



MUHLENBERG SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2022



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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Muhlenberg School District
Laureldale, Pennsylvania**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Muhlenberg School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Muhlenberg School District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and the pension and other postemployment benefit information on pages 81 through 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2022, on our consideration of the Muhlenberg School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Muhlenberg School District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 5, 2022**



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This section of the Muhlenberg School District's annual financial report provides a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2022. This discussion and analysis should be read in conjunction with the District's accompanying financial statements, which immediately follow this section.

Financial Highlights

- The District's total net deficit reflects an increase in overall financial net deficit due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which were effective July 1, 2014. The net pension liability totaled \$78.37M government wide. In total, net deficit decreased by \$10,093,820 from 2020-2021. The net deficit of the governmental activities (which includes the general fund, capital projects fund, debt service fund and special revenue fund) decreased by \$8,674,786. The total net deficit of the business-type activities, which includes the food service department, decreased by \$1,419,034 from 2020-2021. In compliance with adopting Statement No. 71, deferred outflows of resources for pension totaling \$14.6M are reflected in the Statement of Net Position which includes pension contributions made subsequent to the measurement date of \$9.8M.
- The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which was effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by the District for postemployment benefits other than pensions. At June 30, 2022, the District reported deferred outflows of resources of \$1,617,678, deferred inflows of resources of \$850,207, and a liability of \$10,459,314 related to other postemployment benefits.
- District-wide revenues of \$75.5 million exceeded expenditures of \$65.4 million by \$10.1M. General revenues in the form of property and other taxes along with state subsidies, investment earnings, and other revenues accounted for \$52.6 million or 69.7% of all revenues. Program specific revenues accounted for 30.3% of total revenues in the form of charges for services, grants, and contributions totaling \$22.9 million.

- During the year, the District received general fund revenues from local, state, and federal sources totaling \$71,367,608 that were more than the amount budgeted by \$4,070,605. Local revenues collected were \$1,534,199 more than budgeted. This significant variance occurred because local revenue collections, including earned income taxes, real estate transfer taxes and business privilege taxes, were much higher than forecasted. The sale of (3) large commercial properties during the year generated over \$759k in additional transfer revenue. Despite projections that local revenues would remain stagnant, earned income and business privilege tax revenues increased sharply during the year. State revenues were \$1,565,863 more than budgeted. The net positive variance was primarily due to the significant increase in the State’s Basic Education and Special Education Subsidy allocations. The total increase of \$1,208,539 was greater than the total increase from the previous three years combined. Federal revenues were \$970,543 more than budgeted. This excess over budget was primarily driven by the spending down of federal funds at a rate higher than anticipated. Additionally, \$413,627 of federal ESSER II and ESSER III funds earned in 2020-21 were required to be recognized in 2021-22 because grant agreements were not finalized prior to June 30, 2021. Actual general fund expenditures were less than budgeted expenditures by \$1,180,872, which was primarily due to savings on wages and benefits. These savings resulted from the continued staffing difficulties which began in the wake of the COVID pandemic. Numerous vacancies existed throughout the school year, including administrative positions which were budgeted but not filled during the year. The final net change in fund balances for the General Fund was a surplus of \$4,061,954. From this surplus the District was able to allocate an additional \$3,822,395 to Assigned Fund Balance for future retirement rate increases.
- The District continues to monitor the PSERS fund balance in anticipation of increases in future PSERS rates. The employer retirement contribution rates on behalf of employees to the Public School Employees’ Retirement System (PSERS) were as follows: 34.29%, 34.51%, and 34.94% for each of the fiscal years ended 2020, 2021, and 2022. The PSERS rate for the fiscal year ending June 30, 2023 is 35.26%. The Assigned portion of the District’s fund balance at June 30, 2022 was \$10,365,809 for retirement rate increases including \$1,118,798 for 2022-2023 budgeted revenue shortfalls. This represents a \$3,822,395 increase from 2020-2021.
- The fiscal costs of operations for the Reading Muhlenberg Career and Technical Center (RMCTC) are shared by this District and the Reading School District based on the student population ratio. Muhlenberg School District enrollment at RMCTC for 2021-2022 was 345 compared to 322 students during 2020-2021. The District paid \$2,265,816 to RMCTC for tuition during 2021-2022. This was an increase of 9.72% from the 2020-2021 school year. During 2021-22, the CTC entered into a note purchase agreement to finance a building project. The note, with a principal value of \$4,607,000, plus interest, is payable by the two school districts as per agreement, over 20 years. This note is not reflected as a liability in the District’s financial statements.
- Over several years, student enrollment in the District has increased 241 students (66 elementary and 175 secondary) utilizing the Day 3 enrollment figures as submitted to PDE (Pennsylvania Department of Education) and summarized in the table below:

School Year	Elementary	Secondary	Total
2019-20	2,021	2,007	4,028
2020-21	1,943	2,074	4,017
2021-22	1,994	2,138	4,132
2022-23	2,087	2,182	4,269

The District contracted to have an updated *District Wide Facilities Feasibility Study - Enrollment Projection Analysis* prepared during the year. This study was prepared to analyze and review facilities to ensure that the District has adequate capacity for the current and projected enrollment. The 10 year projection showed enrollment growing by more than 600 additional students by the year 2031-32. Growth over the previous ten year period was just over 700 students. This significant growth in student enrollment has created the need for the District to begin serious discussions regarding the most effective means to address this growing concern. Possible solutions include the expansion of existing facilities along with the construction of brand new buildings.

- In the aggregate, the District's governmental fund balances increased by \$3,069,683. The primary reason for this net increase was, as noted previously, the unexpected increase in certain local, state and federal revenue streams as well as the significant savings on wage and benefit expenditures related to staff vacancies. The general fund has nonspendable funds of \$25,464 related to prepaid expenditures, assigned funds of \$10,356,809 for retirement rate increases including \$1,118,798 for 2022-2023 budgeted revenue shortfalls, and unassigned fund balance of \$5,705,686. The total unassigned General Fund balance at June 30, 2022 is the legal limit allowed equating to 8% of the 2022-2023 budgeted expenditures of \$71,321,075 - an increase of \$221,926 compared to the prior fiscal year balance.
- On March 11, 2020 the World Health Organization (WHO) declared the novel coronavirus (COVID-19) outbreak a global pandemic. Following that declaration, Governor Tom Wolf of Pennsylvania ordered the closure of all K-12 educational facilities effective March 16, 2020. Later in March, the Governor signed Act 13 of 2020 which, among other things, required the District to pay all of its employees no more or no less compensation than the employee would have otherwise received if the pandemic had not occurred. Act 13 also required the continued payment of certain contractors, including all charter school tuition billings. Act 13 expired on June 30, 2020. As the pandemic continued into the 2020-2021 school year, the District remained in a virtual learning model. This new learning model as well as the general requirements to prepare, prevent and respond to COVID-19 resulted in numerous new costs to the District. The payment of these costs has largely been funded by Federal Grants awarded to the District. These grants total over \$9.5M and are available to spend progressively through September 30, 2024. During the latter part of 2020-21 the District returned to in-person learning, and with few exceptions, remained this way through the 2021-22 school year.

Overview of the Financial Statements

The District's financial statements, submitted with this analysis, are comprised of government-wide financial statements, fund financial statements, and notes to the basic financial statements. In addition, other required supplementary information and supplementary information to the basic financial statements is provided as listed in the table of contents. The basic financial statements include two statements, which present different views of the District. The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial position. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements. The governmental fund statements indicate how basic services such as regular and special education were financed in the short term as well as indicate future spending plans. Proprietary fund statements offer short term and long-term financial information about the activities the District operates like a business; namely the food service fund. The presentation of Fiduciary fund statements for the District was eliminated with the implementation of GASB 84, *Fiduciary Activities*, during the fiscal year ended June 30, 2021. The funds previously reported under Fiduciary Funds, including Private Purpose Trust Fund and Student Activity Fund, are now reported under Governmental Funds as Special Revenue Funds.

The financial statements also include notes that explain information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure 1 shows how the various parts of this annual report are arranged and related to one another.

Figure 1
Required Components of the Muhlenberg School District's Financial Report

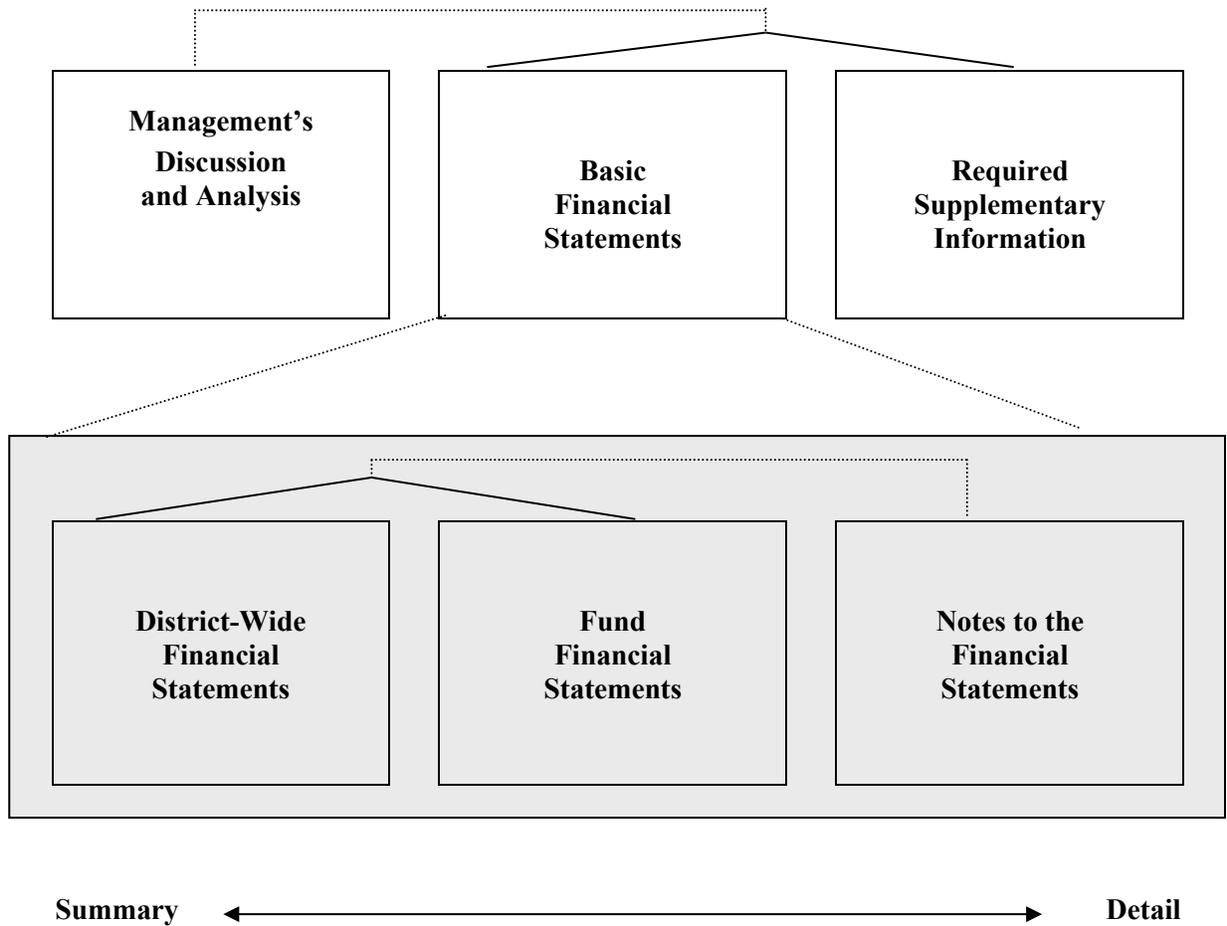


Figure 2 summarizes the major features of the District’s financial statements including the portion of the District activity they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure 2

