than the original budget for 2019-20, a 2.52% increase. The budgeted revenues for 2020-21 increased by \$421,839 thousand, or .61%, due to slight increases in state funding (including the Basic Education Subsidy and the PSERS and Social Security subsidies). The reliance on local revenue to fund expenditures continues in the 2020-21 fiscal year budget.

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The comparison of revenue and expenditure categories is as follows:

Table A-7

**BUDGETED REVENUES**

|               | 2018-19 | 2019-20 | 2020-21 |
|---------------|---------|---------|---------|
| Local         | 64.2%   | 65%     | 66.22%  |
| State         | 35.0%   | 34%     | 32.98%  |
| Federal/Other | 0.8%    | 1%      | 1%      |

**BUDGETED EXPENDITURES**

|                           | 2018-19 | 2019-20 | 2020-21 |
|---------------------------|---------|---------|---------|
| Instruction               | 55.5%   | 56%     | 56%     |
| Support Services          | 32.2%   | 32.1%   | 33%     |
| Non-Instruction/Community | 1.5%    | 1.5%    | 1.3%    |
| Budget Reserve/Debt       | 10.8%   | 10.4%   | 9.7%    |

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to demonstrate the School Board's accountability for the funding it receives. If you have questions about this report or wish to request additional financial information, please contact Dr. George W. Ioannidis, Superintendent, or Mark A. Czapp, Director of Business Operations, at the Spring Grove Area School District, Educational Service Center, 100 East College Avenue, Spring Grove, PA 17362 or by telephone at (717) 225-4731.

# **KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

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

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

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

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

### **Auditor Responsibility**

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

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

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

To the Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

## **Opinions**

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

## **Required Supplementary Information**

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

## **Other Information**

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

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

To the Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2020, on our consideration of Spring Grove Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Spring Grove Area School District's internal control over financial reporting and compliance.

*Kochenour, Earnest, Smyser & Burg*

Certified Public Accountants

York, Pennsylvania  
November 16, 2020

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

| <b>ASSETS</b>                                          | <b>Governmental</b>   | <b>Business-type</b> |                       |
|--------------------------------------------------------|-----------------------|----------------------|-----------------------|
| <b>Current Assets:</b>                                 | <b>Activities</b>     | <b>Activities</b>    | <b>Total</b>          |
| Cash and Cash Equivalents                              | \$ 20,092,190         | \$ 508,743           | \$ 20,600,933         |
| Investments                                            | 490,000               | 0                    | 490,000               |
| Taxes Receivable, Net                                  | 1,341,039             | 0                    | 1,341,039             |
| Internal Balances                                      | 61,485                | 0                    | 61,485                |
| Due from General Fund                                  | 0                     | 0                    | 0                     |
| Due From Other Governments                             | 2,291,966             | 70,098               | 2,362,064             |
| Other Receivables                                      | 25,885                | 525                  | 26,410                |
| Inventories                                            | 0                     | 51,292               | 51,292                |
| Bond Discount                                          | 1,516,248             | 0                    | 1,516,248             |
| Other Current Assets                                   | 301,398               | 0                    | 301,398               |
| Prepaid Expenses                                       | 26,843                | 0                    | 26,843                |
| <b>Total Current Assets</b>                            | <b>26,147,054</b>     | <b>630,658</b>       | <b>26,777,712</b>     |
| <b>Noncurrent Assets:</b>                              |                       |                      |                       |
| Land                                                   | 1,811,622             | 0                    | 1,811,622             |
| Building & Building Improv. (Net of Acc. Depreciation) | 89,661,464            | 0                    | 89,661,464            |
| Construction in Progress                               | 0                     | 0                    | 0                     |
| Furniture & Equipment (Net of Acc. Depreciation)       | 512,596               | 17,345               | 529,941               |
| <b>Total Noncurrent Assets</b>                         | <b>91,985,682</b>     | <b>17,345</b>        | <b>92,003,027</b>     |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>                 |                       |                      |                       |
| Deferred amounts related to OPEB                       | 1,002,231             | 0                    | 1,002,231             |
| Deferred amounts related to pensions                   | 15,484,196            | 0                    | 15,484,196            |
| <b>TOTAL ASSETS</b>                                    | <b>\$ 134,619,163</b> | <b>\$ 648,003</b>    | <b>\$ 135,267,166</b> |
| <b>LIABILITIES</b>                                     |                       |                      |                       |
| <b>Current Liabilities:</b>                            |                       |                      |                       |
| Internal Balances                                      | \$ 0                  | \$ 61,485            | \$ 61,485             |
| Accounts Payable                                       | 458,810               | 0                    | 458,810               |
| Current Portion of Long-Term Debt                      | 5,167,700             | 0                    | 5,167,700             |
| Due to Food Service Fund                               | 0                     | 0                    | 0                     |
| Due to Other Governments                               | 0                     | 0                    | 0                     |
| Accrued G.O. Bond Interest Payable                     | 509,804               | 0                    | 509,804               |
| Accrued Salaries and Benefits                          | 3,587,053             | 8,531                | 3,595,584             |
| Payroll Deductions & Withholdings                      | 2,083,670             | 0                    | 2,083,670             |
| Deferred Revenues                                      | 0                     | 45,951               | 45,951                |
| <b>Total Current Liabilities</b>                       | <b>11,807,037</b>     | <b>115,967</b>       | <b>11,923,004</b>     |
| <b>Noncurrent Liabilities:</b>                         |                       |                      |                       |
| Bonds/Notes Payable                                    | 47,707,600            | 0                    | 47,707,600            |
| Long-Term Portion of Compensated Absences              | 420,300               | 12,160               | 432,460               |
| G.O. Bond Premium                                      | 2,088,401             | 0                    | 2,088,401             |
| Net Pension Liability                                  | 96,746,000            | 0                    | 96,746,000            |
| OPEB Liability                                         | 8,465,212             | 0                    | 8,465,212             |
| <b>Total Noncurrent Liabilities</b>                    | <b>155,427,513</b>    | <b>12,160</b>        | <b>155,439,673</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                  |                       |                      |                       |
| Deferred amounts related to OPEB                       | 595,729               | 0                    | 595,729               |
| Deferred amounts related to pensions                   | 4,441,000             | 0                    | 4,441,000             |
| <b>TOTAL LIABILITIES</b>                               | <b>172,271,279</b>    | <b>128,127</b>       | <b>172,399,406</b>    |
| <b>NET POSITION</b>                                    |                       |                      |                       |
| Invested in Capital Assets Net of Related Debt         | 39,110,382            | 0                    | 39,110,382            |
| Unrestricted                                           | (76,762,498)          | 519,876              | (76,242,622)          |
| <b>TOTAL NET POSITION</b>                              | <b>(37,652,116)</b>   | <b>519,876</b>       | <b>(37,132,240)</b>   |
| <b>TOTAL LIABILITIES AND NET POSITION</b>              | <b>\$ 134,619,163</b> | <b>\$ 648,003</b>    | <b>\$ 135,267,166</b> |

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

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

| Functions/Programs                   | Expenses             | Indirect<br>Expenses<br>Allocation | Program Revenues        |                                          |                                        | Net (Expense) Revenue and<br>Changes in Net Position |                             |                     |
|--------------------------------------|----------------------|------------------------------------|-------------------------|------------------------------------------|----------------------------------------|------------------------------------------------------|-----------------------------|---------------------|
|                                      |                      |                                    | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-type<br>Activities | Total               |
| <b>Governmental activities:</b>      |                      |                                    |                         |                                          |                                        |                                                      |                             |                     |
| Instruction                          | \$ 46,229,745        | \$ 0                               | \$ 884,914              | 5,619,069                                | \$ 0                                   | \$ (39,725,762)                                      | \$ 0                        | \$ (39,725,762)     |
| Instructional Student Support        | 8,222,192            | 0                                  | 0                       | 81,228                                   | 0                                      | (8,140,964)                                          | 0                           | (8,140,964)         |
| Admin. & Finl Support Services       | 4,700,998            | 0                                  | 0                       | 0                                        | 0                                      | (4,700,998)                                          | 0                           | (4,700,998)         |
| Op & Main of Plant Svcs              | 6,028,310            | 0                                  | 46,337                  | 0                                        | 0                                      | (5,981,973)                                          | 0                           | (5,981,973)         |
| Pupil Transportation                 | 3,113,561            | 0                                  | 0                       | 2,195,596                                | 0                                      | (917,965)                                            | 0                           | (917,965)           |
| Student Activities                   | 1,110,635            | 0                                  | 50,838                  | 0                                        | 0                                      | (1,059,797)                                          | 0                           | (1,059,797)         |
| Community Services                   | 31,174               | 0                                  | 0                       | 0                                        | 0                                      | (31,174)                                             | 0                           | (31,174)            |
| Interest on Long-Term debt           | 1,923,329            | 0                                  | 0                       | 810,629                                  | 0                                      | (1,112,700)                                          | 0                           | (1,112,700)         |
| <b>Total Governmental Activities</b> | <b>71,359,944</b>    | <b>0</b>                           | <b>982,089</b>          | <b>8,706,522</b>                         | <b>0</b>                               | <b>(61,671,333)</b>                                  | <b>0</b>                    | <b>(61,671,333)</b> |
| <b>Business-type activities:</b>     |                      |                                    |                         |                                          |                                        |                                                      |                             |                     |
| Food Service                         | 2,194,969            | 0                                  | 780,813                 | 1,469,995                                | 0                                      | 0                                                    | 55,839                      | 55,839              |
| <b>Total primary government</b>      | <b>\$ 73,554,913</b> | <b>\$ 0</b>                        | <b>\$ 1,762,902</b>     | <b>\$ 10,176,517</b>                     | <b>\$ 0</b>                            | <b>(61,671,333)</b>                                  | <b>55,839</b>               | <b>(61,615,494)</b> |