<u>Major Features of the District-Wide and Fund Financial Statements</u>			
	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	Activities of the District that are not proprietary, such as general operating and capital projects	Activities the District operates similar to private businesses, such as food services and child care
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included	All assets and liabilities, both financial and capital, current and noncurrent
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

District-Wide Financial Statements

The District-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into a column which is added to the governmental activities column showing a total for the primary government. The focus of the Statement of Net Position (the “unrestricted (deficit) net position”) is designed to be similar to a bottom line for the District and its governmental and business-type activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various activities (including governmental and business-type), which are funded by the government’s general tax and other revenues. This statement is intended to summarize and simplify the user’s analysis of the cost of various governmental services and/or subsidy to various business-type activities.

The governmental activities reflect the District’s basic service, including instruction, instructional support, operation of plant and maintenance services, administration, and transportation. Property taxes, earned income tax, and state subsidies finance the majority of these services. The business-type activities reflect private sector type operations (food service), where the fee for service typically covers all or most of the cost of operations, including depreciation.

Over time, increases and decreases in the District’s net position is an indication of whether the District’s financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds rather than fund types. The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statements allow the demonstration of sources and uses and/or budgeting compliance associated therewith. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The District’s funds are divided into two categories - (1) governmental and (2) proprietary.

- Governmental funds - Most of the District’s basic services are included in governmental funds that focus on how money flows into and out of these funds and the balances left at year-end for future spending. The governmental fund financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District’s programs.

Because this information does not encompass the additional long-term focus of the District-wide statements, an explanation of the relationship (and differences) between the fund statements and District-wide statements is provided on the reconciliations following the fund statements. The governmental major funds total column requires reconciliation because of the different measurement focus current financial resource measurement focus versus total economic resource measurement focus. The flow of current financial resources reflects bond proceeds and inter-fund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column (in the government-wide statements). The net pension liability and other postemployment benefit obligations are not reflected on the fund statements.

- Proprietary fund (Enterprise) - Services for which the District charges a fee are generally reported in the proprietary fund and utilize the accrual accounting method - the same method used by private sector businesses. The Food Service column on the proprietary fund financial statements is the same as the business-type column at the government-wide financial statement level. Adjustments between the business-type presentations (government-wide and major fund totals) will typically only occur if there is a need to redistribute excess income/loss for the Internal Service Funds to the customers (including business-type activities) and adjustments, if necessary, will be reflected on the bottom of the fund financial statements.

Financial Analysis of the District as a Whole

The Statement of Net Position contains information about what the District owns (assets); what the District owes (liabilities), deferred inflows and outflows of resources, and the net position balances such as net investment in capital assets, restricted for programs and/or capital projects, and unrestricted (deficit). The following table provides a summary of the District's statement of net position for the year ended June 30, 2022 compared to 2021.

Table 1 - Condensed Statement of Net Position

	2022			2021		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Assets						
Current and other assets	\$ 27,635,158	\$ 2,214,733	\$ 29,849,891	\$ 25,083,709	\$ 1,091,091	\$ 26,174,800
Capital assets	71,924,960	23,146	71,948,106	74,801,664	26,020	74,827,684
Total Assets	99,560,118	2,237,879	101,797,997	99,885,373	1,117,111	101,002,484
Deferred Outflows of Resources						
	16,292,181	372,518	16,664,699	16,813,204	418,306	17,231,510
Liabilities						
Current liabilities	13,088,401	98,724	13,187,125	13,481,507	130,444	13,611,951
Long-term liability	104,697,330	1,876,503	106,573,833	126,361,857	2,958,447	129,320,304
Total Liabilities	117,785,731	1,975,227	119,760,958	139,843,364	3,088,891	142,932,255
Deferred Inflows of Resources						
	15,531,077	848,920	16,379,997	2,994,508	79,310	3,073,818
Net Position						
Net investment in capital assets	49,894,745	23,146	49,917,891	47,532,343	26,020	47,558,363
Restricted	3,023,245	-	3,023,245	4,007,708	-	4,007,708
Unrestricted	(70,382,499)	(236,896)	(70,619,395)	(77,679,346)	(1,658,804)	(79,338,150)
Total Net Position (Deficit)	\$ (17,464,509)	\$ (213,750)	\$ (17,678,259)	\$ (26,139,295)	\$ (1,632,784)	\$ (27,772,079)

The District's overall financial position, as reflected in total net position (deficit), decreased the deficiency by \$10,093,820 compared to fiscal year ended June 30, 2021. The overall net position reflects a negative balance of (\$17,678,259) as of June 30, 2022.

Change in Net Position

The results of operations for the fiscal year ended June 30, 2022 as a whole are reported in the Statement of Activities. Table 2 is a comparative summary of changes in net position for the years ended June 30, 2022 and June 30, 2021. Revenues are defined as either program or general revenues. Program revenues are generated by the services themselves or provided externally for use in a particular function. Program revenues reduce the net expense to the public. General revenues include the basic education subsidy provided by the State of Pennsylvania, local taxes assessed to community taxpayers, and other general revenues the District uses to finance the total net cost of programs. The following table reflects the revenue and expenses for the current fiscal year in comparison with the previous fiscal year.

The major contributor to governmental fund revenues \$44,280,507 or 61.74% continues to be from school real estate taxes and other taxes levied for general purposes. The property tax rate of 31.48 mils for the fiscal year ended June 30, 2022 was an increase of .75 mils (2.44%) over the prior year. School tax revenue collections, based on total assessed property values, were comparable when compared to the prior year. Another 11.30% or \$8,104,589 came from state formula aid, such as the basic education subsidy and other grants or contributions not restricted for a specific program. Approximately 26.15% or \$18,754,401 came from operating and capital grants and contributions with the remainder of \$578,613 or .81% coming from fees charged for services and other miscellaneous sources.

The total cost of all programs and services decreased by \$1,455,639 or 2.17% to \$65,394,990. The District's governmental activities expenses are predominately related to instructing, caring for (instructional support services and operation/maintenance of school facilities) and transporting students, which represents 86.3% or \$54,411,723 of total governmental activities expenses. Instructional expenses decreased by \$1,647,145 or 3.85%. This significant decrease is driven by a \$2.5M expense reduction due to the pension actuarial valuation adjustment. After a year of mostly remote learning, pupil transportation expenses returned to normal in fiscal year 2021-22, increasing \$852,936 or 52%.

The functional expenses of the District remain proportionately the same when compared to functional expenses for operations in prior years. The major portion of expense is directly related to student instruction and the support for instruction; non-instructional services include interest on long-term debt, student activities, and community services.

Table 2 – Changes in Net Position

	2022						2021					
	Governmental		Business-type				Governmental		Business-type			
	Activities		Activities		TOTAL		Activities		Activities		TOTAL	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Revenues												
Program Revenues												
Charges for Services	308,242	.5	126,071	3.3	434,313	.6	105,217	.2	90,890	5.6	196,107	.3
Operating grants & contributions	17,436,123	24.3	3,697,892	96.5	21,134,015	28.0	13,701,674	21.3	1,508,848	93.6	15,210,522	23.0
Capital grants & contributions	1,318,278	1.8	-	-	1,318,278	1.7	1,221,906	1.9	-	-	1,221,906	1.9
General Revenues												
Property taxes & other taxes levied for general purposes	44,280,507	61.8	-	-	44,280,507	58.7	41,954,022	65.1	-	-	41,954,022	63.6
Grants, subsidies, and contributions not restricted	8,104,589	11.3	-	-	8,104,589	10.7	7,299,886	11.3	-	-	7,299,886	11.1
Other	209,894	.3	7,214	.2	217,108	.3	119,649	.2	7,037	.8	126,686	.2
Total Revenues	71,657,633		3,831,177		75,488,810		64,402,354		1,606,775		66,009,129	
Expenses												
Instruction	41,056,805	65.1	-	-	41,056,805	62.8	42,703,950	65.7	-	-	42,703,950	63.9
Instructional student support	5,332,501	8.5	-	-	5,332,501	8.1	5,925,258	9.1	-	-	5,925,258	8.9
Administrative & financial support services	5,941,960	9.4	-	-	5,941,960	9.1	6,299,739	9.7	-	-	6,299,739	9.4
Operation & maintenance of plant services	5,530,442	8.8	-	-	5,530,442	8.5	5,871,119	9.0	-	-	5,871,119	8.8
Pupil transportation	2,491,975	3.9	-	-	2,491,975	3.8	1,639,039	2.5	-	-	1,639,039	2.5
Other	2,689,641	4.3	2,351,666	100	5,041,307	7.7	2,582,424	4.0	1,829,100	100	4,411,524	6.6
Total Expense	63,043,324		2,351,666		65,394,990		65,021,529		1,829,100		66,850,629	
Excess (deficiency) before transfers	8,614,309		1,479,511		10,093,820		(619,175)		(222,325)		(841,500)	
Transfers	60,477		(60,477)		-		-		-		-	
Change in Net Position	8,674,786		1,419,034		10,093,820		(619,175)		(222,325)		(841,500)	
Net Position (Deficit) - Beginning	(26,139,295)		(1,632,784)		(27,772,079)		(25,520,120)		(1,410,459)		(26,930,579)	
Restated - implementation of GASB 84	-		-		-		-		-		-	
Net Position (Deficit) - Ending	(17,464,509)		(213,750)		(17,678,259)		(26,139,295)		(1,632,784)		(27,772,079)	

Table 3 focuses on the six major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other activities. Other activities can be further defined as interest on long-term debt, student activities and athletics, and community services. The table also shows each of the activity’s net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost indicates the financial reliance placed on the District’s taxpayers by each of these functions.

Table 3 - Net Cost of Governmental Activities and Business-Type Activities

	2022		2021	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Governmental Activities:				
Instruction	\$ 41,056,805	\$ 28,363,457	\$ 42,703,950	\$ 33,107,783
Instructional Student Support	5,332,501	3,971,257	5,925,258	4,601,138
Administrative and Financial Support Services	5,941,960	4,320,341	6,299,739	5,439,760
Operation and Maintenance of Plant Services	5,530,442	4,920,560	5,871,119	5,057,838
Pupil Transportation	2,491,975	1,701,275	1,639,039	833,971
Other	2,689,641	703,791	2,582,424	952,242
Total Governmental Activities	63,043,324	43,980,681	65,021,529	49,992,732
Business-Type Activities				
Food Service	2,351,666	(1,472,297)	1,829,100	229,362
Total Primary Government	\$ 65,394,990	\$ 42,508,384	\$ 66,850,629	\$ 50,222,094

Financial Analysis of the District’s Governmental Funds

The District completed the year with a total governmental fund balance of \$19,111,204 consisting of \$16,087,959 in the General Fund; \$2,493,245 in the Capital Project Funds; and \$530,000 in the Special Revenue Funds. At June 30, 2022, the District’s fund balance consists of nonspendable funds of \$25,464 directly related to prepaid expenditures, assigned funds of \$10,356,809 for retirement rate increases (including \$1,118,798 for 2022-2023 budgeted revenue shortfalls), and unassigned fund balance of \$5,705,686. The Capital Project Funds ending fund balance of \$2,493,245 are restricted for the District’s long-range capital plan for anticipated future capital projects in alignment with the District’s Blue Print for Success.

General fund revenues from state funding sources increased 8.56% and federal funding sources increased by 129.23%. The increase in state funding was directly attributable to the increase in the Basic Education and Special Education subsidies. The increase in federal revenues was directly related to the increase in spending of both ESSER II and ARP ESSER funds. The District was awarded over \$8.4M between these two federal programs. These awards are multi-year grants with spending availability through September 30, 2023 and 2024 for ESSER II and ARP ESSER, respectively. State funding sources and federal funding sources made up 28.76% and 7.77%, respectively of the total revenues received by the District to support general fund operations during the year. Funding from local funding sources increased 5.53% or \$2,375,002. Increases in local funds were detailed in the Financial Highlights section on page 5.

Compared to the prior year, general fund expenditures increased approximately \$4,355,751 or 7.6%. The overall increase was fueled by a net increase in instructional services of \$2.44M and an increase in support services of \$1.56M. Increased costs related to the District’s Virtual School along with the expansion of summer and after school programs were primarily responsible for the increase in instructional service expenditures. Most notable of the increases related to support services was the \$876,464 increase in transportation expenditures. The return of in-person learning for the entire school year brought this line item back in line with pre-pandemic levels.

Capital Assets and Debt Administration

Capital Assets

The fiscal year ended June 30, 2022 saw the completion of several significant sight improvement projects including the High School paving project (\$677,000); an upgrade to the Elementary Center data closet and classroom data lines (\$259,014); and the addition of a new discus throwing area and javelin runway (\$39,510). At year end, several District-wide technology enhancement projects were in progress, including the upgrade of building network switches, access points for wireless and controllers for access points. Installation and configuration of these switches and access points was completed in July 2022. This technology upgrade, estimated to cost over \$650,000, was made in response to the District's need to both work and learn remotely and was completely funded through federal ESSER funds. The District recognized depreciation expense in the amount of \$4,582,203 for the year.

Table 4 - Capital Assets (net of depreciation) at June 30 is as follows:

	Governmental		Business-type		Totals	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
Land	\$ 577,416	\$ 577,416	\$ -	\$ -	\$ 577,416	\$ 577,416
Construction in progress	648,329	90,518	-	-	648,329	90,518
Site Improvements	5,475,870	4,987,460	-	-	5,475,870	4,987,460
Building and Building Improvements	58,849,379	62,308,784	-	-	58,849,379	62,308,784
Leasehold Improvements	4,675,915	5,164,151	-	-	4,675,915	5,164,151
Furniture and Equipment	1,698,051	1,673,335	23,146	26,020	1,721,197	1,699,355
Total	<u>\$71,924,960</u>	<u>\$74,801,664</u>	<u>\$ 23,146</u>	<u>\$26,020</u>	<u>\$71,948,106</u>	<u>\$74,827,684</u>

More detailed information regarding the District's capital assets is included in the notes to the basic financial statements.

Long-Term Debt

During the year ended June 30, 2021, the District issued General Obligation Bonds, Series 2020 in the aggregate amount of \$18,460,000. The bonds were used to currently refund General Obligation Bonds, Series 2012A, 2014 & 2015 and to pay bond issuance costs. Principal payments of \$4,630,000 during the year ended June 30, 2022 reduced the total outstanding balance on these bonds to \$9,430,000. Final bond maturity is May 15, 2026.

During the year ended June 30, 2019, the District issued General Obligation Bonds, Series 2019 in the aggregate amount of \$11,415,000. The bonds were used to currently refund General Obligation Note, Series of 2017 and to pay bond issuance costs. Principal payments of \$230,000 during the year ended June 30, 2022 reduced the total outstanding balance on these bonds to \$11,180,000. Final bond maturity is May 15, 2026.

With the issuance of GOB 2022, the District was subject to a credit review by Moody's Investors Service which resulted in a very positive bond rating of Aa2. This was unchanged from the District's previous bond rating.

The liability for the long-term portion of compensated absences is consistent compared to the prior fiscal year. The District's net pension liability and OPEB liabilities were adjusted as required based on reports received from PSERS and the District's actuary. More detailed information about our long-term liabilities is included in the notes to the basic financial statements.

Factors Bearing on the District's Future

Currently known plans and circumstances that will impact the District's financial status in the future:

- The global pandemic due to the novel coronavirus (COVID-19) continues to bring new challenges and uncertainties to the District. With the influx of Federal funding to be used to respond, prepare and prevent COVID-19, the economic impact from the pandemic has been minimal on the District. Local and State revenues have returned to pre-pandemic levels and in many instances, surpassed those levels. Local, State and National worker shortages have created a very competitive job market which continues to be a challenge for the District to navigate.
- The District has been awarded a number of Federal grants to help prevent, prepare and respond to the Novel Coronavirus Disease (COVID-19) pandemic. The most significant of this funding comes under the Elementary and Secondary School Emergency Relief (ESSER) Fund. The District has been awarded allocations of \$629,591, \$2,798,184, and \$5,659,916 for ESSER I, ESSER II, and ARP ESSER III, respectively. Applications for all three grants communicate the District's focus on technology to support school-based teaching and learning in response to virtual learning needs due to the pandemic. This included updates to District technology infrastructure, the updating of many secondary resources to include an on-line platform, equipping all classrooms with connectivity to remote learning, and intervention programs that can be used seamlessly between in-person and remote learning. The plan developed for ARP ESSER III funds puts a greater emphasis on the need for the District to address learning loss that resulted from the pandemic. The District has developed and implemented both after school and summer learning programs to help address this concern as well as other concerns such as student mental health. These programs will run during all years that federal funds are available.

Pennsylvania provided its first broad-based property tax relief in 2008-2009 based on Special Session Act 1 of 2006. The Commonwealth used a portion of the tax revenue from expanded gaming to provide state funding for property tax relief. School districts will receive an allocation when there is \$400 million available in the Property Tax Relief Fund and \$100 million in the Property Tax Relief Reserve Fund. As required by law, the Commonwealth's Budget Secretary certifies the total amount available in the State's Property Tax Relief Fund for state-funded local tax relief.

- The District received \$1,200,626 from the State Property Tax Relief Fund for the year ended June 30, 2022 which provided \$220.08 in property tax relief. The District is scheduled to receive \$1,508,059 during fiscal year ending June 30, 2023 which will provide \$282.08 in property tax relief in 2022-23.
- As legislated by Act 1 of the 2006 Special Session of the Legislature, each September the Pennsylvania Department of Education (PDE) issues the base index for the subsequent fiscal year school budget. This index is used to determine the allowable increase for millage on real estate taxes. Because Muhlenberg School District has a market value/personal income aid ratio (MV/PI) greater than .4000, the base index may be adjusted upward by multiplying the base index by the sum of $0.75 + MV/PI$.
 - The State's base index for the 2021-22 budget was 3.0% and the District's MV/PI aid ratio was 0.6558. The District's adjusted index permitted a 4.2% millage increase in real estate taxes and the District increased the real estate tax rate by .75 mills or 2.44%.
 - The State's base index for the 2022-23 budget was 3.4% and the District's MV/PI aid ratio was 0.6609. The District's adjusted index permitted a 4.8% millage increase in real estate taxes and the District increased the real estate tax rate by .75 mills or 2.38%.

- Since 2011-12, the District’s total taxable assessment has decreased \$8,220,500. Much of the decrease is attributable to the Reading Mall LLC (Fairgrounds) reassessment along with net changes for new properties, revitalized properties, and other assessment reductions. Despite some new residential and commercial growth, the District’s tax base increased only marginally during the year due to the rising number of successful assessment appeals filed by large commercial and industrial tax payers. The total taxable assessment increase from the prior year was \$2.9M. There are numerous assessments currently under appeal which could result in future reductions to the District’s taxable assessment. Conversely, the District currently has (3) commercial properties in an approved tax abatement program (LERTA). The total anticipated increase in assessed value for these (3) properties will be approximately \$14,649,200 over the next 8 to 10 years. The District approved a fourth LERTA property whose tax abatement begins in the 2022/2023 year with a year one tax exempt value of \$7,136,000.