**General revenues:**

|                                                                                 |                        |                   |                        |
|---------------------------------------------------------------------------------|------------------------|-------------------|------------------------|
| Taxes:                                                                          |                        |                   |                        |
| Property taxes, levied for general purposes, net                                | 40,374,179             | 0                 | 40,374,179             |
| Taxes levied for Specific Purposes, net                                         | 4,652,505              | 0                 | 4,652,505              |
| Grants, subsidies, & contributions not restricted                               | 17,005,915             | 0                 | 17,005,915             |
| Investment Earnings                                                             | 352,955                | 4,411             | 357,366                |
| Sale of Fixed Assets                                                            | 0                      | 0                 | 0                      |
| Miscellaneous Income                                                            | 129,963                | 2,395             | 132,358                |
| <b>Total general revenues, special items, extraordinary items and transfers</b> | <b>62,515,517</b>      | <b>6,806</b>      | <b>62,522,323</b>      |
| <b>Change in Net Position</b>                                                   | <b>844,184</b>         | <b>62,645</b>     | <b>906,829</b>         |
| Net Position—beginning                                                          | (38,496,300)           | 457,231           | (38,039,069)           |
| <b>Net Position—ending</b>                                                      | <b>\$ (37,652,116)</b> | <b>\$ 519,876</b> | <b>\$ (37,132,240)</b> |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

|                                                                                      | General Fund         | Major Fund<br>Capital Reserve | Major Fund  | Total<br>Governmental<br>Funds |
|--------------------------------------------------------------------------------------|----------------------|-------------------------------|-------------|--------------------------------|
| <b>ASSETS</b>                                                                        |                      |                               |             |                                |
| Cash & Cash Equivalents                                                              | \$ 18,174,113        | \$ 1,918,077                  | \$ 0        | \$ 20,092,190                  |
| Investments                                                                          | 490,000              | 0                             | 0           | 490,000                        |
| Taxes Receivable (Net)                                                               | 1,341,039            | 0                             | 0           | 1,341,039                      |
| Due from Other Funds                                                                 | 61,485               | 750,000                       | 0           | 811,485                        |
| Due from Other Governments                                                           | 2,291,966            | 0                             | 0           | 2,291,966                      |
| Other Receivables                                                                    | 25,885               | 0                             | 0           | 25,885                         |
| Inventories                                                                          | 0                    | 0                             | 0           | 0                              |
| Prepaid Expenses/Expenditures                                                        | 26,843               | 0                             | 0           | 26,843                         |
| Other Current Assets                                                                 | 0                    | 0                             | 0           | 0                              |
| <b>TOTAL ASSETS</b>                                                                  | <b>\$ 22,411,331</b> | <b>\$ 2,668,077</b>           | <b>\$ 0</b> | <b>\$ 25,079,408</b>           |
| <b>LIABILITIES AND FUND BALANCES</b>                                                 |                      |                               |             |                                |
| <b>LIABILITIES</b>                                                                   |                      |                               |             |                                |
| Accounts Payable                                                                     | \$ 458,810           | \$ 0                          | \$ 0        | \$ 458,810                     |
| Due to Other Funds                                                                   | 750,000              | 0                             | 0           | 750,000                        |
| Due to other Governments                                                             | 0                    | 0                             | 0           | 0                              |
| Accrued Salaries and Benefits                                                        | 3,587,053            | 0                             | 0           | 3,587,053                      |
| Payroll Deductions & Withholdings                                                    | 2,083,670            | 0                             | 0           | 2,083,670                      |
| <b>TOTAL LIABILITIES</b>                                                             | <b>6,879,533</b>     | <b>0</b>                      | <b>0</b>    | <b>6,879,533</b>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                                 |                      |                               |             |                                |
| Delinquent Real Estate Taxes                                                         | 1,124,826            | 0                             | 0           | 1,124,826                      |
| <b>FUND BALANCES</b>                                                                 |                      |                               |             |                                |
| Committed - Capital Projects                                                         | 0                    | 2,668,077                     | 0           | 2,668,077                      |
| Assigned - Technology                                                                | 1,000,000            | 0                             | 0           | 1,000,000                      |
| Assigned - Capital Projects                                                          | 3,000,000            | 0                             | 0           | 3,000,000                      |
| Assigned - PSERS Cost Increases                                                      | 500,000              | 0                             | 0           | 500,000                        |
| Assigned - Healthcare Costs                                                          | 2,000,000            | 0                             | 0           | 2,000,000                      |
| Assigned - Charter School                                                            | 1,000,000            | 0                             | 0           | 1,000,000                      |
| Unassigned                                                                           | 6,906,972            | 0                             | 0           | 6,906,972                      |
| <b>TOTAL FUND BALANCES</b>                                                           | <b>14,406,972</b>    | <b>2,668,077</b>              | <b>0</b>    | <b>17,075,049</b>              |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOWS OF RESOURCES AND FUND<br/>BALANCES</b> | <b>\$ 22,411,331</b> | <b>\$ 2,668,077</b>           | <b>\$ 0</b> | <b>\$ 25,079,408</b>           |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**Total Fund Balances - Governmental Funds** **\$ 17,075,049**

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$141,834,756 and the accumulated depreciation is \$49,849,072. 91,985,684

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 1,124,825

Bond Discount is recorded as an asset on the Statement of Net Position, but is not reported as an asset in governmental funds. 1,516,248

Prepaid Interest is recorded as an asset on the Statement of Net Position, but is not reported as an asset in governmental funds. 301,398

Bond Issue Premium is recorded as a liability on the Statement of Net Position, but is not reported as a liability in governmental funds. (2,088,401)

OPEB Liability costs are recorded as a liability on the Statement of Net Position, but are not reported as a liability in governmental funds. (8,465,212)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reported in the funds.

|                                                    |             |
|----------------------------------------------------|-------------|
| Deferred outflows of resources related to pensions | 15,484,196  |
| Deferred inflows of resources related to pensions  | (4,441,000) |
| Deferred outflows of resources related to OPEB     | 1,002,231   |
| Deferred inflows of resources related to OPEB      | (595,729)   |

Long-term liabilities, including bonds 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/Notes Payable           | (52,875,300) |               |
| Accrued Interest on the Bonds | (509,805)    |               |
| Net Pension Liability         | (96,746,000) |               |
| Compensated Absences          | (420,300)    | (150,551,405) |
|                               |              |               |

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ (37,652,116)**

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

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

|                                                                | <u>General Fund</u>  | <u>Major Fund<br/>Capital Reserve</u> | <u>Major Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|----------------------------------------------------------------|----------------------|---------------------------------------|-------------------|-----------------------------------------|
| <b>REVENUES</b>                                                |                      |                                       |                   |                                         |
| <b>Local Sources:</b>                                          |                      |                                       |                   |                                         |
| Real Estate Taxes and Penalties                                | \$ 40,311,131        | \$ 0                                  | \$ 0              | \$ 40,311,131                           |
| Other Taxes                                                    | 4,652,506            | 0                                     | 0                 | 4,652,506                               |
| Interest                                                       | 321,961              | 30,994                                | 0                 | 352,955                                 |
| Revenue Received from Other LEAS                               | 649,913              | 0                                     | 0                 | 649,913                                 |
| Tuition                                                        | 884,915              | 0                                     | 0                 | 884,915                                 |
| Other Revenue                                                  | 214,887              | 0                                     | 0                 | 214,887                                 |
| <b>Total Local Sources</b>                                     | <u>47,035,313</u>    | <u>30,994</u>                         | <u>0</u>          | <u>47,066,307</u>                       |
| State Sources                                                  | 24,234,963           | 0                                     | 0                 | 24,234,963                              |
| Federal Sources                                                | 827,560              | 0                                     | 0                 | 827,560                                 |
| <b>Total Revenues</b>                                          | <u>72,097,836</u>    | <u>30,994</u>                         | <u>0</u>          | <u>72,128,830</u>                       |
| <b>EXPENDITURES</b>                                            |                      |                                       |                   |                                         |
| <b>Current:</b>                                                |                      |                                       |                   |                                         |
| Instruction                                                    | 40,433,752           | 0                                     | 0                 | 40,433,752                              |
| Support Services                                               | 21,036,295           | 0                                     | 0                 | 21,036,295                              |
| Non-Instructional Services                                     | 1,089,963            | 0                                     | 0                 | 1,089,963                               |
| <b>Total Current Expenditures</b>                              | <u>62,560,010</u>    | <u>0</u>                              | <u>0</u>          | <u>62,560,010</u>                       |
| <b>Capital Outlay:</b>                                         |                      |                                       |                   |                                         |
| Facilities Acquisition, Construction and<br>Improvements       | 0                    | 495,428                               | 0                 | 495,428                                 |
| <b>Total Capital Outlay</b>                                    | <u>0</u>             | <u>495,428</u>                        | <u>0</u>          | <u>495,428</u>                          |
| <b>Debt Service:</b>                                           |                      |                                       |                   |                                         |
| Principal                                                      | 5,008,120            |                                       |                   | 5,008,120                               |
| Interest                                                       | 2,084,283            | 0                                     | 0                 | 2,084,283                               |
| <b>Total Debt Service</b>                                      | <u>7,092,403</u>     | <u>0</u>                              | <u>0</u>          | <u>7,092,403</u>                        |
| <b>TOTAL EXPENDITURES</b>                                      | <u>69,652,413</u>    | <u>495,428</u>                        | <u>0</u>          | <u>70,147,841</u>                       |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>  OVER EXPENDITURES</b> | <u>2,445,423</u>     | <u>(464,434)</u>                      | <u>0</u>          | <u>1,980,989</u>                        |
| <b>OTHER FINANCING SOURCES (USES)</b>                          |                      |                                       |                   |                                         |
| Proceeds from G.O. Bonds                                       | 0                    | 0                                     | 0                 | 0                                       |
| Interfund Transfers                                            | 0                    | 750,000                               | 0                 | 750,000                                 |
| Sale/Compensation for Fixed Assets                             | 0                    | 0                                     | 0                 | 0                                       |
| Refunds of Prior Years Expenditures                            | 12,251               | 0                                     | 0                 | 12,251                                  |
| Refunds of Prior Years Receipts                                | 0                    | 0                                     | 0                 | 0                                       |
| Operating Transfers Out                                        | (750,000)            | 0                                     | 0                 | (750,000)                               |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                    | <u>(737,749)</u>     | <u>750,000</u>                        | <u>0</u>          | <u>12,251</u>                           |
| <b>Net Change in Fund Balances</b>                             | <u>1,707,674</u>     | <u>285,566</u>                        | <u>0</u>          | <u>1,993,240</u>                        |
| <b>FUND BALANCE - JULY 1, 2019</b>                             | <u>12,699,298</u>    | <u>2,382,511</u>                      | <u>0</u>          | <u>15,081,809</u>                       |
| <b>FUND BALANCE - JUNE 30, 2020</b>                            | <u>\$ 14,406,972</u> | <u>\$ 2,668,077</u>                   | <u>\$ 0</u>       | <u>\$ 17,075,049</u>                    |

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

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

**Total net change in fund balances - governmental funds** **\$ 1,993,240**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period. Depreciation Expense \$(3,060,543)

|                 |         |             |
|-----------------|---------|-------------|
| Capital Outlays | 486,843 | (2,573,700) |
|-----------------|---------|-------------|

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

63,048

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Activities.