The Top Ten Tax Payers during the fiscal year 2021-22 were as follows:

Property Owner	Business	Assessed Valuation
Matrix 1002 Patriot LP	Industrial	\$ 13,447,800
North Reading Plaza-Walmart	Retail	11,456,700
Towne Square LP (Giant)	Retail	10,972,100
Reed Farm LLC	Apartments	9,873,600
MSCI	Retail (K-Mart Shopping Plaza)	9,348,500
Stag Reading LLC	Distribution Center	7,895,700
OH Reading Realty	All Star Distributing	7,440,600
CCP Tuckerton Road LLP	Industrial	6,907,800
Target Corp.	Retail	6,405,100
Natick Realty Inc. (BJ's)	Retail	5,900,000
TOTAL		\$ 89,647,900

- The agreements for all professional, support and Act 93 staff are set to expire at the end of the fiscal year ending June 30, 2023. In light of the weak local, state and national job market, compounded by the shortages in public education that began prior to the pandemic, negotiations for the District come at a very challenging time. The outcome of the negotiations could potentially have a very significant impact on the financial future of the District. The three (3) expiring agreements are outlined below.
- The Board of Directors approved a collective bargaining agreement with the Muhlenberg Educational Support Personnel Association. The agreement is for five (5) years effective July 1, 2018 through June 30, 2023. The agreement calls for annual increases of 2% for existing salaried bargaining members, \$.25/hour - \$.50/hour for existing hourly employees; and a progressive salary for any new employee hired by the District.
- The Board of Directors approved a two (2) year collective bargaining agreement with the Muhlenberg Education Association for professional staff through June 30, 2023. The agreement is effective July 1, 2021 through June 30, 2023. The agreement increases the value of each step in year one (1) by an average of 2.68% and calls for no step movement. The year two (2) average increase is 3.08% with step movement. Those members who obtain additional educational credits will be eligible to move one column each year.
- The Board of Directors approved two (2) separate agreements with the Muhlenberg Administrators' Association for Act 93 employees. Each contract is effective July 1, 2021 through June 30, 2023. The agreements call for salary increases ranging from 0.00% to 3.00% based on annual performance review rating.
- Muhlenberg School District is a member of the Berks County Health Trust Consortium that contracts for employee medical insurance coverage plans. The Consortium changed to a self-funded program which became effective July 1, 2012. Approved premium increases for the years ending June 30, 2022, June 30, 2021 and June 30, 2020, were 1.50%, 0% and 0%, respectively.
- The required employer share contribution to the Public School Employees' Retirement System (PSERS) increased from 34.94% to 35.26% for fiscal year 2022-23. The rate is expected to increase to 35.69% for fiscal year 2023-24. District-wide employer share contributions to PSERS for 2021-22 were in excess of \$10.14M. The District has assigned approximately \$10.3M of General Fund fund balance as of June 30, 2022 for future retirement increases.
- The cost of special education services continues to increase at a concerning rate. Over the last (6) years, District special education expenditures have increased \$3.44 million or 45.7%. During that same time the State and Federal share of these costs has increased \$984,822. The increase in State and Federal funding represents only 28.6% of the total increase in costs. This shortfall in funding for the special education mandate from State and Federal sources means these increases must be funded primarily by locally generated revenue, including real estate taxes.
- The District will be required to adopt and implement the following GASB Statement in future fiscal years: Statement No. 96, *Subscription-based IT Arrangements*.
- On November 10, 2021, the Board of School Directors approved the District's Comprehensive Plan for years 2021 through 2024. This document sets the educational standards and the professional training and support necessary to meet the goals for the education of the students of Muhlenberg School District through the 2023-24 school year. The District's mission statement is: "Excellence in Action - Equipping, Engaging, Empowering. The District's vision statement is: The Muhlenberg School District is committed to guiding all students on a path of excellence with active and purposeful learning experiences, a growing and comprehensive curriculum, collaborative and innovative staff and creative use of technology and resources coupled with an unrelenting desire for success.

- The Superintendent, Dr. Joseph E. Macharola, has shared his “Blueprint for Success” and “Muhlenberg School District Action Plan: Holistic Blueprint for Success” on April 24, 2014 and May 10, 2017, respectively. These documents can be found on the District’s website.

Contacting the District’s Financial Management

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Muhlenberg School District, 801 Bellevue Avenue, Laureldale, PA 19605-1799.

MUHLENBERG SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2022

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and investments	\$ 22,061,243	\$ 1,841,398	\$ 23,902,641
Internal balances	(103,265)	103,265	-
Taxes receivable, net	812,300	-	812,300
Intergovernmental receivables	4,829,523	130,080	4,959,603
Other receivables	9,893	3,450	13,343
Inventories	-	136,540	136,540
Prepaid expenses	25,464	-	25,464
Capital assets not being depreciated	1,225,745	-	1,225,745
Capital assets, net of accumulated depreciation	70,699,215	23,146	70,722,361
TOTAL ASSETS	99,560,118	2,237,879	101,797,997
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	383,639	-	383,639
Deferred outflows of resources for pension	14,320,919	342,463	14,663,382
Deferred outflows of resources for other postemployment benefits	1,587,623	30,055	1,617,678
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,292,181	372,518	16,664,699
LIABILITIES			
Accounts payable	1,420,042	10,188	1,430,230
Accrued interest	83,732	-	83,732
Accrued salaries and benefits	6,423,974	18,064	6,442,038
Unearned revenues	65,645	70,472	136,117
Other current liabilities	60,008	-	60,008
Noncurrent liabilities, due within one year	5,035,000	-	5,035,000
Noncurrent liabilities:			
Bonds payable, net	17,378,854	-	17,378,854
Long-term portion of compensated absences	351,475	7,190	358,665
Net pension liability	76,660,544	1,716,456	78,377,000
Net other postemployment benefit liabilities	10,306,457	152,857	10,459,314
TOTAL LIABILITIES	117,785,731	1,975,227	119,760,958
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	14,693,018	836,772	15,529,790
Deferred inflows of resources for other postemployment benefits	838,059	12,148	850,207
TOTAL DEFERRED INFLOWS OF RESOURCES	15,531,077	848,920	16,379,997
NET POSITION			
Net investment in capital assets	49,894,745	23,146	49,917,891
Restricted for capital projects	2,493,245	-	2,493,245
Restricted for other purposes	530,000	-	530,000
Unrestricted (deficit)	(70,382,499)	(236,896)	(70,619,395)
TOTAL NET POSITION (DEFICIT)	\$ (17,464,509)	\$ (213,750)	\$ (17,678,259)

See accompanying notes.

MUHLENBERG SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
Instruction	\$ 41,056,805	\$ 19,000	\$ 12,674,348	\$ -	\$ (28,363,457)	\$ -	\$ (28,363,457)
Instructional student support	5,332,501	-	1,361,244	-	(3,971,257)	-	(3,971,257)
Administrative and financial support services	5,941,960	-	1,621,619	-	(4,320,341)	-	(4,320,341)
Operation and maintenance of plant services	5,530,442	3,944	605,938	-	(4,920,560)	-	(4,920,560)
Pupil transportation	2,491,975	-	790,700	-	(1,701,275)	-	(1,701,275)
Student activities	2,081,299	285,298	262,114	-	(1,533,887)	-	(1,533,887)
Community services	170,620	-	120,160	-	(50,460)	-	(50,460)
Scholarships and awards	2,492	-	-	-	(2,492)	-	(2,492)
Interest on long-term debt	435,230	-	-	1,318,278	883,048	-	883,048
Total Governmental Activities	63,043,324	308,242	17,436,123	1,318,278	(43,980,681)	-	(43,980,681)
Business-Type Activities:							
Food services	2,351,666	126,071	3,697,892	-	-	1,472,297	1,472,297
Total Primary Government	\$ 65,394,990	\$ 434,313	\$ 21,134,015	\$ 1,318,278	(43,980,681)	1,472,297	(42,508,384)
General Revenues:							
Taxes:							
Property taxes					37,988,590	-	37,988,590
Public utility realty, earned income, local service tax, and business privilege tax					6,291,917	-	6,291,917
Grants, subsidies, and contributions not restricted for a specific program					8,104,589	-	8,104,589
Investment earnings					39,126	7,214	46,340
Miscellaneous income					170,768	-	170,768
Transfers					60,477	(60,477)	-
Total General Revenues and Transfers					52,655,467	(53,263)	52,602,204
Change in Net Position					8,674,786	1,419,034	10,093,820
Net Position (Deficit) - Beginning of Year					(26,139,295)	(1,632,784)	(27,772,079)
Net Position (Deficit) - End of Year					\$ (17,464,509)	\$ (213,750)	\$ (17,678,259)

See accompanying notes.

MUHLENBERG SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2022

	General	Capital Projects	Debt Service	Special Revenue (Nonmajor)	Total Governmental Funds
ASSETS					
Cash and investments	\$ 18,807,648	\$ 2,710,382	\$ -	\$ 543,213	\$ 22,061,243
Taxes receivable	823,612	-	-	-	823,612
Interfund receivables	-	-	-	1,702	1,702
Intergovernmental receivables	4,829,523	-	-	-	4,829,523
Other receivables	9,893	-	-	-	9,893
Prepaid expenditures	25,464	-	-	-	25,464
TOTAL ASSETS	\$ 24,496,140	\$ 2,710,382	\$ -	\$ 544,915	\$ 27,751,437
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Interfund payables	\$ 104,967	\$ -	\$ -	\$ -	\$ 104,967
Accounts payable	1,187,990	217,137	-	14,915	1,420,042
Accrued salaries and benefits	6,423,974	-	-	-	6,423,974
Unearned revenues	65,645	-	-	-	65,645
Other current liabilities	60,008	-	-	-	60,008
TOTAL LIABILITIES	7,842,584	217,137	-	14,915	8,074,636
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	565,597	-	-	-	565,597
FUND BALANCES					
Nonspendable	25,464	-	-	-	25,464
Restricted	-	2,493,245	-	530,000	3,023,245
Assigned	10,356,809	-	-	-	10,356,809
Unassigned	5,705,686	-	-	-	5,705,686
TOTAL FUND BALANCES	16,087,959	2,493,245	-	530,000	19,111,204
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 24,496,140	\$ 2,710,382	\$ -	\$ 544,915	\$ 27,751,437

See accompanying notes.