5,008,120

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension related benefits earned net of employee contributions is reported as pension expense.

|                                                                |  |              |
|----------------------------------------------------------------|--|--------------|
| District pension contributions                                 |  | 9,295,598    |
| Cost of pension benefits earned, net of employee contributions |  | (12,889,350) |

OTHER - (explain)

|                      |  |        |
|----------------------|--|--------|
| Compensated Absences |  | 83,322 |
|----------------------|--|--------|

Bond Discount Amortization expensed on Statement of Activities but not expensed in governmental funds

(27,925)

Accrued Interest Expense Adjustment for G.O. Bonds

28,907

Interest Expense on Bond Refinancing

-

Prepaid Interest Amortization

(99,767)

Bond Premium Amortization recorded on the Statement of Activities but not recorded in governmental funds

259,739

OPEB expense recorded on the Statement of Activities, not recorded on governmental funds

(297,048)

Accumulated Depreciation Adjustment

-

**Change in net position of governmental activities**

**\$ 844,184**

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                | <b>Budgeted Amounts</b> |                       | <b>Actual</b>            | <b>Final Budget</b>            |
|------------------------------------------------|-------------------------|-----------------------|--------------------------|--------------------------------|
|                                                | <b>Original</b>         | <b>Final</b>          | <b>(Budgetary Basis)</b> | <b>Positive<br/>(Negative)</b> |
| <b>REVENUES</b>                                |                         |                       |                          |                                |
| <b>Local Sources:</b>                          |                         |                       |                          |                                |
| Real Estate Taxes and Penalties                | \$ 39,041,155           | \$ 39,041,155         | \$ 40,311,131            | \$ 1,269,976                   |
| Other Taxes                                    | 4,740,000               | 4,740,000             | 4,652,506                | (87,494)                       |
| Interest                                       | 170,000                 | 170,000               | 321,961                  | 151,961                        |
| Revenue Received from Other LEAS               | 287,891                 | 287,891               | 649,913                  | 362,022                        |
| Tuition                                        | 5,000                   | 5,000                 | 884,915                  | 879,915                        |
| Other Revenue                                  | 579,500                 | 579,500               | 214,887                  | (364,613)                      |
| <b>Total Local Sources</b>                     | <u>44,823,546</u>       | <u>44,823,546</u>     | <u>47,035,313</u>        | <u>2,211,767</u>               |
| State Program Revenues                         | 24,155,604              | 24,155,604            | 24,234,963               | 79,359                         |
| Federal Program Revenues                       | 605,222                 | 605,222               | 827,560                  | 222,338                        |
| <b>TOTAL REVENUES</b>                          | <u>69,584,372</u>       | <u>69,584,372</u>     | <u>72,097,836</u>        | <u>2,513,464</u>               |
| <b>EXPENDITURES</b>                            |                         |                       |                          |                                |
| <b>Current:</b>                                |                         |                       |                          |                                |
| Regular Programs                               | 30,019,712              | 30,019,712            | 27,857,895               | 2,161,817                      |
| Special Programs                               | 9,549,458               | 9,549,458             | 10,354,861               | (805,403)                      |
| Vocational Programs                            | 2,149,371               | 2,149,371             | 2,058,464                | 90,907                         |
| Other Instructional Programs                   | 148,790                 | 148,790               | 127,348                  | 21,442                         |
| Non Public School Programs                     | 0                       | 0                     | 2,867                    | (2,867)                        |
| <b>Support Services:</b>                       |                         |                       |                          |                                |
| Pre-Kindergarten                               | 35,000                  | 35,000                | 32,317                   | 2,683                          |
| Pupil Personnel Services                       | 2,609,177               | 2,609,177             | 2,389,597                | 219,580                        |
| Instructional Staff Services                   | 5,927,090               | 5,927,090             | 4,730,997                | 1,196,093                      |
| Administrative Services                        | 3,847,582               | 3,847,582             | 3,268,399                | 579,183                        |
| Pupil Health                                   | 778,761                 | 778,761               | 719,035                  | 59,726                         |
| Business Services                              | 824,055                 | 824,055               | 625,832                  | 198,223                        |
| Operation & Maintenance of Plant Services      | 5,634,844               | 5,634,844             | 5,746,900                | (112,056)                      |
| Student Transportation Services                | 4,575,341               | 4,575,341             | 2,968,216                | 1,607,125                      |
| Central & Other Support Services               | 644,786                 | 644,786               | 587,319                  | 57,467                         |
| <b>Operation of Noninstructional Services:</b> |                         |                       |                          |                                |
| Student Activities                             | 1,138,441               | 1,138,441             | 1,058,789                | 79,652                         |
| Community Services                             | 18,000                  | 18,000                | 31,174                   | (13,174)                       |
| Facilities Acquisition and Construction        | 0                       | 0                     | 0                        | 0                              |
| Debt Service                                   | 7,355,844               | 7,355,844             | 7,092,403                | 263,441                        |
| Refund of Prior Year Receipts                  | 0                       | 0                     | 0                        | 0                              |
| <b>TOTAL EXPENDITURES</b>                      | <u>75,256,252</u>       | <u>75,256,252</u>     | <u>69,652,413</u>        | <u>5,603,839</u>               |
| <b>EXCESS (DEFICIENCY) OF REVENUES</b>         |                         |                       |                          |                                |
| <b>OVER EXPENDITURES</b>                       | (5,671,880)             | (5,671,880)           | 2,445,423                | 8,117,303                      |
| <b>OTHER FINANCING SOURCES (USES)</b>          |                         |                       |                          |                                |
| Refund of Prior Year Expenditures              | 0                       | 0                     | 12,251                   | 12,251                         |
| Interfund Transfers                            | 0                       | 0                     | (750,000)                | (750,000)                      |
| Refund of Prior Year Receipts                  | 0                       | 0                     | 0                        | 0                              |
| Sale/Compensation for Fixed Assets             | 0                       | 0                     | 0                        | 0                              |
| Budgetary Reserve                              | (350,000)               | (350,000)             | 0                        | 350,000                        |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>    | <u>(350,000)</u>        | <u>(350,000)</u>      | <u>(737,749)</u>         | <u>(387,749)</u>               |
| Net change in fund balances                    | <u>\$ (6,021,880)</u>   | <u>\$ (6,021,880)</u> | 1,707,674                | <u>\$ 7,729,554</u>            |
| <b>FUND BALANCE - JULY 1, 2019</b>             |                         |                       | 12,699,298               |                                |
| <b>FUND BALANCE - JUNE 30, 2020</b>            |                         |                       | <u>\$ 14,406,972</u>     |                                |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2020**

|                                                    | <u>Food Service</u>      |
|----------------------------------------------------|--------------------------|
| <b>ASSETS</b>                                      |                          |
| <b>Current Assets:</b>                             |                          |
| Cash and Cash Equivalents                          | \$ 508,743               |
| Due From Other Governments                         | 70,098                   |
| Due from General Fund                              | 0                        |
| Other Receivables                                  | 525                      |
| Other Current Assets                               | 0                        |
| Inventories                                        | <u>51,292</u>            |
| <b>Total Current Assets</b>                        | 630,658                  |
| <b>Noncurrent Assets:</b>                          |                          |
| Machinery & Equipment (Net of Accum. Depreciation) | <u>17,345</u>            |
| <b>Total Noncurrent Assets</b>                     | <u>17,345</u>            |
| <b>TOTAL ASSETS</b>                                | <u><u>\$ 648,003</u></u> |
| <b>LIABILITIES</b>                                 |                          |
| <b>Current Liabilities:</b>                        |                          |
| Accounts Payable                                   | \$ 0                     |
| Accrued Salaries and Benefits                      | 8,531                    |
| Deferred Revenue                                   | 45,951                   |
| Due to Other Funds                                 | <u>61,485</u>            |
| <b>Total Current Liabilities</b>                   | 115,967                  |
| <b>Non-Current Liabilities:</b>                    |                          |
| Compensated Absences                               | <u>12,160</u>            |
| <b>Total Non-Current Liabilities</b>               | <u>12,160</u>            |
| <b>TOTAL LIABILITIES</b>                           | <u>\$ 128,127</u>        |
| <b>NET POSITION</b>                                |                          |
| Unrestricted                                       | <u>519,876</u>           |
| <b>TOTAL NET POSITION</b>                          | <u>519,876</u>           |
| <b>TOTAL LIABILITIES AND NET POSITION</b>          | <u><u>\$ 648,003</u></u> |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2020**

|                                              |                            |
|----------------------------------------------|----------------------------|
|                                              | <b><u>Food Service</u></b> |
| <b>OPERATING REVENUES:</b>                   |                            |
| Food Service Revenue                         | \$ 779,677                 |
| Other Operating Revenue                      | 1,136                      |
| <b>TOTAL OPERATING REVENUES</b>              | <b>780,813</b>             |
| <b>OPERATING EXPENSES:</b>                   |                            |
| Salaries                                     | 631,733                    |
| Employee Benefits                            | 465,639                    |
| Purchased Professional and Technical Service | 7,560                      |
| Purchased Property Service                   | 16,793                     |
| Other Purchased Service                      | 9,310                      |
| Supplies                                     | 1,036,793                  |
| Depreciation                                 | 1,932                      |
| Dues and Fees                                | 25,209                     |
| <b>TOTAL OPERATING EXPENSES</b>              | <b>2,194,969</b>           |
| <b>OPERATING INCOME(LOSS)</b>                | <b>(1,414,156)</b>         |
| <b>NONOPERATING REVENUES (EXPENSES):</b>     |                            |
| Earnings on Investments                      | 4,411                      |
| Contributions & Donations                    | 2,395                      |
| State Sources                                | 200,432                    |
| Federal Sources                              | 1,269,563                  |
| <b>TOTAL NONOPERATING REV(EXP)</b>           | <b>1,476,801</b>           |
| <b>CHANGE IN NET POSITION</b>                | <b>62,645</b>              |
| <b>TOTAL NET POSITION - JULY 1, 2019</b>     | <b>457,231</b>             |
| <b>TOTAL NET POSITION - JUNE 30, 2020</b>    | <b>\$ 519,876</b>          |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**JUNE 30, 2020**

|                                                                                                                  |                                     |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|
|                                                                                                                  | <b><u>Food Service</u></b>          |
| <b>Cash Flows From Operating Activities</b>                                                                      |                                     |
| Cash Received from Users                                                                                         | \$ 796,299                          |
| Cash Received from Other Operating Revenues                                                                      | 0                                   |
| Cash Payments to Employees for Services                                                                          | (1,105,813)                         |
| Cash Payments to Suppliers for Goods and Services                                                                | (1,125,993)                         |
| Cash Payments for Other Operating Expenses                                                                       | 0                                   |
| <b>Net Cash Provided by (Used for) Operating Activities</b>                                                      | <b><u>(1,435,507)</u></b>           |
| <b>Cash Flows From Non-Capital Financing Activities</b>                                                          |                                     |
| Local Sources                                                                                                    | 2,395                               |
| State Sources                                                                                                    | 197,868                             |
| Federal Sources                                                                                                  | 1,203,159                           |
| <b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>                                          | <b>1,403,422</b>                    |
| <b>Cash Flows From Capital and Related Financing Activities</b>                                                  |                                     |
| Facilities Acquisition/Construction/Improvements                                                                 | <u>(19,278)</u>                     |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>                                  | <b>(19,278)</b>                     |
| <b>Cash Flows From Investing Activities</b>                                                                      |                                     |
| Earnings on Investments                                                                                          | <u>4,411</u>                        |
| <b>Net Cash Provided by (Used for) Investing Activities</b>                                                      | <b><u>4,411</u></b>                 |
| <b>Net Inc (Dec) in Cash and Cash Equivalents</b>                                                                | <b>(46,952)</b>                     |
| <b>Cash and Cash Equivalents Beginning of Year</b>                                                               | <b><u>555,695</u></b>               |
| <b>Cash and Cash Equivalents at Year End</b>                                                                     | <b><u><u>\$ 508,743</u></u></b>     |
| <br><b>Operating Income (Loss)</b>                                                                               | <br><b>\$ (1,414,156)</b>           |
| <b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b> |                                     |
| Depreciation                                                                                                     | 1,933                               |
| Increase (Decrease) in Other Non-Current Liabilities                                                             | (9,940)                             |
| (Increase) Decrease in Other Receivables                                                                         | (525)                               |
| (Increase) Decrease in Inventories                                                                               | (37,598)                            |
| (Increase) Decrease in Advances to Other Funds                                                                   | 0                                   |
| (Increase) Decrease in Other Current Assets                                                                      | 0                                   |
| Increase (Decrease) in Advances from Other Funds                                                                 | 7,269                               |
| Increase (Decrease) in Accrued Salaries Benefits                                                                 | 1,499                               |
| Increase (Decrease) in Deferred Revenue                                                                          | 16,011                              |
| Increase (Decrease) in Compensated Absences                                                                      |                                     |
| <b>Total Adjustments</b>                                                                                         | <b><u>(21,351)</u></b>              |
| <b>Net Cash Provided by (Used for) Activities</b>                                                                | <b><u><u>\$ (1,435,507)</u></u></b> |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2020**

|                                           | <b>Private<br/>Purpose<br/>Trust</b> | <b>Agency</b>                 |
|-------------------------------------------|--------------------------------------|-------------------------------|
| <b>ASSETS</b>                             |                                      |                               |
| Cash and Cash Equivalents                 | \$     0                             | \$ 110,092                    |
| Investments                               | <u>          0</u>                   | <u>          0</u>            |
| <b>TOTAL ASSETS</b>                       | 0                                    | 110,092                       |
| <b>LIABILITIES</b>                        |                                      |                               |
| Accounts Payable                          | <u>          0</u>                   | <u>     110,092</u>           |
| <b>TOTAL LIABILITIES</b>                  | <u>          0</u>                   | <u>     110,092</u>           |
| <b>NET POSITION</b>                       |                                      |                               |
| Unrestricted                              | <u>          0</u>                   | <u>          0</u>            |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <u><u>      \$     -</u></u>         | <u><u>     \$ 110,092</u></u> |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                     | <b>Private Purpose<br/>Trust Funds</b> |
|-------------------------------------|----------------------------------------|
| <b>ADDITIONS</b>                    |                                        |
| Gifts and Contributions             | \$ 0                                   |
| Interest                            | 0                                      |
| <b>DEDUCTIONS</b>                   |                                        |
| Scholarships Awarded                | 0                                      |
| Transfer to Foundation              | 0                                      |
|                                     | <hr/>                                  |
| <b>CHANGE IN NET POSITION</b>       | 0                                      |
| <b>NET POSITION - JULY 1, 2019</b>  | 0                                      |
| <b>NET POSITION - JUNE 30, 2020</b> | <hr/> <b>\$ 0</b> <hr/>                |

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

Spring Grove Area School District, York County, Pennsylvania operates a high school, a middle school, an intermediate school and three elementary schools.

The accounting policies of the Spring Grove Area School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD & A) providing an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all of the District's activities.

A change in the fund financial statements to focus on the major funds.

These changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented GASB Statement No. 34, *Basic Financial statements-and Management's Discussion and Analysis-for State and Local Governments* , for the year ended June 30, 2020.

**A. REPORTING ENTITY**

The Spring Grove Area School District Board of Directors is the basic level of government which has oversight responsibility and control over all activities related to public school education in the Spring Grove Area School District. The District receives funding from local, state and federal government sources and must comply with their accompanying requirements. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB Pronouncement, since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement No. 14 which are included in the District's reporting entity.

The reporting entity for Spring Grove Area School District consists only of those funds, functions and activities controlled by the School Board and required or allowed by State laws and regulations.

The financial statements of the School District include all funds and activities that are controlled by or dependent on the School District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of advisors.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**B. FUND ACCOUNTING**

The accounts of the Spring Grove Area School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

**GOVERNMENTAL FUNDS**

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

**SPECIAL REVENUE FUNDS** - Special Revenue Funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

**CAPITAL PROJECT FUNDS** - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Reserve Fund is also a classified in this category.

**PROPRIETARY FUNDS**

**ENTERPRISE FUNDS** - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - when the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The Food Service Fund is a Modified Enterprise Fund because most food service funds in Pennsylvania's Public School System depend on support from the General Fund of the District as well as state and federal subsidization in order to operate.

**FIDUCIARY FUNDS**

**TRUST & AGENCY FUNDS** - Agency Funds are used to account for assets held by the District as an agent for school organizations or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Activities Fund is an Agency Fund. Nonexpendable Trusts are accounted for in essentially the same manner as proprietary funds.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**C. BASIS OF PRESENTATION**

**Government-wide Financial Statements** (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the school district. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

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

**Fund Financial Statements** are also provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the school district. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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 the proprietary fund's principal ongoing operations. The principal operating revenues of the school district's enterprise fund are food service charges. Operating expenses for the school district's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District reports the following major governmental funds:

The general fund is the district's primary operating fund. It accounts for all financial resources except those required to be in another fund.

The capital reserve fund accounts for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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 revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**E. INVENTORY**

Inventory in the General Fund is recorded as an expenditure at the time of purchase.

Inventory in the Proprietary Fund is valued at cost, except government donated food which is priced at fair market value at date of receipt.

**F. CASH AND CASH EQUIVALENTS**

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

**G. RECEIVABLES AND PAYABLES**

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

**H. PREPAID EXPENSES**

In both government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**I. CAPITAL ASSETS**

Capital assets which include land, property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

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

All capital assets except for land are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Assets:</u>                  | <u>Years</u> |
|---------------------------------|--------------|
| Buildings & Portable Classrooms | 25 - 50      |
| Building Improvements           | 15 - 30      |
| Land Improvements               | 20           |
| Machinery & Equipment           | 5 - 15       |
| Vehicles                        | 5 - 8        |
| Furniture and Fixtures          | 10 - 20      |

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 5 to 25 years.

**J. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

**K. NET POSITION**

Net Position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvement of those assets.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**L. USE OF ESTIMATES**

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

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and Cash Equivalents consist of the following as of June 30, 2020:

| <b><u>Name of Bank</u></b>                     | <b><u>Book Balance</u></b> | <b><u>Rate</u></b> | <b><u>Bank Balance</u></b> |
|------------------------------------------------|----------------------------|--------------------|----------------------------|
| <b><u>Governmental Funds:</u></b>              |                            |                    |                            |
| <b><u>Major Funds</u></b>                      |                            |                    |                            |
| <b><u>General Fund</u></b>                     |                            |                    |                            |
| Checking-ACNB Bank                             | \$ 9,596,528               | Various            | \$ 10,182,356              |
| M&T PayPal Account                             | 50                         |                    | 50                         |
| PayPal Funds                                   | 2                          |                    | 2                          |
| Susquehanna Lockbox                            | 1,145                      |                    | 1,145                      |
| PSDLAF                                         | 8,574,120                  |                    | 8,574,120                  |
| Savings-PLGIT PLUS                             | 1,535                      | Various            | 1,535                      |
| Class-PLGIT                                    | 203                        |                    | 203                        |
| Petty Cash-On Hand                             | 530                        |                    | 0                          |
| <b>Total Major Fund / General Fund</b>         | <b>18,174,113</b>          |                    | <b>18,759,411</b>          |
| <b><u>Capital Reserve Fund</u></b>             |                            |                    |                            |
| Checking-ACNB Bank                             | 316,041                    |                    | 525,868                    |
| Checking-M&T Bank                              | 0                          |                    | 0                          |
| PSDLAF                                         | 1,602,036                  | Various            | 1,602,036                  |
| <b>Total Major Fund / Capital Reserve Fund</b> | <b>1,918,077</b>           |                    | <b>2,127,904</b>           |
| <b><u>Total Governmental Funds:</u></b>        | <b>\$ 20,092,190</b>       |                    | <b>\$ 20,887,315</b>       |
| <b><u>Business-type Activities</u></b>         |                            |                    |                            |
| Checking-ACNB Bank                             | \$ 508,288                 | Various            | \$ 531,291                 |
| Petty Cash-On Hand                             | 455                        |                    | 0                          |
|                                                | <b>\$ 508,743</b>          |                    | <b>\$ 531,291</b>          |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Fiduciary Funds**

**Activities Fund**

|                             | <b><u>Book Balance</u></b> | <b><u>Rate</u></b> | <b><u>Bank Balance</u></b> |
|-----------------------------|----------------------------|--------------------|----------------------------|
| Checking - ACNB Bank        | \$ 110,092                 |                    | \$ 117,949                 |
| Checking - M & T Bank       | 0                          |                    | 0                          |
| <b>Total Activity Funds</b> | <b><u>\$ 110,092</u></b>   |                    | <b><u>\$ 117,949</u></b>   |

Investments consist of the following as of June 30, 2020:

| <b><u>Type</u></b> | <b><u>Bank</u></b> | <b><u>Amount</u></b> | <b><u>Rate</u></b> |
|--------------------|--------------------|----------------------|--------------------|
|--------------------|--------------------|----------------------|--------------------|

**Governmental Funds:**

**General Fund**

|                         |                  |                          |         |
|-------------------------|------------------|--------------------------|---------|
| Certificates of Deposit | Susquehanna Bank | \$ 0                     | Various |
| Certificates of Deposit | PSDLAF           | 490,000                  | Various |
| Certificates of Deposit | PLGIT            | 0                        | Various |
|                         |                  | <b><u>\$ 490,000</u></b> |         |

**Capital Reserve Fund**

|                         |        |                    |         |
|-------------------------|--------|--------------------|---------|
| Certificates of Deposit | PSDLAF | <b><u>\$ 0</u></b> | Various |
|-------------------------|--------|--------------------|---------|

**Fiduciary Funds:**

**Activity Fund**

|                         |        |                    |         |
|-------------------------|--------|--------------------|---------|
| Certificates of Deposit | BB & T | <b><u>\$ 0</u></b> | Various |
|-------------------------|--------|--------------------|---------|

**Trust Fund**

|                         |                  |                    |         |
|-------------------------|------------------|--------------------|---------|
| Certificates of Deposit | Susquehanna Bank | \$ 0               | Various |
| Certificates of Deposit | Sovereign Bank   | 0                  | Various |
|                         |                  | <b><u>\$ 0</u></b> |         |

All of the School District's investments and cash deposits are covered by FDIC or FSLIC or collateralized in accordance with Act 72.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2020, \$21,285,358 of the District's bank balance of \$21,536,555 was exposed to custodial credit risk as:

|                                                                                                  |                      |
|--------------------------------------------------------------------------------------------------|----------------------|
| Uninsured and Uncollateralized                                                                   | \$ 0                 |
| Collateralized with securities held by the pledging financial institution                        | 21,285,358           |
| Uninsured and collateral held by the pledging bank's trust department not in the District's name | 0                    |
|                                                                                                  | <u>\$ 21,285,358</u> |

**Reconciliation to Financial Statements:**

|                                                                           |                   |
|---------------------------------------------------------------------------|-------------------|
| Collateralized with securities held by the pledging financial institution | \$ 21,285,358     |
| Plus: Insured Amount                                                      | 251,197           |
| Plus: Deposits in Transit                                                 | 0                 |
| Less: Outstanding Checks                                                  | (826,515)         |
| Carrying Amount - Bank Balances                                           | <u>20,710,040</u> |
| Plus: Petty Cash                                                          | 985               |

|                                            |                             |
|--------------------------------------------|-----------------------------|
| <b>Total Cash per Financial Statements</b> | <b><u>\$ 20,711,025</u></b> |
|--------------------------------------------|-----------------------------|

**Cash Summary per Respective Funds:**

|                                                       |                             |
|-------------------------------------------------------|-----------------------------|
| Statement of Net Position - Cash - Governmental Funds | \$ 20,092,190               |
| Statement of Net Position - Cash - Proprietary Funds  | 508,743                     |
| Statement of Net Position - Cash - Fiduciary Funds    | 110,092                     |
| <b>Total Cash per Financial Statements</b>            | <b><u>\$ 20,711,025</u></b> |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**INVESTMENTS:**