MUHLENBERG SCHOOL DISTRICT

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

June 30, 2022

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

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS		\$ 19,111,204
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$146,584,566 and the accumulated depreciation is \$74,659,606.		71,924,960
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		554,285
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 payable	\$ (20,610,000)	
Accrued interest on bonds	(83,732)	
Unamortized bond premiums	(1,803,854)	
Deferred charge on bond refunding	383,639	
Long-term portion of compensated absences	<u>(351,475)</u>	(22,465,422)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(77,032,643)
The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		<u>(9,556,893)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		<u><u>\$ (17,464,509)</u></u>

MUHLENBERG SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	General	Capital Projects	Debt Service	Special Revenue (Nonmajor)	Total Governmental Funds
REVENUES					
Local sources	\$ 45,293,599	\$ 3,350	\$ -	\$ 258,559	\$ 45,555,508
State sources	20,528,094	-	-	-	20,528,094
Federal sources	5,545,915	-	-	-	5,545,915
TOTAL REVENUES	71,367,608	3,350	-	258,559	71,629,517
EXPENDITURES					
Current:					
Instructional services	40,435,582	-	-	-	40,435,582
Support services	19,415,750	39,102	-	-	19,454,852
Operation of noninstructional services	1,757,738	58,375	-	253,144	2,069,257
Capital outlay	-	903,559	-	-	903,559
Debt service:					
Principal	-	-	4,860,000	-	4,860,000
Interest	-	-	843,900	-	843,900
Refund of prior year revenues	53,161	-	-	-	53,161
TOTAL EXPENDITURES	61,662,231	1,001,036	5,703,900	253,144	68,620,311
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,705,377	(997,686)	(5,703,900)	5,415	3,009,206
OTHER FINANCING SOURCES (USES)					
Transfers in	60,477	-	5,703,900	-	5,764,377
Transfers out	(5,703,900)	-	-	-	(5,703,900)
TOTAL OTHER FINANCING SOURCES (USES)	(5,643,423)	-	5,703,900	-	60,477
NET CHANGE IN FUND BALANCES	4,061,954	(997,686)	-	5,415	3,069,683
FUND BALANCES - BEGINNING OF YEAR	12,026,005	3,490,931	-	524,585	16,041,521
FUND BALANCES - END OF YEAR	\$ 16,087,959	\$ 2,493,245	\$ -	\$ 530,000	\$ 19,111,204

MUHLENBERG SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

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

NET CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS **\$ 3,069,683**

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

Capital outlays	\$ 1,702,625	
Less: depreciation expense	<u>(4,579,329)</u>	(2,876,704)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. 28,116

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

Repayment of bond principal	4,860,000	
Amortization of bond premium	594,158	
Amortization of deferred charge on bond refunding	<u>(207,244)</u>	5,246,914

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 21,756

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

Compensated absences	(15,126)	
Net pension liability and related deferred outflows and inflows	3,727,056	
Net OPEB liability and related deferred outflows and inflows	<u>(526,909)</u>	<u>3,185,021</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 8,674,786**

MUHLENBERG SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2022

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 1,841,398
Interfund receivables	103,265
Intergovernmental receivables	130,080
Other receivables	3,450
Inventories	136,540
TOTAL CURRENT ASSETS	2,214,733
NONCURRENT ASSETS	
Fixtures and equipment, net	23,146
TOTAL ASSETS	2,237,879
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pension	342,463
Deferred outflows of resources for other postemployment benefits	30,055
TOTAL DEFERRED OUTFLOWS OF RESOURCES	372,518
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	10,188
Accrued salaries and benefits	18,064
Unearned revenues	70,472
TOTAL CURRENT LIABILITIES	98,724
NONCURRENT LIABILITIES	
Compensated absences	7,190
Net pension liability	1,716,456
Net other postemployment benefit liabilities	152,857
TOTAL NONCURRENT LIABILITIES	1,876,503
TOTAL LIABILITIES	1,975,227
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pension	836,772
Deferred inflows of resources for other postemployment benefits	12,148
TOTAL DEFERRED INFLOWS OF RESOURCES	848,920
NET POSITION	
Investment in capital assets	23,146
Unrestricted (deficit)	(236,896)
TOTAL NET POSITION (DEFICIT)	\$ (213,750)

See accompanying notes.

MUHLENBERG SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	Enterprise Fund Food Service
OPERATING REVENUES	
Food service revenue	\$ 126,071
OPERATING EXPENSES	
Salaries	887,435
Employee benefits	438,805
Pension and OPEB valuation adjustments	(274,036)
Other purchased services	47,058
Supplies	1,245,002
Depreciation	2,874
Other operating expenses	4,528
TOTAL OPERATING EXPENSES	2,351,666
OPERATING LOSS	(2,225,595)
NONOPERATING REVENUES	
Earnings on investments	7,214
State sources	328,444
Federal sources	3,369,448
TOTAL NONOPERATING REVENUES	3,705,106
INCOME BEFORE TRANSFERS	1,479,511
TRANSFERS OUT	(60,477)
CHANGE IN NET POSITION	1,419,034
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(1,632,784)
NET POSITION (DEFICIT) - END OF YEAR	\$ (213,750)

MUHLENBERG SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2022

	<u>Enterprise Fund Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from users	\$ 115,451
Payments to employees for services	(1,444,249)
Payments to suppliers for goods and services	<u>(1,164,501)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(2,493,299)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	327,140
Federal sources	3,178,721
Transfers out	<u>(60,477)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,445,384
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>7,214</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	959,299
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>882,099</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,841,398</u></u>

MUHLENBERG SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	Enterprise Fund Food Service
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating loss	\$ (2,225,595)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,874
Donated commodities used	163,383
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Interfund balances	(116,871)
Other receivables	(2,642)
Inventories	(16,182)
Deferred outflows of resources for pension	52,278
Deferred outflows of resources for other postemployment benefits	(6,490)
Accounts payable	805
Accrued salaries and benefits	(8,628)
Compensated absences	7,190
Unearned revenues	(23,897)
Net pension liability	(1,098,249)
Net other postemployment benefit liabilities	9,115
Deferred inflows of resources for pension	769,323
Deferred inflows of resources for other postemployment benefits	287
Total adjustments	(267,704)
NET CASH USED FOR OPERATING ACTIVITIES	\$ (2,493,299)

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY

During the year, the District used \$163,383 of commodities from the U.S. Department of Agriculture.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

Muhlenberg School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District's tax base consists of the Township of Muhlenberg and the Borough of Laureldale. Muhlenberg School District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

Joint Venture: The District is a participating member of the Reading Muhlenberg Career and Technology Center. See Note 12 for details of involvement and financial information of the joint venture.

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

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

B. Basis of Presentation - Government-Wide Financial Statements

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

The District currently does not have any fiduciary funds.

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

Debt Service Fund: This fund is established to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Nonmajor Governmental Funds:

Special Revenue Funds

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

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

The District has the Following Major Enterprise Fund:

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

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

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

D. Measurement Focus and Basis of Accounting

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

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

Accelerated Budget Process Option

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

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

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

Board Resolution Option

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

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

2. Investments

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

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

3. Interfund Transactions

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

4. Inventories and Prepaid Items

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

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

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2022, consist of the following:

Purchased food and supplies	\$ 86,933
Donated commodities	<u>49,607</u>
	<u>\$ 136,540</u>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

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

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	15 - 50
Leasehold improvements	30
Site improvements	20
Furniture and equipment	5 - 15

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The District periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the District's long-lived assets were considered to be impaired as of June 30, 2022.

7. Unearned Revenues

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

8. Compensated Absences

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

9. Long-Term Obligations

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

10. Leases

The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. Muhlenberg School District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

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

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

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

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. Pension

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

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

12. Other Postemployment Benefits (OPEB)

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

PSERS OPEB Plan

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

District OPEB Plan

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

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

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

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

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

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

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Net Position

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

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

15. Fund Balance Policies and Flow Assumptions

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

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

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

15. Fund Balance Policies and Flow Assumptions - continued

The District's unassigned fund balance of the General Fund at the end of each fiscal year-end shall not be less than 8% of the following year's projected budgeted expenditures. In any fiscal year where the School District is unable to maintain this minimum reservation of fund balance, the School District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

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

G. Use of Estimates

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

H. Adoption of Accounting Standards

During the year ended June 30, 2022 the District adopted new accounting guidance GASB Statement No. 87, retroactive to July 1, 2021. GASB Statement No. 87 was issued to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The adoption of this standard resulted in no restatement to beginning net position.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Adoption of Accounting Standards - continued

Effective July 1, 2021, the District adopted new accounting standard guidance GASB Statement No. 89 related to accounting requirements for interest expenses incurred before the end of a construction period. Under this statement, interest expenses incurred before the end of a construction period must be recognized as an expense in the period in which the expenses are incurred for financial statements prepared using the economic resources measurement focus. The adoption of this standard resulted in no restatement to beginning net position.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2022, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created the following deficiency in net position as of June 30, 2022:

	<u>Food Service Fund</u>
Net position before effects of GASB statements noted below	\$ 2,131,965
Cumulative effect of GASB Statement Nos. 68 and 71	(2,210,765)
Cumulative effect of GASB Statement No. 75	<u>(134,950)</u>
Ending net position (deficit)	<u>\$ (213,750)</u>

The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by the PSERS.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS

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

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

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

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

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

The breakdown of total cash and investments at June 30, 2022, is as follows:

Petty cash	\$	306
Cash deposits		7,162,198
Pooled cash and investments		<u>16,740,137</u>
	\$	<u>23,902,641</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2022, the carrying amount of the District's deposits was \$7,162,198 and the bank balance was \$7,400,238. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$6,900,238 was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pooled Cash and Investments

As of June 30, 2022, the District had the following pooled cash and investments:

	Maturities	Fair Value	Carrying Value
PA School District Liquid Asset Fund (PSDLAF):			
Full Flex Pool	< 1 year	\$ 7,523,096	\$ 7,523,096
MAX account balance		6,156,818	6,156,818
PA Local Government Investment Trust (PLGIT):			
PLGIT/Class		1,503,035	1,503,035
PLGIT/PRIME		813,138	813,138
PLGIT/Term		750,000	750,000
Total			16,746,087
Less reconciling items			(5,950)
Total pooled cash and investments			\$ 16,740,137

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$16,746,087 (PSDLAF and PLGIT) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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

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

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

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT/Class Shares are a flexible option within the PLGIT fund which requires no minimum balance, no minimum initial investment, and a one-day minimum investment period. Dividends are paid monthly.

PLGIT/Prime is a variable rate investment portfolio. There is no minimal balance requirement and redemptions/exchanges are limited to two per calendar month.

PLGIT/Term is a fixed term investment portfolio with maturity of up to one year, depending upon the termination date of any particular series within the PLGIT/TERM portfolio. This option requires a minimum initial investment of \$100,000, a minimum investment period of 60 days, and has a premature withdrawal penalty.