**Credit Risk** - risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below are the actual ratings for each investment as of the end of the year:

**Ratings as of Year End**

| <b><u>Investment Type</u></b> | <b><u>Amount</u></b> | <b><u>S &amp; Ps<br/>AAAm</u></b> | <b><u>S &amp; Ps<br/>AAm</u></b> | <b><u>Moody's<br/>Baa2</u></b> |
|-------------------------------|----------------------|-----------------------------------|----------------------------------|--------------------------------|
| PSDLAF - CD's                 | \$ 490,000           | \$ 490,000                        | \$ 0                             | \$ 0                           |
| PLGIT - CD's                  | 0                    |                                   |                                  |                                |
| BB & T - CD's                 | 0                    |                                   |                                  |                                |
| <b>Total</b>                  | <b>\$ 490,000</b>    | <b>\$ 490,000</b>                 | <b>\$ 0</b>                      | <b>\$ 0</b>                    |

**Concentration of Credit Risk** - risk of loss attributed to the magnitude of an entity's investment in a single issuer. Disclosure occurs by issuer and amount of investments in any one issuer that represent 5% or more of total investments for the entity:

| <b><u>Investment Type</u></b> | <b><u>Amount</u></b> | <b><u>Percentage</u></b> |
|-------------------------------|----------------------|--------------------------|
| PSDLAF - CD's                 | \$ 490,000           | 100.00%                  |
| PLGIT - CD's                  | 0                    | 0.00%                    |
| BB & T - CD's                 | 0                    | 0.00%                    |
| <b>Total</b>                  | <b>\$ 490,000</b>    | <b>100.00%</b>           |

**Interest Rate Risk** - is the risk that changes in interest rates demanded by the market will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the entity's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity's investments by maturity:

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

| <b><u>Investment Type</u></b> | <b><u>Investment Maturities (In Years)</u></b> |                           |                       |
|-------------------------------|------------------------------------------------|---------------------------|-----------------------|
|                               | <b><u>Amount</u></b>                           | <b><u>Less than 1</u></b> | <b><u>1 and 5</u></b> |
| PSDLAF - CD's                 | \$ 490,000                                     | \$ 490,000                | \$ -                  |
| PLGIT - CD's                  | 0                                              |                           |                       |
| Susquehanna Bank - CD's       | 0                                              |                           |                       |
| <b>Total</b>                  | <b>\$ 490,000</b>                              | <b>\$ 490,000</b>         | <b>\$ -</b>           |

**NOTE 3 - DELINQUENT TAXES RECEIVABLE**

This account represents unpaid real estate taxes from preceding years returned to the Tax Claims Bureau for collections, and certain interim taxes not yet collected. This account is offset by real estate tax revenues on the statement of activities for the government-wide financial statement presentation and offset by deferred revenues in the liability section of the balance sheet for the fund financial statement presentation.

**NOTE 4 - GENERAL LONG-TERM DEBT**

On May 2, 2012, Spring Grove Area School District issued General Obligation Bonds, Series of 2012 for the purpose of: (1) the current refunding of the School District's General Obligation Bonds, Series A and B of 2007, collectively, and (2) paying the costs of issuing the General Obligation Bonds, Series of 2012AA.

| <b><u>Date of Issue</u></b> | <b><u>Final Maturity</u></b> | <b><u>Rate</u></b> | <b><u>Issue Amount</u></b> |
|-----------------------------|------------------------------|--------------------|----------------------------|
| 2012                        | February 1, 2025             | 09 - 3.375 %       | <u>\$ 8,875,000</u>        |

A summary of the maturity dates of the General Obligation Issue of 2012 is as follows:

| <b><u>Year</u></b> | <b><u>Amount</u></b> | <b><u>Year</u></b> | <b><u>Amount</u></b>       |
|--------------------|----------------------|--------------------|----------------------------|
| 2021               | 605,000              | 2024               | 650,000                    |
| 2022               | 625,000              | 2025               | 670,000                    |
| 2023               | 635,000              |                    |                            |
| <b>TOTAL</b>       |                      |                    | <u><u>\$ 3,185,000</u></u> |

**NOTE 4 - GENERAL LONG-TERM DEBT (CONTINUED)**

| <u>Date of Issue</u> | <u>Final Maturity</u> | <u>Rate</u>     | <u>Issue Amount</u> |
|----------------------|-----------------------|-----------------|---------------------|
| 2014                 | October 1, 2023       | 2.380 - 2.380 % | \$ 9,998,000        |

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2020        | 1,971,200     | 2022        | 2,065,300     |
| 2021        | 2,023,100     | 2023        | 318,200       |

\$ 6,377,800

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4 - GENERAL LONG-TERM DEBT (CONTINUED)**

On February 17, 2015, Spring Grove Area School District issued General Obligation Bonds, Series A of 2015, for the purpose of : (1) currently refunding the School Districts General Obligation Bonds, Series of 2009, and (2) paying costs of issuing the General Obligation Bonds Series A of 2015.

| <b><u>Date of Issue</u></b> | <b><u>Final Maturity</u></b> | <b><u>Rate</u></b> | <b><u>Issue<br/>Amount</u></b> |
|-----------------------------|------------------------------|--------------------|--------------------------------|
| 2015                        | October 1, 2028              | 0.25 - 5.000 %     | <u>\$ 27,375,000</u>           |

A summary of the maturity dates of the General Obligation Issue of 2015A is as follows:

| <b><u>Year</u></b> | <b><u>Amount</u></b> | <b><u>Year</u></b> | <b><u>Amount</u></b>        |
|--------------------|----------------------|--------------------|-----------------------------|
| 2021               | 1,345,000            | 2026               | 2,375,000                   |
| 2022               | 1,405,000            | 2027               | 2,605,000                   |
| 2023               | 1,495,000            | 2028               | 4,025,000                   |
| 2024               | 1,580,000            | 2029               | 6,735,000                   |
| 2025               | 1,655,000            |                    |                             |
| <b>TOTAL</b>       |                      |                    | <u><u>\$ 23,220,000</u></u> |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4 - GENERAL LONG-TERM DEBT (CONTINUED)**

On January 3, 2017, Spring Grove Area School District issued General Obligation Note, Series of 2017, for the purpose of : (1) the current refunding of the School Districts General Obligation Bonds, Series of 2011, and (2) paying costs of issuing the General Obligation Note of 2017.

| <b><u>Date of Issue</u></b> | <b><u>Final Maturity</u></b> | <b><u>Rate</u></b> | <b><u>Issue Amount</u></b> |
|-----------------------------|------------------------------|--------------------|----------------------------|
| 2017                        | February 15, 2026            | 2.25%              | <u>\$ 9,931,970</u>        |

A summary of the maturity dates of the General Obligation Issue of 2017 is as follows:

| <b><u>Year</u></b> | <b><u>Amount</u></b> | <b><u>Year</u></b> | <b><u>Amount</u></b> |
|--------------------|----------------------|--------------------|----------------------|
| 2021               | 1,057,820            | 2024               | 1,102,180            |
| 2022               | 1,074,350            | 2025               | 1,112,590            |
| 2023               | 1,089,170            | 2026               | 1,159,820            |

**TOTAL**

\$ 6,595,930

On August 2, 2017, Spring Grove Area School District issued General Obligation Note, Series A of 2017, for the purpose of : (1) refunding the District's outstanding General Obligation Bonds, Series A of 2012, and (2) paying costs of issuing the General Obligation Note Series A of 2017.

| <b><u>Date of Issue</u></b> | <b><u>Final Maturity</u></b> | <b><u>Rate</u></b> | <b><u>Issue Amount</u></b> |
|-----------------------------|------------------------------|--------------------|----------------------------|
| 2018                        | February 1, 2028             | 2.65%              | <u>\$ 3,936,000</u>        |

A summary of the maturity dates of the General Obligation Issue of 2017A is as follows:

| <b><u>Year</u></b> | <b><u>Amount</u></b> | <b><u>Year</u></b> | <b><u>Amount</u></b> |
|--------------------|----------------------|--------------------|----------------------|
| 2021               | 53,680               | 2025               | 49,670               |
| 2022               | 53,910               | 2026               | 49,940               |
| 2023               | 54,150               | 2027               | 1,120,220            |
| 2024               | 49,400               | 2028               | 2,425,600            |

**TOTAL**

\$ 3,856,570

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4 - GENERAL LONG-TERM DEBT (CONTINUED)**

On July 18, 2018, Spring Grove Area School District issued General Obligation Bonds, Series of 2018, for the purpose of : (1) the current refunding of the School Districts General Obligation Bonds, Series of 2013, and (2) paying costs of issuing the General Obligation Bonds of 2018.

| <b><u>Date of Issue</u></b> | <b><u>Final Maturity</u></b> | <b><u>Rate</u></b> | <b><u>Issue<br/>Amount</u></b> |
|-----------------------------|------------------------------|--------------------|--------------------------------|
| 2018                        | October 1, 2026              | 1.95 - 2.90%       | <u>\$ 9,750,000</u>            |

A summary of the maturity dates of the General Obligation Issue of 2018 is as follows:

| <b><u>Year</u></b> | <b><u>Amount</u></b> | <b><u>Year</u></b> | <b><u>Amount</u></b> |
|--------------------|----------------------|--------------------|----------------------|
| 2021               | 135,000              | 2025               | 2,335,000            |
| 2022               | 135,000              | 2026               | 2,435,000            |
| 2023               | 140,000              | 2027               | 2,510,000            |
| 2024               | 1,950,000            |                    |                      |
| <b>TOTAL</b>       |                      |                    | <u>\$ 9,640,000</u>  |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4 - GENERAL LONG-TERM DEBT (CONTINUED)**

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

|                                 |                         |
|---------------------------------|-------------------------|
| Balance - July 1, 2019          | \$ 57,883,420           |
| Note/Bond Proceeds - New Issues | 0                       |
| Principal Repayments            | (5,008,120)             |
| Bond Refunding                  | 0                       |
| Balance - June 30, 2020         | <u>\$ 52,875,300</u>    |
| <br>Interest Paid               | <br><u>\$ 1,923,329</u> |

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

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

**Governmental Activities:**

|                          | Beginning<br>Balance     | Increases             | Decreases       | Ending<br>Balances        |
|--------------------------|--------------------------|-----------------------|-----------------|---------------------------|
| Land                     | \$ 1,811,622             | \$ 0                  | \$ 0            | \$ 1,811,622              |
| Buildings & Improvements | 127,796,248              | 419,424               | 0               | 128,215,672               |
| Machinery & Equipment    | 11,740,043               | 67,419                | 0               | 11,807,462                |
| Construction in Progress | 0                        | 0                     | 0               | 0                         |
| <br>Total Capital Assets | <br><u>\$141,347,913</u> | <br><u>\$ 486,843</u> | <br><u>\$ 0</u> | <br><u>\$ 141,834,756</u> |

Accumulated Depreciation activity for the year ended June 30, 2020 was as follows:

|                             | Beginning<br>Balance     | Increases               | Decreases       | Ending<br>Balances       |
|-----------------------------|--------------------------|-------------------------|-----------------|--------------------------|
| Buildings & Improvements    | \$ 35,917,588            | \$ 2,636,620            | \$ 0            | \$ 38,554,208            |
| Machinery & Equipment       | 10,870,943               | 423,923                 | 0               | 11,294,866               |
| <br>Governmental Activities | <br><u>\$ 46,788,531</u> | <br><u>\$ 3,060,543</u> | <br><u>\$ 0</u> | <br><u>\$ 49,849,074</u> |
| Capital Assets, Net         | <u>\$ 94,559,382</u>     | <u>\$ (2,573,700)</u>   | <u>\$ 0</u>     | <u>\$ 91,985,682</u>     |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