As of June 30, 2022, the entire PLGIT and PSDLAF book balance of \$16,740,137 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2022, the District has no investments subject to interest rate risk.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2022, the District's investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
PA Local Government Investment Trust	AAAm
PA School District Liquid Asset Fund	AAAm

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2022, the District has no investments subject to concentration of credit risk.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has two independently elected tax collectors. Property taxes are levied on July 1 at the assessed value listed as of that date for all taxable real property located in the District. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,260,027,500. In accordance with Act 1 of 2006, the District received \$1,200,626 in property tax reduction funds for the 2021/2022 fiscal year. The District's tax rate for the year ended June 30, 2022, was \$31.48 per \$1,000 of assessed valuation as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date - All taxes unpaid become delinquent and are turned over to the County Tax Claims Bureau for collection.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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

The balances at June 30, 2022, are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue</u>
Real estate property tax	\$ 603,001	\$ 11,312	\$ 591,689	\$ 37,404	\$ 565,597
Transfer tax	48,201	-	48,201	48,201	-
Other taxes	172,410	-	172,410	172,410	-
	<u>\$ 823,612</u>	<u>\$ 11,312</u>	<u>\$ 812,300</u>	<u>\$ 258,015</u>	<u>\$ 565,597</u>

NOTE 5 - TAX ABATEMENT

On November 11, 2015, the District approved a resolution providing for tax exemption for certain improvements to deteriorated property in the Township of Muhlenberg pursuant to the Pennsylvania Local Economic Revitalization Tax Assistance Act (LERTA), defining deteriorated property, providing for an exemption period, and establishing a schedule of percentage exemption for that time period. The LERTA was approved in accordance with Pennsylvania Assembly Act No. 76 of 1977, as amended, for the purpose of joining together with the Township of Muhlenberg to revitalize the economic vitality of the Muhlenberg community. The LERTA authorized local taxing authorities to exempt property taxes of improvements and new construction in certain deteriorated areas. Any property owner undertaking improvements within a deteriorated area may apply and receive from the District an exemption from School District real property taxes due to the increased or additional assessed valuation attributable to those improvements. The resolution automatically terminates November 10, 2035; provided, however, that any taxpayer who has received or applied for the exemption granted by this resolution prior to the expiration date shall, if said exemption is granted, be entitled to the full exemption authorized.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 5 - TAX ABATEMENT - CONTINUED

The exemption is limited to a period of ten years using the following schedule:

<u>Year</u>	<u>% of Eligible Assessment Abated</u>
1	100%
2	90%
3	80%
4	70%
5	60%
6	50%
7	40%
8	30%
9	20%
10	10%

The District has three Local Economic Revitalization Tax Assistance Act (LERTA) agreements as of June 30, 2022. The tax abatements were effective January 1, 2020, April 1, 2020, and July 1, 2021. For the year ended June 30, 2022, the foregone real estate tax revenue as a result of the LERTA tax abatements was \$461,157. The District has not made any commitments as part of the agreement other than to reduce taxes. The District entered into a fourth LERTA agreement which is effective for the 2022/2023 tax year and will result in \$235,424 in forgone real estate tax revenue in year one.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2022:

<u>Name of Government Unit</u>	<u>General Fund</u>	<u>Enterprise Fund Food Service</u>
Commonwealth of PA:		
Retirement	\$ 2,174,374	\$ 2,804
Social Security	470,730	637
National School Lunch/Breakfast Program	-	2,904
Federal Subsidies:		
JROTC - Basic, Applied, and Advanced Research in Science and Engineering	8,192	-
Emergency Connectivity Fund Program	86,168	-
Title I Grants to Local Educational Agencies	61,758	-
Supporting Effective Instruction State Grant	25,331	-
English Language Acquisition State Grants	4,528	-
Student Support and Academic Enrichment	22,813	-
Education Stabilization Fund	1,513,420	-
ACCESS Medical Assistance Program	190,462	-
National School Lunch Program	-	63,300
School Breakfast Program	-	25,063
Summer Food Service Program For Children	-	35,372
Berks County Intermediate Unit - Special Education - Grants to States	271,747	-
	<u>\$ 4,829,523</u>	<u>\$ 130,080</u>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 7 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2022:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 104,967
Non-major Student Activities Fund	1,702	-
Enterprise Fund - Food Service	<u>103,265</u>	<u>-</u>
	<u>\$ 104,967</u>	<u>\$ 104,967</u>

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

Interfund transfers are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 60,477	\$ 5,703,900
Debt Service Fund	5,703,900	-
Enterprise Fund - Food Service	<u>-</u>	<u>60,477</u>
	<u>\$ 5,764,377</u>	<u>\$ 5,764,377</u>

Interfund transfers from the general fund to the debt service fund are made to meet debt service requirements. Interfund transfers from the food service fund to the general fund are to cover indirect costs and for the recovery of bad debts previously funded by the general fund.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2022, were as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Reclass/ Decrease</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 577,416	\$ -	\$ -	\$ 577,416
Construction in progress	90,518	1,252,811	(695,000)	648,329
Totals not being depreciated	<u>667,934</u>	<u>1,252,811</u>	<u>(695,000)</u>	<u>1,225,745</u>
Capital assets being depreciated:				
Buildings and building improvements	113,790,607	12,847	-	113,803,454
Leasehold improvements	10,535,142	-	-	10,535,142
Site improvements	12,874,891	314,899	670,000	13,859,790
Furniture and equipment	7,403,879	122,068	(365,512)	7,160,435
Totals being depreciated	<u>144,604,519</u>	<u>449,814</u>	<u>304,488</u>	<u>145,358,821</u>
Less accumulated depreciation for:				
Buildings and building improvements	51,481,823	3,472,252	-	54,954,075
Leasehold improvements	5,370,991	488,236	-	5,859,227
Site improvements	7,887,431	496,489	-	8,383,920
Furniture and equipment	5,730,544	122,352	(390,512)	5,462,384
Total accumulated depreciation	<u>70,470,789</u>	<u>4,579,329</u>	<u>(390,512)</u>	<u>74,659,606</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>74,133,730</u>	<u>(4,129,515)</u>	<u>695,000</u>	<u>70,699,215</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 74,801,664</u>	<u>\$ (2,876,704)</u>	<u>\$ -</u>	<u>\$ 71,924,960</u>
Business-Type Activities				
Capital assets being depreciated:				
Equipment	\$ 136,983	\$ -	\$ -	\$ 136,983
Less accumulated depreciation for:				
Equipment	<u>110,963</u>	<u>2,874</u>	<u>-</u>	<u>113,837</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 26,020</u>	<u>\$ (2,874)</u>	<u>\$ -</u>	<u>\$ 23,146</u>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instruction	\$ 3,063,148
Instructional student support	1,463
Administrative and financial support services	33,310
Operation and maintenance of plant services	1,090,836
Pupil transportation	11,139
Student activities	<u>379,433</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,579,329</u></u>

NOTE 9 - LONG-TERM LIABILITIES

The District issues general obligation bonds to provide resources for major capital improvements. The bonds are direct obligations issued on a pledge of the full faith and credit of the District as well as their general taxing authority.

General obligation bonds outstanding are as follows at June 30, 2022:

General Obligation Bonds, Series of 2019: The General Obligation Bonds, Series of 2019, aggregate principal of \$11,415,000, were issued on June 13, 2019, for the purpose of currently refunding the outstanding General Obligation Note, Series of 2017 and to pay debt issuance costs. The bonds mature from May 15, 2021 to May 15, 2026. Interest rates range from 2.00% to 4.00%. The refunding resulted in a net cash flow savings of \$733,532 with a present value cash flow savings of \$677,720. \$ 11,180,000

General Obligation Bonds, Series of 2020: The General Obligation Bonds, Series of 2020, aggregate principal of \$18,460,000, were issued on July 14, 2020, for the purpose of currently refunding the outstanding General Obligation Bonds Series 2012A, 2014, and 2015, and to pay debt issuance costs. The bonds mature from May 15, 2021 to May 15, 2026, at interest rates ranging from 1.0% to 4.0%. The refunding resulted in a net cash flow savings of \$334,501 with a present value cash flow savings of \$458,767. 9,430,000

Total bonds payable \$ 20,610,000

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

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

	<u>Principal</u>	<u>Interest</u>
2023	\$ 5,035,000	\$ 669,850
2024	5,215,000	487,500
2025	5,345,000	357,525
2026	<u>5,015,000</u>	<u>180,600</u>
	<u>\$ 20,610,000</u>	<u>\$ 1,695,475</u>

Long-term liability balances and activity for the year ended June 30, 2022, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds payable	\$ 25,470,000	\$ -	\$ 4,860,000	\$ 20,610,000	\$ 5,035,000
Premiums	<u>2,398,012</u>	<u>-</u>	<u>594,158</u>	<u>1,803,854</u>	<u>-</u>
Net bonds payable	27,868,012	-	5,454,158	22,413,854	5,035,000
Compensated absences	336,349	302,144	287,018	351,475	-
Net pension liability	93,250,295	-	16,589,751	76,660,544	-
Net other postemployment benefit liabilities	<u>9,767,201</u>	<u>962,228</u>	<u>422,972</u>	<u>10,306,457</u>	<u>-</u>
Total governmental long-term liabilities	<u>\$ 131,221,857</u>	<u>\$ 1,264,372</u>	<u>\$ 22,753,899</u>	<u>\$ 109,732,330</u>	<u>\$ 5,035,000</u>
Business-Type Activities					
Compensated absences	\$ -	\$ 10,852	\$ 3,662	\$ 7,190	\$ -
Net pension liability	2,814,705	-	1,098,249	1,716,456	-
Net other postemployment benefit liabilities	<u>143,742</u>	<u>14,035</u>	<u>4,920</u>	<u>152,857</u>	<u>-</u>
Total business-type long-term liabilities	<u>\$ 2,958,447</u>	<u>\$ 24,887</u>	<u>\$ 1,106,831</u>	<u>\$ 1,876,503</u>	<u>\$ -</u>

Payments on bonds payable are made by the general fund via transfers to the debt service fund. The compensated absences liabilities will be liquidated by the general and food service funds. Total interest expense paid during the year ended June 30, 2022 was \$843,900. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - LONG-TERM LIABILITIES - CONTINUED

Events of Default

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

NOTE 10 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

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

Benefits Provided

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC).

Class T-G and Class T-H members who qualify for a defined benefit normal retirement benefit must work until age 67 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 97 with a minimum 35 years of service.

Defined benefits for T-G and T-H are 1.25% or 1.00%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. A member's right to a defined benefit is vested in 10 years.

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

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

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

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

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2022, was 33.99% 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 \$9,867,500 for the year ended June 30, 2022. Contributions to the defined contribution plan from the District were \$43,546 for the year ended June 30, 2022.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2022, for pension and OPEB benefits was \$6,290,378.

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

At June 30, 2022, the District reported a liability of \$78,377,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020 to June 30, 2021. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2022, the District's proportion was 0.1909%, which was an decrease of 0.0042% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the District recognized pension expense of \$5,863,796. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 58,000	\$ 1,030,000
Changes in assumptions	3,802,000	-
Net difference between projected and actual investment earnings	-	12,476,000
Changes in proportion - plan level	227,000	1,516,000
Changes in proportion - internal	507,790	507,790
Difference between employer contributions and proportionate share of total contributions	201,092	-
Contributions made subsequent to the measurement date	9,867,500	-
	\$ 14,663,382	\$ 15,529,790

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

The \$9,867,500 reported as deferred outflows of resources resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2023	\$ (2,882,502)
2024	(1,857,607)
2025	(1,986,627)
2026	<u>(4,007,172)</u>
	<u>\$ (10,733,908)</u>

Actuarial Assumptions

The total pension liability at June 30, 2021, was determined by rolling forward the System's total pension liability at June 30, 2020 to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The 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.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021, is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	27.0%	5.2%
Private equity	12.0%	7.3%
Fixed income	35.0%	1.8%
Commodities	10.0%	2.0%
Absolute return	8.0%	3.1%
Infrastructure/MLPs	8.0%	5.1%
Real estate	10.0%	4.7%
Cash	3.0%	0.1%
Leverage	<u>(13.0%)</u>	0.1%
	<u>100.0%</u>	

Discount Rate

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	<u>1% Decrease</u> 6.00%	<u>Current</u> Discount Rate 7.00%	<u>1% Increase</u> 8.00%
District's proportionate share of the net pension liability	\$ 102,873,000	\$ 78,377,000	\$ 57,714,000

Pension Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2022, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$3,598,574. This amount represents the District's contractually obligated contributions for wages earned in April 2022 through June 2022.

403(b) Tax Shelter Plan

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2022, are as follows:

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	\$ 4,523,000	\$ 846,244	\$ 135,000
District OPEB Plan	5,936,314	771,434	715,207
Total	\$ 10,459,314	\$ 1,617,678	\$ 850,207

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS (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, 2021, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Pension Plan Description

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

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, 2021, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2022, was 0.80% 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 \$232,244 for the year ended June 30, 2022.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2022, for pension and OPEB benefits was \$6,290,378.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

At June 30, 2022, the District reported a liability of \$4,523,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2020 to June 30, 2021. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's proportion was 0.1908%, which was an decrease of 0.0042% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the District recognized OPEB expense of \$291,850. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,000	\$ -
Changes in assumptions	482,000	60,000
Net difference between projected and actual investment earnings	9,000	-
Changes in proportion	81,000	75,000
Contributions made subsequent to the measurement date	232,244	-
	\$ 846,244	\$ 135,000

The \$232,244 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2023	\$ 91,000
2024	90,000
2025	108,000
2026	78,000
2027	63,000
Thereafter	49,000
Total	\$ 479,000

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Actuarial Assumptions

The total OPEB liability as of June 30, 2021, was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.18% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019, determined the employer contribution rate for fiscal year 2021.
- 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 Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Actuarial Assumptions - continued

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

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021, is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	79.8%	0.1%
U.S. Core Fixed Income	17.5%	0.7%
Non-U.S. Developed Fixed	2.7%	(0.3%)
	<u>100.0%</u>	

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

Discount Rate

The discount rate used to measure the total OPEB liability was 2.18%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.18% which represents the S&P 20-year Municipal Bond Rate at June 30, 2021, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2021, 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, 2021, 93,392 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2021, 611 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB liability for the June 30, 2021 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 4,522,000	\$ 4,523,000	\$ 4,523,000

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Liability, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB - 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 2.18%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.18%) or one-percentage point higher (3.18%) than the current rate:

	1% Decrease 1.18%	Current Discount Rate 2.18%	1% Increase 3.18%
District's proportionate share of the net OPEB liability	\$ 5,190,000	\$ 4,523,000	\$ 3,973,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2022, the District had an accrued balance due to PSERS of \$3,598,574 including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2022 through June 2022.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan

General Information About the District OPEB Plan

Plan Description

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

Benefits Provided

The District classifies employees in the following categories: Administrators (not including Coordinators) and All Other Employees. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

I. Administrators (not including Coordinators)

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
10 years with the District, age 56	<p><u>Coverage</u> Medical, Prescription Drug, Dental and Vision coverage for member and spouse</p> <p><u>Premium Sharing</u> The retiree contributes the same cost share as active Act 93 Administrators. Currently the cost share is set at 9% of the Medical and Prescription Drug premium cost for school years 2016-17 through 2018-19, but will increase to 10% for school years 2019-20 through 2020-21. The District pays the remaining cost. Upon death of retiree, the spouse may continue coverage by paying the full premium.</p> <p>Grandfathered retiree: The former Superintendent contributes 5% of the Medical and Prescription Drug premium cost, regardless of the active Act 93 Administrator cost share and the status of the retiree.</p>	<p>Member may continue coverage until Medicare age.</p> <p>Spouse may continue coverage until spouse Medicare age.</p>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

II. All Other Employees

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Retirement from the District according to PSERS requirements (including early retirement)	Act 110/43	Same as I

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

PSERS Retirement:

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

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

- 4) Pension Class T-H: An employee is eligible for PSERS retirement if he or she is eligible for either i) PSERS early retirement while under 67 with 10 years of PSERS service or ii) PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.
- 5) All individuals except those in Pension Class T-G are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service. Individuals in Pension Class T-G are eligible for a special early retirement upon reaching age 57 with 25 years of PSERS service.

Employees Covered by Benefit Terms

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

Active participants	429
Retired participants	<u>24</u>
Total	<u><u>453</u></u>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2021, was determined by rolling forward the District's total OPEB liability as of July 1, 2020 to July 1, 2021, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 2.28% - based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index at July 1, 2021.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 100% of administrators who qualify for a subsidy and 65% of employees who only qualify for the Act 110/43 benefit are assumed to elect coverage.

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

MUHLENBERG SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2021	\$ 5,697,943
Changes for the year:	
Service cost	508,826
Interest	113,400
Changes of assumptions or other inputs	(180,813)
Benefit payments	(203,042)
Net changes	238,371
Balance at June 30, 2022	\$ 5,936,314

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 1.86% to 2.28%.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.28%) or one-percentage point higher (3.28%) than the current discount rate:

	1% Decrease 1.28%	Current Discount Rate 2.28%	1% Increase 3.28%
OPEB Plan - Total OPEB liability	\$ 6,372,693	\$ 5,936,314	\$ 5,521,302

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB liability	\$ 5,200,479	\$ 5,936,314	\$ 6,813,780

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$617,620. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 624,029	\$ 284,590
Differences between expected and actual experience	-	430,617
Benefit payments made subsequent to the measurement date	147,405	-
	<u>\$ 771,434</u>	<u>\$ 715,207</u>

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The \$147,405 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2023	\$	(4,606)
2024		(4,606)
2025		(4,606)
2026		(4,606)
2027		(4,606)
Thereafter		<u>(68,148)</u>
Total	\$	<u><u>(91,178)</u></u>

NOTE 12 - JOINT VENTURE

The District is a participating member of the Reading Muhlenberg Career and Technology Center (the "Center"). The Center is run by a joint board consisting of school directors from each member district. The board of directors of each member district must approve the Center's annual operating budget. Each member pays a private share of the operating costs of the Center based on the number of students from each district. For the fiscal year ended June 30, 2022, Muhlenberg School District's share was \$2,265,816.

Condensed financial information for the general fund activities of the Reading Muhlenberg Career and Technology Center is as follows at June 30, 2021 (most recent available):

Total assets	\$	3,343,590
Total liabilities		<u>3,093,590</u>
Total fund balance	\$	<u><u>250,000</u></u>

Separate financial statements of the Reading Muhlenberg Career and Technology Center have been prepared and are available.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

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

The District has entered into an agreement for the transportation of students. The Agreement is for the period of July 1, 2022 through June 30, 2025. The contractor provides all equipment, fuel, and labor necessary. The cost for the transportation services is determined based on a yearly base service cost, which is reconciled prior to June 30th each year.

The District is involved in routine litigation incidental to the conduct of its business. The results, in the opinion of management, are not likely to affect the District's financial condition, results of operations, or cash flows.

At June 30, 2022, the District has entered into contracts related to the HS track, tennis courts, and throw area renovation projects in the amount of \$282,925 with \$185,400 remaining as a commitment. Subsequent to year end, the District entered into a contract for HVAC repairs and replacement in the amount of \$293,000. The District plans to use existing resources in the capital projects fund to satisfy the remaining commitments.

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages of the 2021/2022 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2022, were as follows:

General Fund

The general fund has nonspendable funds of \$25,464 related to prepaid expenditures, assigned funds of \$9,238,011 for retirement rate increases and \$1,118,798 for the subsequent year's budget appropriation, and unassigned fund balance of \$5,705,686. The assignments were authorized by resolutions adopted by the board of school directors.