**Business-type Activities:**

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

|                        | Beginning<br>Balance | Increases | Decreases | Ending<br>Balances |
|------------------------|----------------------|-----------|-----------|--------------------|
| Food Service Equipment | \$ 388,602           | \$ 19,278 | \$ 0      | \$ 407,880         |

Accumulated Depreciation activity for the year ended June 30, 2020 was as follows:

|                                                 | Beginning<br>Balance | Increases | Decreases | Ending<br>Balances |
|-------------------------------------------------|----------------------|-----------|-----------|--------------------|
| Food Service Equipment                          | \$ 388,602           | \$ 1,933  | \$ 0      | \$ 390,535         |
| Business-type Activities<br>Capital Assets, Net | \$ -                 | \$ 17,345 | \$ 0      | \$ 17,345          |

**NOTE 6 - ACCUMULATED COMPENSATED ABSENCES**

It is the School District's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the School District's service. For the government-wide financial statement presentation, the amount, \$432,460 of compensated absences is recorded as a liability on the statement of net position. In the fund financial statement presentation, the cost of sick leave is recognized when payments are made to employees.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE - 7 - PENSION PLAN**

**1. Summary of Significant Accounting Policies**

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

**General Information about the Pension Plan**

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System included 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 publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits provided

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

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the members' 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 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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE - 7 - PENSION PLAN (CONTINUED)**

members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T - C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who are active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the members qualifying compensation. All new hires after June 30, 2011, who elect Class T - F membership, contribute at 10.3% (base rate) of the members qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2020 was 33.45% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$9,295,598 for the year ended June 30, 2020.

**2. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions**

At June 30, 2020 the School reported a liability of \$96,746,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2020, the School's proportion was .2068%, which was an increase of .0076 from its proportion measured as of June 30, 2019 which was .1992%.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE - 7 - PENSION PLAN (CONTINUED)**

For the year ended June 30, 2020, the District recognized pension expense of \$11,674,000. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience                                        | 533,000                                   | 3,207,000                                |
| Net difference between projected and actual investment earnings                          | -                                         | 277,000                                  |
| Changes in proportions                                                                   | 4,696,000                                 | 957,000                                  |
| Changes in assumptions                                                                   | 925,000                                   | -                                        |
| Difference between employer contributions and proportionate share of total contributions | 34,598                                    | -                                        |
| Contributions subsequent to the measurement date                                         | <u>9,295,598</u>                          | <u>-</u>                                 |
|                                                                                          | 15,484,196                                | 4,441,000                                |

\$9,295,598 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

|      |           |
|------|-----------|
| 2020 | 1,932,000 |
| 2021 | (315,000) |
| 2022 | (75,000)  |
| 2023 | 171,000   |

**Actuarial assumptions**

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

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2019

The Investment Rate of Return was adjusted from 7.50% to 7.25%.

The inflation assumption was decreased from 3.0% to 2.75%.

Salary growth changed from an effective average of 5.00%, which comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, 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.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE - 7 - PENSION PLAN (CONTINUED)**

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. The actuarial assumption used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

| <u>Asset Class</u>      | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|-------------------------|------------------------------|-------------------------------------------------------|
| Global public equity    | 20.0%                        | 5.6%                                                  |
| Fixed Income            | 36.0%                        | 1.9%                                                  |
| Commodities             | 8.0%                         | 2.7%                                                  |
| Absolute return         | 10.0%                        | 3.4%                                                  |
| Risk parity             | 10.0%                        | 4.1%                                                  |
| Infrastructure/MLPs     | 8.0%                         | 5.5%                                                  |
| Real estate             | 10.0%                        | 4.1%                                                  |
| Cash                    | 3.0%                         | 7.4%                                                  |
| Alternative investments | 15.0%                        | 0.3%                                                  |
| Financing (LIBOR)       | -20.0%                       | 0.7%                                                  |
|                         | <u>100%</u>                  |                                                       |

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

**Sensitivity of the School's Proportionate share of the net pension liability to changes in the discount rate**

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE - 7 - PENSION PLAN (CONTINUED)**

Discount rate

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

Sensitivity of the School's Proportionate share of the net pension liability to changes in the discount rate

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

|                                                              | 1%<br>Decrease<br>6.25% | Current<br>Discount<br>Rate<br>7.25% | 1%<br>Increase<br>8.25% |
|--------------------------------------------------------------|-------------------------|--------------------------------------|-------------------------|
| School's proportionate share of<br>the net pension liability | 120,508,000             | 96,746,000                           | 76,626,000              |

Pension plan fiduciary net position

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 8 - EARNED INCOME TAX**

The York County Earned Income Tax Bureau is audited by other independent auditors. Our examination was limited to tracing general ledger receipts to bank deposits.

**NOTE 9 - BUDGET**

The School follows these procedures in establishing the budgetary data reflected in the financial statements.

- ( a )      Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).
- ( b )      The Board of Directors approves the total budget appropriations and authorizes budget transfers. The level of budgetary responsibility is by total appropriation.
- ( c )      The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.
- ( d )      Unexpended appropriations at year-end lapse.

**NOTE 10 - REVENUE RECOGNITION - PROPERTY TAXES**

Property taxes are recognized in the year received. For fund financial statement presentation, property taxes outstanding are recorded as an asset and offset in the liability section as a deferred revenue, for government-wide financial statement presentation, property taxes outstanding are recorded as an asset and offset by real estate tax revenues on the statement of activities.

Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Property taxes attach as an enforceable lien on property as of January 15. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied on July 1 become delinquent November 1.

**NOTE 11 - CONTINGENCIES**

The District is from time to time subject to routine litigation incidental to School District activities. While the final resolution of any matter may have an impact on the District's financial results for a particular reporting period, the District believes the ultimate disposition of any such litigation would not have a materially adverse effect upon the financial position of the District.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 12 - OTHER INFORMATION**

**Lincoln Benefit Trust**

The School District is a member of Lincoln Benefit Trust. The trust is a claims servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the seventeen participating School Districts. Each participating employer contributes to the trust amounts determined by actuarial principles which will be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits.

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between \$50,000 and \$150,000 are paid from the Trust minipool. Claims incurred for \$150,000 to \$2,000,000 are paid from a stop loss insurance policy purchased by the Trust.

Under provisions of GASB No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, the School District must record a liability for claims when the loss is probable, it can be reasonably estimated, and it exceeds cumulative contributions. The contingent liability, if any, cannot be fully determinable until such time that the School District withdraws from the trust. As of June 30, 2020, a liability is not required because the School District's cumulative contributions to the Trust exceed the accrued and incurred claims.

Changes in net assets for the School District's account were as follows for the year ended:

|                                   | <b><u>June 30,</u></b><br><b><u>2020</u></b> |
|-----------------------------------|----------------------------------------------|
| Net position - July 1, 2019       | \$ 3,891,893                                 |
| Contributions and interest income | 6,923,650                                    |
| Claims paid                       | (5,398,993)                                  |
| Stop-loss insurance               | (525,334)                                    |
| PA trust insurance premium        | (242,415)                                    |
| PA trust reimbursement            | 0                                            |
| PA trust experience refund        | 31,780                                       |
| Stop-loss experience refund       | 288,561                                      |
| Other deductions                  | (24,021)                                     |
| Administrative fees               | <u>(258,801)</u>                             |
| Net position - June 30, 2020      | <b><u>\$ 4,686,320</u></b>                   |

Overall, the Lincoln Benefit Trust had net assets of \$94,631,519 at July 1, 2019 and \$99,063,582 at June 30, 2020, which resulted in an increase in net assets of \$4,432,063. Financial Statements for Lincoln Benefit Trust are available at the school district.

**NOTE 13 - ALLOCATION OF DEPRECIATION EXPENSE ON THE STATEMENT OF ACTIVITIES**

|                                 |                            |
|---------------------------------|----------------------------|
| Instruction                     | \$ 1,979,930               |
| Instructional Student Support   | 382,563                    |
| Admin. & Finl. Support Services | 219,449                    |
| Op. & Maint. Of Plant Svcs.     | 281,410                    |
| Pupil Transportation            | 145,345                    |
| Student Activities              | 51,846                     |
|                                 | <b><u>\$ 3,060,543</u></b> |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - POSTEMPLOYMENT BENEFITS PLAN**

The Spring Grove Area School District Postemployment Benefits plan is administered by Lincoln Benefit Trust. This Trust is a cost-sharing multiple-employer plan which issues its own financial report.

Summary of Plan Provisions:

| <u>Group</u>                            | <u>Eligibility</u>                                                                            | <u>Coverage and Premium Sharing</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <u>Duration</u>                                                                                                                                                                        |
|-----------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| I. Act 93 and Contracted Administrators | Subsidized-30 years of PSERS service and 10 years of district service (5 as an administrator) | Coverage: Medical, Prescription Drug, and Dental benefits for Retiree                                                                                                                                                                                                                                                                                                                                                                                                                         | Coverage is provided until Retiree is eligible for Medicare or until Retiree's death, whichever is earlier. Spouse coverage ends at spouse Medicare eligibility if earlier than above. |
|                                         | Unsubsidized-Act 110/43                                                                       | Premium Sharing: If Retiree is eligible for subsidized coverage, retiree pays 30% of Medical, Prescription Drug, and Dental premiums after being reduced by the PSERS supplement for up to 10 years. After 10 years or if Retiree is not eligible for subsidized coverage, Retiree may continue coverage under Act 110/43 by providing payment equal to the premium determined for the purpose of COBRA. Retiree may continue Dental coverage under Act 110/43 by paying 100% of the premium. |                                                                                                                                                                                        |
|                                         |                                                                                               | Dependent Coverage: Available if fully paid by Retiree.                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                        |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)**

Summary of Plan Provisions:

| <u>Group</u>            | <u>Eligibility</u> | <u>Coverage and Premium Sharing</u>                                                                                                                                                                                                                                                                                                                                                                                                                        | <u>Duration</u> |
|-------------------------|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| II. All Other Employees | Act 110/43         | Act 110/43: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.<br><br>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. | Same as I       |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)**

**Actuarial Assumptions and Methods**

**Interest Rate**

3.36%

**Salary**

An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.

**Withdrawal**

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

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

**Mortality**

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

**Disability**

No disability was assumed.

**Retirement**

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

**Age 55 & 25 years of service**

| Age | Male | Female |
|-----|------|--------|
| 55  | 19%  | 19%    |
| 56  | 17%  | 17%    |
| 57  | 17%  | 17%    |
| 58  | 17%  | 17%    |
| 59  | 22%  | 21%    |

**Superannuation**

| Male | Female |
|------|--------|
| 27%  | 10%    |
| 32%  | 30%    |
| 32%  | 30%    |
| 32%  | 35%    |
| 31%  | 36%    |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)**

| <u>Age 55 &amp; 25 years of service</u> |      |        |
|-----------------------------------------|------|--------|
| Age                                     | Male | Female |
| 60                                      | 14%  | 17%    |
| 61                                      | 29%  | 30%    |
| 62                                      | 51%  | 61%    |
| 63                                      | 26%  | 26%    |
| 64                                      | 21%  | 22%    |
| 65                                      | 100% | 100%   |

| <u>Superannuation</u> |        |
|-----------------------|--------|
| Male                  | Female |
| 31%                   | 36%    |
| 29%                   | 31%    |
| 51%                   | 61%    |
| 26%                   | 26%    |
| 21%                   | 22%    |
| 100%                  | 100%   |

**Percent of Eligible retirees Electing Coverage in Plan**

100% of employees eligible for a district subsidy and 65% of eligible only eligible for Act 110/43 are assumed to elect coverage.

**Percent married at Retirement**

35% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

**Spouse Age**

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

**Per Capita Claims Cost**

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

| Age   | Medical and Rx Combined |           |
|-------|-------------------------|-----------|
|       | Males                   | Females   |
| 45-49 | \$ 7,134                | \$ 10,304 |
| 50-54 | 9,449                   | 11,645    |
| 55-59 | 11,508                  | 12,185    |
| 60-64 | 15,018                  | 13,998    |

**Retiree Contributions**

Retiree Contributions are assumed to increase the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term reserve applications.

**Health Care Cost Trend Rate**

6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)**

**Actuarial Value of Assets**

Equal to the Market Value of Assets

**Actuarial Cost Method - Entry Age Normal**

Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

**Plan Participant Information**

|                       |           |
|-----------------------|-----------|
| Active Participants   | 386       |
| Vested Former Members | 0         |
| Retired Participants  | <u>18</u> |
| Total                 | 404       |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**COST SHARING MULTIPLE- EMPLOYER DEFINED BENEFIT OPEB PLAN**

**1. Summary of Significant Accounting Policies**

Other Postemployment Benefits

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

**General Information about the Health Insurance Premium Assistance Program**

Health Insurance Premium Assistance Program

The System 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, 2018 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 1/2 or more years of service or  
Are a disability retiree, or  
Have 15 or more years of service and retired after reaching superannuation age, and  
Participate in the HOP or employer-sponsored health insurance program.

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System included 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 publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

Benefits Provided

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2020 was 0.83% 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 \$0 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$4,398,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was .2068 percent, which was an increase of .0076 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the District recognized OPEB expense of \$258,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                                 | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-----------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience               | 25,000                                    |                                          |
| Net difference between projected and actual investment earnings | 7,000                                     |                                          |
| Changes in proportions                                          | 267,000                                   | 62,000                                   |
| Changes in assumptions                                          | 146,000                                   | 131,000                                  |
|                                                                 | <u>445,000</u>                            | <u>193,000</u>                           |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

\$ 0 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

|            |        |
|------------|--------|
| 2020       | 44,000 |
| 2021       | 44,000 |
| 2022       | 43,000 |
| 2023       | 42,000 |
| 2024       | 42,000 |
| Thereafter | 38,000 |

**3. Actuarial Assumptions**

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

Actuarial cost method - Entry Age Normal - level % of pay.

Investment return - 2.79% - S & P 20 Year Municipal Bond Rate

Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Premium Assistance reimbursement is capped at \$1,200 per year.

Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.

Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Participation rate:

Eligible retirees will elect to participate Pre age 65 at 50%

Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.

Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.

Asset Valuation method: Market Value

Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 2 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

consists of 25% males and 75% females is used to determine actuarial equivalent benefits. )

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

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

| <u>OPEB -<br/>Asset Class</u> | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|-------------------------------|------------------------------|-------------------------------------------------------|
| Cash                          | 13.2%                        | 0.20%                                                 |
| US Core Fixed Income          | 83.1%                        | 1.00%                                                 |
| Non-US Developed Fixed        | 3.7%                         | 0.00%                                                 |
|                               | <u>100.0%</u>                |                                                       |

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

**Discount Rate**

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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2019, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the 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.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

Sensitivity of the District's Proportionate share of the net OPEB liability to changes in the discount rate

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

|                                                              | 1%<br>Decrease<br>1.79% | Current<br>Discount<br>Rate<br>2.79% | 1%<br>Increase<br>3.79% |
|--------------------------------------------------------------|-------------------------|--------------------------------------|-------------------------|
| School's proportionate share of<br>the net pension liability | 5,011,000               | 4,398,000                            | 3,891,000               |

Pension plan fiduciary net position

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

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Single Employer Defined Benefit OPEB Plan**

The District's other post-employment benefits (OPEB) include a single-employer defined benefit plan that provides medical and life insurance benefits to eligible retirees and their dependent. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system.

**Funding Policy**

The District's contributions are funded on a pay-as-you go basis.

**OPEB Liability**

The District's change in its OPEB liability for the year ended June 30, 2020 was as follows

|                                                    |           |
|----------------------------------------------------|-----------|
| Balances as of July 1, 2019                        | 3,938,924 |
| Differences between expected and actual experience | -         |
| Service cost                                       | 269,322   |
| Interest on total OPEB liability                   | 123,257   |
| Benefit payments                                   | (133,113) |
| Changes of assumptions                             | (131,178) |
|                                                    | <hr/>     |
| Net Charges                                        | 128,288   |
| Balances as of June 30, 2020                       | 4,067,212 |

|                                                                 | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-----------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience               | 346,100                                   |                                          |
| Net difference between projected and actual investment earnings |                                           |                                          |
| Changes in proportions                                          |                                           |                                          |
| Changes in assumptions                                          | 90,326                                    | 402,729                                  |
| Benefit payments subsequent to the Measurement Date             | 120,805                                   |                                          |
|                                                                 | <hr/>                                     | <hr/>                                    |
|                                                                 | 557,231                                   | 402,729                                  |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

|                            |         |
|----------------------------|---------|
| <u>Year Ended June 30:</u> |         |
| 2020                       | 13,644  |
| 2021                       | 13,644  |
| 2022                       | 13,644  |
| 2023                       | 13,644  |
| 2024                       | 13,644  |
| Thereafter                 | 100,929 |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Sensitivity of the OPEB Liability to Change in Healthcare Cost Trend Rates**

The following presents the OPEB liability for June 30, 2020, calculated using current healthcare cost trends as well as what OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

|                | <u>1% Decrease</u> | <u>Trend Rate</u> | <u>1% Increase</u> |
|----------------|--------------------|-------------------|--------------------|
| OPEB liability | 3,503,773          | 4,067,212         | 4,745,329          |

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

The following presents the OPEB liability for June 30, 2020, calculated using the discount rate of 2.98%, as well as what OPEB liability would be if the discount rate were 1-percentage point lower(1.98%) or 1-percentage point higher(3.98%) than the current rate:

|                | <u>1% Decrease</u> | <u>Current<br/>Discount<br/>Rate</u> | <u>1% increase</u> |
|----------------|--------------------|--------------------------------------|--------------------|
|                | <u>1.98%</u>       | <u>2.98%</u>                         | <u>3.98%</u>       |
| OPEB liability | 4,418,728          | 4,067,212                            | 3,736,836          |

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 16 - GASB # 54 FUND BALANCE IMPLEMENTATION**

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable - include fund balance amounts that cannot be spent either because it not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end. The Capital Reserve Fund is included here.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.

The following have been assigned:

|                                 |    |                  |
|---------------------------------|----|------------------|
| Technology Upgrades             | \$ | 1,000,000        |
| Capital Projects                |    | 3,000,000        |
| PSERS Cost Increases            |    | 500,000          |
| Healthcare Costs                |    | 2,000,000        |
| Charter School                  |    | 1,000,000        |
|                                 |    | <hr/>            |
| Total Designated Fund Balances: | \$ | <u>7,500,000</u> |

Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds. The amount of the unassigned fund balance for Spring Grove Area School District is \$6,906,972 for the year ending June 30, 2020.

**NOTE 17 - SUBSEQUENT EVENTS**

Management of the School District has evaluated subsequent events through the date of the audit report. No subsequent events were noted.

SPRING GROVE AREA SCHOOL DISTRICT

SUPPLEMENTAL

INFORMATION

**KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 62 through 74 is presented for purposes of additional analysis and is not a required part of the basic general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kochenour, Earnest, Smyser, & Burg*

Certified Public Accountants

York, Pennsylvania  
November 16, 2020

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2020**

|                                                                                                                     | <u>June 30, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|---------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| District's proportion of the net pension liability (asset)                                                          | 20.6800%             | 0.1992%              | 0.2033%              |
| District proportionate share of the net pension liability (asset)                                                   | 96,746,000           | 95,626,000           | 100,407,000          |
| District's covered-employee payroll                                                                                 | 28,522,879           | 26,825,824           | 27,063,006           |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 339.19%              | 356.47%              | 371.01%              |
| Plan fiduciary net position as a percentage of the total pension liability                                          |                      |                      |                      |

Amounts were determined as of the cost-sharing plan's June 30, 2019 fiscal year.

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**SPRING GROVE AREA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SCHEDULE OF DISTRICT CONTRIBUTIONS PENSION PLAN  
YEAR ENDED JUNE 30, 2020**

|                                                                      | <u>June 30, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|----------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Contractually required contribution                                  | 9,260,992            | 8,452,709            | 7,776,038            |
| Contributions in relation to the contractually required contribution | <u>9,260,992</u>     | <u>8,452,709</u>     | <u>7,776,038</u>     |
| Contribution deficiency (excess)                                     | -                    | -                    | -                    |
| District's covered-employee payroll                                  | 28,522,879           | 26,825,824           | 27,063,006           |
| Contributions as a percentage of covered-employee payroll            | 32.47                | 31.51                | 28.73                |

Amounts were determined as of the cost-sharing plan's June 30, 2019 fiscal year.

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

**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 Directors  
Spring Grove Area School District  
Spring Grove, 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 Spring Grove Area School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 16, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered the Spring Grove Area School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spring Grove Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spring Grove 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

***Kochenour, Earnest, Smyser & Burg***

Certified Public Accountants

York, Pennsylvania  
November 16, 2020

**SPRING GROVE AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FOOD NUTRITION SERVICE**  
**FOR THE YEAR ENDED JUNE 30, 2020**

| Federal Grantor/<br>Project Title                                           | Source<br>Code | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's No. | Grant Period<br>Begin | End     | Program Or<br>Award Amt. | Total Rec.<br>For Year<br>06/30/20 | Accrued/<br>(Deferred)<br>Revenue At<br>07/01/19 | Revenue<br>Recognized | Expenditures   | Accrued/<br>(Deferred)<br>Revenue At<br>06/30/20 |
|-----------------------------------------------------------------------------|----------------|---------------------------|-------------------------------|-----------------------|---------|--------------------------|------------------------------------|--------------------------------------------------|-----------------------|----------------|--------------------------------------------------|
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH PA DEPARTMENT OF EDUCATION:     |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| Title I                                                                     | 10-8514        | I                         | 84.010                        | 013-200413            | 7/1/19  | 9/30/20                  | 479,691                            | 351,773.40                                       | 0.00                  | 456,033.58     | 104,260.18                                       |
| Title I c/o                                                                 | 10-8514        | I                         | 84.010                        | 013-190413            | 7/1/18  | 9/30/19                  | 499,290                            | 65,628.33                                        | 35,293.73             | 30,334.60      | 0.00                                             |
| sub-total Title I                                                           |                |                           |                               |                       |         |                          | 417,401.73                         | 35,293.73                                        | 486,368.18            | 486,368.18     | 104,260.18                                       |
| Title II Improv Teacher Qual                                                | 10-8515        | I                         | 84.367                        | 020-200413            | 7/1/19  | 9/30/20                  | 97,225                             | 25,926.68                                        | 0.00                  | 64,346.93      | 38,420.25                                        |
| Title II Improv Teacher Qual c/o10-8515                                     |                | I                         | 84.367                        | 020-190413            | 7/1/18  | 9/30/19                  | 99,273                             | 58,951.80                                        | 58,951.80             | 0.00           | 0.00                                             |
| sub-total Title II                                                          |                |                           |                               |                       |         |                          | 84,878.48                          | 58,951.80                                        | 64,346.93             | 64,346.93      | 38,420.25                                        |
| Title IV Student Support & Academic E                                       |                | I                         | 84.424                        | 144-200413            | 7/1/19  | 6/30/20                  | 37,369                             | 37,369.00                                        | 0.00                  | 37,369.00      | 0.00                                             |
| sub-total Title IV 10-8517                                                  |                |                           |                               |                       |         |                          | 37,369.00                          | 0.00                                             | 37,369.00             | 37,369.00      | 0.00                                             |
| TOTAL DEPARTMENT OF EDUCATION-PDE                                           |                |                           |                               |                       |         |                          | 539,649.21                         | 94,245.53                                        | 588,084.11            | 588,084.11     | 142,680.43                                       |
| PASSED THROUGH LIU #12:                                                     |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| Idea-Part B                                                                 | 10-6832        | I                         | 84.027A                       | 062-10-012A           | 7/1/19  | 6/30/20                  | 8,360                              | 8,360.00                                         | 0.00                  | 8,360.00       | 0.00                                             |
| Idea-Sec 619                                                                | 10-6832        | I                         | 84.173                        | 062-10-012A           | 7/1/19  | 6/30/20                  | 641,553                            | 641,553.00                                       | 0.00                  | 641,553.00     | 0.00                                             |
| sub-total LIU #12                                                           |                |                           |                               |                       |         |                          | 649,913.00                         | 0.00                                             | 649,913.00            | 649,913.00     | 0.00                                             |
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH PA DEPARTMENT OF AGRICULTURE: |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| National School Lunch-<br>Donated Commodities                               | I              | 10.555                    | N/A                           | 7/1/19                | 6/30/20 | N/A (a)                  | 171,531.93 (b)                     | 0.00                                             | 171,531.93 (c)        | 171,531.93 (d) | 0.00                                             |
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH PA DEPARTMENT OF EDUCATION:   |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| National School Lunch Program                                               |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| - Federal-Lunch HI/Low                                                      | I              | 10.555                    | 362                           | 7/1/19                | 6/30/20 | N/A                      | 761,322.09                         | 955.66                                           | 801,712.31            | 801,712.31     | 41,345.88                                        |
| - Federal - Ndy Brkfst                                                      | I              | 10.553                    | 365                           | 7/1/19                | 6/30/20 | N/A                      | 270,304.66                         | 124.48                                           | 296,318.38            | 296,318.38     | 26,138.20                                        |
| sub-total U.S. Department of Agriculture-Cluster Total                      |                |                           |                               |                       |         |                          | 1,203,158.68                       | 1,080.14                                         | 1,269,562.62          | 1,269,562.62   | 67,484.08                                        |
| TOTAL FEDERAL ASSISTANCE                                                    |                |                           |                               |                       |         |                          | 2,392,720.89                       | 95,325.67                                        | 2,507,559.73          | 2,507,559.73   | 210,164.51                                       |
| State:                                                                      |                |                           |                               |                       |         |                          |                                    |                                                  |                       |                |                                                  |
| - State-Lunch                                                               | I              | N/A                       | 510                           | 7/1/19                | 6/30/20 | N/A                      | 50,675.78                          | 42.96                                            | 52,058.54             | 52,058.54      | 1,425.72                                         |
| - State - Brkfst-Needy                                                      | I              | N/A                       | 511                           | 7/1/19                | 6/30/20 | N/A                      | 15,816.70                          | 6.40                                             | 16,998.40             | 16,998.40      | 1,188.10                                         |
| TOTAL STATE ASSISTANCE                                                      |                |                           |                               |                       |         |                          | 66,492.48                          | 49.36                                            | 69,056.94             | 69,056.94      | 2,613.82                                         |

Source Codes: D = Direct Funding  
I = Indirect Funding  
F = Federal Share  
S = State Share

- (a) Total Amount of Commodities Received from Department of Agriculture.  
(b) Beginning Inventory at July 1  
(c) Total Amount of Commodities Used.  
(d) Ending Inventory at June 30

f: Auditors/fedasst

**SPRING GROVE AREA SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 1 - ORGANIZATION AND SCOPE**

Spring Grove Area School District, York County, Pennsylvania operates a high school, a junior high school, an intermediate school and three elementary schools.

The district received federal funds to operate the programs for the benefit of some of the students as detailed on the schedule of Federal Awards, which covers the period from July 1, 2019 to June 30, 2020.

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

The District reports federal programs in its financial statements and on the Schedule of Federal Awards on the accrual basis.

**NOTE 3 - REPORTING ENTITY**

The Spring Grove Area School District Board of Directors is the basic level of government which has oversight responsibility and control over all activities related to public school education in the Spring Grove Area School District. The District receives funding from local, state and federal government sources and must comply with their accompanying requirements. However, the Board is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The reporting entity for Spring Grove Area School District consists only of those funds, functions, and activities controlled by the School Board and required or allowed by State laws and regulations.

The financial statement of the School District includes all funds and activities that are controlled by or dependent on the School District. Control or dependence is determined on the basis of budget adoption, taxing authority, and funding and appointment of advisors.

**NOTE 4 - FEDERAL AWARDS**

|                                                                                          |                     |     |
|------------------------------------------------------------------------------------------|---------------------|-----|
| Total Federal Expenditures                                                               | 2,507,560           |     |
|                                                                                          | 20%                 |     |
|                                                                                          | <u>\$ 501,512</u>   |     |
| <u>Percentage of Coverage Rule</u>                                                       |                     |     |
| Spring Grove Area School District falls under the 20% rule for testing federal programs. |                     |     |
| <u>Federal Program Tested</u>                                                            |                     |     |
| National School Lunch                                                                    | \$ 801,712          |     |
| Breakfast Program                                                                        | 296,318             |     |
| Donated Commodities                                                                      | <u>171,532</u>      |     |
|                                                                                          | <u>\$ 1,269,562</u> | 51% |

# **KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

## **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 Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

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

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

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

To the Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

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

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

### **Internal Control Over Compliance**

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

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

***Kochenour, Earnest, Smyser & Burg***

Certified Public Accountants

York, Pennsylvania  
November 16, 2020

**SPRING GROVE AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2020**

**A. Summary of the Auditors' Results:**

- 1 . An unmodified opinion was issued on the District's financial statements at June 30, 2020.
- 2 . There was no significant deficiencies or material weaknesses in internal control disclosed by the audit of the general purpose financial statements.
- 3 . There was no noncompliance disclosed during our audit which was material to the financial statements.
- 4 . There were no significant deficiencies or material weaknesses disclosed in internal control over the federal programs tested.
- 5 . An unmodified opinion was issued on the compliance of the federal programs tested.
- 6 . There were no audit findings for the fiscal year ended June 30, 2020.
- 7 . The federal programs tested as major programs were the National School Lunch, Donated Commodities, and Breakfast Programs which accounted for 51% of the federal expenditures. Spring Grove Area School District falls under the 20% rule for testing federal programs.
- 8 . Federal expenditures are \$750,000 or more but less than \$25 million. Type A programs are the programs with total program expended funds of \$750,000 or more. The National School Lunch, Donated Commodities, and Breakfast Programs are Type A programs. All other programs are Type B.
- 9 . Spring Grove Area School District was determined to be a low-risk auditee.

**B. Findings relating to the financial statements which are required to be reported under generally accepted government auditing standards issued by the Comptroller General of The United States.**

There were no findings in the Spring Grove Area School District for the fiscal year ending June 30, 2020.

**C. Findings and Questioned Costs for Federal Awards**

There were no findings or questioned costs for Federal Awards in fiscal year ending June 30, 2020.

**SPRING GROVE AREA SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR'S FINDINGS**  
**JUNE 30, 2020**

There were no findings or questioned costs for federal awards in fiscal year ending June 30, 2019.

**KOCHENOUR, EARNEST, SMYSER & BURG**

Certified Public Accountants  
710 South George Street  
York, Pa. 17401

Philip G. Lauer, CPA  
Mark R. Kephart, CPA

Phone: 717-843-8855  
Fax: 717-843-8857

Board of Directors  
Spring Grove Area School District  
Spring Grove, Pennsylvania

November 16, 2020

Re: Management Letter

Board of Directors:

We have completed our audit of Spring Grove Area York School District for the year ended June 30, 2020.

We have audited the accompanying basic financial statements of the Spring Grove Area School District as of and for the year ended June 30, 2020. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our audit report in accordance with the above standards stating that the basic financial statements present fairly in all material respects the financial position of the Spring Grove Area School District.

In planning and performing our audit, we considered Spring Grove Area School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spring Grove Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spring Grove Area School District's internal control over financial reporting.

We have also audited the compliance of Spring Grove Area School District with the types of compliance requirements described in the Uniform Guidance Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2020.

We did not have any findings or questioned costs for the year ended June 30, 2020.

**Tax Assessment Appeal:**

An assessment appeal covering several prior tax years is ongoing by a taxpayer in the district. Since this is an ongoing appeal and has not yet reached a conclusion, any financial information regarding this appeal cannot be determined at this time.

**Recommendations:**

The Spring Grove Area School District Business Department experienced changes in personnel and changed to a web based accounting/general ledger software program during the audit year ending 6/30/20. These two transitions resulted in a few more adjustments than usual during the course of the 6/30/20 year audit. The adjustments are listed below:

The Employer's Share of PSERS Retirement Liability account contained posting errors throughout the year which were corrected by an adjustment which was approved by management. We recommend that this account is reconciled periodically during the accounting year to ensure postings are correct.

The Medical Liability Account for payment to Lincoln Benefit Trust for Health Insurance contained posting errors throughout the year which were corrected by an adjustment which was approved by management. We recommend that this account is reconciled periodically during the accounting year to ensure postings are correct.

The Accounts Payable General Ledger Account which contains expenditure amounts which are owed to various vendors of the District contained posting errors at the end of the year which were corrected by an adjustment which was approved by management. There is a year-end process procedure contained in the District's General Ledger Accounting System from Central Susquehanna Intermediate Unit (CSIU) which closes out the year-end accounts payable for the current year (6/30/20) and moves the accounts payables for the next school district accounting year into that year (6/30/21). Errors occurred requiring adjustment during this process at 6/30/20 which resulted in accounts payables recorded in the 6/30/20 accounting year which should have been recorded in the 6/30/21 year. We recommend that the District work with CSIU at the end of the 6/30/21 accounting year to ensure that these closing procedures are properly completed.

We would like to take this opportunity to thank Mark Czapp and his staff for the cooperation and assistance we received during the course of our audit.

Sincerely,

*Kochenour, Earnest, Smyser & Burg*

Certified Public Accountants