MUHLENBERG SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 15 - FUND BALANCE - CONTINUED

Capital Projects

The capital projects fund has restricted funds of \$2,493,245 comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

Nonmajor Funds

The nonmajor funds have restricted funds of \$530,000, consisting of \$162,059 for student activities and \$367,941 for scholarships.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the District's fiscal year ending June 30, 2023.
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

REQUIRED SUPPLEMENTARY INFORMATION

MUHLENBERG SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2022

	Budget		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES				
Local sources	\$ 43,759,400	\$ 43,759,400	\$ 45,293,599	\$ 1,534,199
State sources	18,962,231	18,962,231	20,528,094	1,565,863
Federal sources	4,575,372	4,575,372	5,545,915	970,543
TOTAL REVENUES	67,297,003	67,297,003	71,367,608	4,070,605
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	26,556,702	26,605,534	26,309,391	296,143
Special programs - elementary/secondary	10,598,968	10,598,968	10,126,829	472,139
Vocational education	2,265,816	2,265,816	2,265,816	-
Other instructional programs - elementary/secondary	1,365,410	1,365,410	1,708,364	(342,954)
Nonpublic school programs	31,829	31,829	25,182	6,647
TOTAL INSTRUCTIONAL SERVICES	40,818,725	40,867,557	40,435,582	431,975
SUPPORT SERVICES:				
Students	2,856,040	2,856,040	2,815,736	40,304
Instructional staff	2,057,438	2,057,438	1,834,817	222,621
Administration	4,230,438	4,237,063	4,172,271	64,792
Pupil health	968,424	968,424	979,231	(10,807)
Business	675,492	675,492	670,907	4,585
Operation and maintenance of plant	4,882,771	4,882,771	4,674,595	208,176
Student transportation	2,451,290	2,451,290	2,487,903	(36,613)
Central	2,054,242	1,994,115	1,737,724	256,391
Other	45,000	45,000	42,566	2,434
TOTAL SUPPORT SERVICES	20,221,135	20,167,633	19,415,750	751,883
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student activities	1,615,384	1,620,054	1,586,506	33,548
Community services	182,859	182,859	168,740	14,119
Scholarships and awards	2,000	2,000	2,492	(492)
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	1,800,243	1,804,913	1,757,738	47,175
REFUND OF PRIOR YEAR REVENUES	3,000	3,000	53,161	(50,161)
TOTAL EXPENDITURES	62,843,103	62,843,103	61,662,231	1,180,872
EXCESS OF REVENUES OVER EXPENDITURES	4,453,900	4,453,900	9,705,377	5,251,477
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	60,477	10,477
Transfers out	(5,703,900)	(5,703,900)	(5,703,900)	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,653,900)	(5,653,900)	(5,643,423)	10,477
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,200,000)</u>	<u>\$ (1,200,000)</u>	4,061,954	<u>\$ 5,261,954</u>
FUND BALANCE - BEGINNING OF YEAR			12,026,005	
FUND BALANCE - END OF YEAR			<u>\$ 16,087,959</u>	

See note to required supplementary information.

MUHLENBERG SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2022

BUDGETARY DATA

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2021/2022 budget transfers.

Excess of Expenditures Over Appropriations in Individual Funds

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

Budgetary Compliance

The District's only legally adopted budget is for the general fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2022. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

MUHLENBERG SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1909%	0.1951%	0.1942%	0.1941%	0.1892%	0.1855%	0.1813%	0.1777%	0.1762%
District's proportionate share of the collective net pension liability	\$ 78,377,000	\$ 96,065,000	\$ 90,852,000	\$ 93,178,000	\$ 93,443,000	\$ 91,928,000	\$ 78,530,000	\$ 70,335,000	\$ 72,130,000
District's covered payroll	\$ 27,051,492	\$ 27,372,866	\$ 26,784,280	\$ 26,138,033	\$ 25,184,945	\$ 24,029,821	\$ 23,332,488	\$ 22,681,252	\$ 22,606,334
District's proportionate share of the net pension liability as a percentage of its covered payroll	289.73%	350.95%	339.20%	356.48%	371.03%	382.56%	336.57%	310.10%	319.07%
Plan fiduciary net position as a percentage of the total pension liability	63.67%	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

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

NOTES TO SCHEDULE

Changes in benefit terms

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

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

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

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

MUHLENBERG SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 9,867,500	\$ 9,188,643	\$ 9,176,738	\$ 8,832,087	\$ 8,326,525	\$ 7,420,973	\$ 6,050,012	\$ 4,826,136	\$ 3,645,009	\$ 2,607,091
Contributions in relation to the contractually required contribution	<u>9,867,500</u>	<u>9,188,643</u>	<u>9,176,738</u>	<u>8,832,087</u>	<u>8,326,525</u>	<u>7,420,973</u>	<u>6,050,012</u>	<u>4,826,136</u>	<u>3,645,009</u>	<u>2,607,091</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered payroll	\$ 29,027,470	\$ 27,051,492	\$ 27,372,866	\$ 26,784,280	\$ 26,138,033	\$ 25,184,945	\$ 24,029,821	\$ 23,332,488	\$ 22,681,252	\$ 22,606,334
Contributions as a percentage of covered payroll	33.99%	33.97%	33.52%	32.97%	31.86%	29.47%	25.18%	20.68%	16.07%	11.53%

MUHLENBERG SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.1908%	0.1950%	0.1942%	0.1941%	0.1892%	0.1855%
District's proportionate share of the collective net PSERS OPEB liability	\$ 4,523,000	\$ 4,213,000	\$ 4,130,000	\$ 4,047,000	\$ 3,855,000	\$ 3,996,000
District's covered payroll	\$ 27,051,492	\$ 27,372,866	\$ 26,784,280	\$ 26,138,033	\$ 25,184,945	\$ 24,029,821
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	16.72%	15.39%	15.42%	15.48%	15.31%	16.63%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	5.30%	5.69%	5.56%	5.56%	5.73%	5.47%

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

NOTES TO SCHEDULE

Changes in benefit terms

None.

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

- The Discount Rate decreased from 2.66% to 2.18%. The inflation assumption was decreased from 2.75% to 2.50%. Payroll growth assumption decreased from 3.50% to 3.25%.
- Salary growth changed from an effective average of 5.00%, which was comprised of inflation of 2.75%, real wage growth and for merit or seniority increases of 2.25%, to an effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2014 Mortality Tables for Males and Females to a blended table based on 50% PubT-2010 Employee (Total Teacher dataset) and 50% PubG-2010 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2020.
- For disabled annuitants the rates were modified from the RP-2014 Mortality Tables for Males and Females to Pub-2010 Disability Mortality Non-Safety Headcount Weighted table, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020.

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

- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

MUHLENBERG SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 232,244	\$ 224,850	\$ 231,069	\$ 224,866	\$ 217,738	\$ 210,939	\$ 203,280	\$ 211,879	\$ 211,866	\$ 194,965
Contributions in relation to the contractually required contribution	<u>232,244</u>	<u>224,850</u>	<u>231,069</u>	<u>224,866</u>	<u>217,738</u>	<u>210,939</u>	<u>203,280</u>	<u>211,879</u>	<u>211,866</u>	<u>194,965</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered payroll	\$ 29,027,470	\$ 27,051,492	\$ 27,372,866	\$ 26,784,280	\$ 26,138,033	\$ 25,184,945	\$ 24,029,821	\$ 23,332,488	\$ 22,681,252	\$ 22,606,334
Contributions as a percentage of covered payroll	0.80%	0.83%	0.84%	0.84%	0.83%	0.84%	0.85%	0.91%	0.93%	0.86%

MUHLENBERG SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018
Total OPEB liability:					
Service cost	\$ 508,826	\$ 409,825	\$ 411,945	\$ 349,796	\$ 340,831
Interest	113,400	181,978	155,424	155,894	115,003
Difference between expected and actual experience	-	(424,490)	-	(93,477)	-
Changes in assumptions	(180,813)	616,474	(148,516)	4,057	150,681
Benefit payments	(203,042)	(200,864)	(234,429)	(254,231)	(252,572)
	<u>238,371</u>	<u>582,923</u>	<u>184,424</u>	<u>162,039</u>	<u>353,943</u>
Net change in total OPEB liability					
Total OPEB liability, beginning	<u>5,697,943</u>	<u>5,115,020</u>	<u>4,930,596</u>	<u>4,768,557</u>	<u>4,414,614</u>
Total OPEB liability, ending	<u>\$ 5,936,314</u>	<u>\$ 5,697,943</u>	<u>\$ 5,115,020</u>	<u>\$ 4,930,596</u>	<u>\$ 4,768,557</u>
Covered Employee Payroll	<u>\$ 26,441,807</u>	<u>\$ 26,441,807</u>	<u>\$ 25,299,183</u>	<u>\$ 25,299,183</u>	<u>\$ 22,722,070</u>
Total OPEB Liability as a Percentage of Covered Employee Payroll	22.45%	21.55%	20.22%	19.49%	20.99%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes of assumptions for the July 1, 2021 measurement date are as follows:

- The discount rate changed from 1.86% to 2.28%.

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

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

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

SUPPLEMENTARY INFORMATION

MUHLENBERG SCHOOL DISTRICT
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2022

	Student Activities	Scholarships	Totals
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 175,272	\$ 367,941	\$ 543,213
Interfund receivable	1,702	-	1,702
TOTAL ASSETS	\$ 176,974	\$ 367,941	\$ 544,915
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 14,915	\$ -	\$ 14,915
TOTAL LIABILITIES	14,915	-	14,915
FUND BALANCES			
Restricted	162,059	367,941	530,000
TOTAL LIABILITIES AND FUND BALANCES	\$ 176,974	\$ 367,941	\$ 544,915

MUHLENBERG SCHOOL DISTRICT

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

For the Year Ended June 30, 2022

	Student Activities	Scholarships	Totals
REVENUE			
Local sources	\$ 252,723	\$ 5,836	\$ 258,559
EXPENDITURES			
Current:			
Operation of noninstructional services	243,544	9,600	253,144
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,179	(3,764)	5,415
FUND BALANCES - BEGINNING OF YEAR	152,880	371,705	524,585
FUND BALANCES - END OF YEAR	\$ 162,059	\$ 367,941	\$ 530,000

MUHLENBERG SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Contract/Grant Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Receipts for the Year	Accrued/ (Unearned) Revenue at June 30, 2021	Revenue Recognized/ Expenditures	Accrued/ (Unearned) Revenue at June 30, 2022
U.S. Department of Defense									
Basic, Applied, and Advanced Research in Science and Engineering	D	12.630	N/A	07/01/21 - 06/30/22	N/A	\$ 59,740	\$ -	\$ 67,932	\$ 8,192
TOTAL U.S. DEPARTMENT OF DEFENSE						59,740	-	67,932	8,192
Federal Communications Commission									
Emergency Connectivity Fund Program	D	32.009	N/A	07/01/21 - 06/30/23	86,168	-	-	86,168	86,168
TOTAL FEDERAL COMMUNICATIONS COMMISSION						-	-	86,168	86,168
U.S. Department of Education									
Passed through PA Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-210274	07/01/20 - 09/30/21	757,961	100,538	89,055	11,483	-
Title I Grants to Local Educational Agencies	I	84.010	013-220274	07/01/21 - 09/30/22	783,894	722,136	-	783,894	61,758
Subtotal - ALN 84.010						822,674	89,055	795,377	61,758
Supporting Effective Instruction State Grant	I	84.367	020-210274	07/01/20 - 09/30/21	113,790	28,269	26,911	1,358	-
Supporting Effective Instruction State Grant	I	84.367	020-220274	07/01/21 - 09/30/22	119,189	93,858	-	119,189	25,331
Subtotal - ALN 84.367						122,127	26,911	120,547	25,331
English Language Acquisition State Grants	I	84.365	010-210274	07/01/20 - 09/30/21	58,018	3,868	298	3,570	-
English Language Acquisition State Grants	I	84.365	010-220274	07/01/21 - 09/30/22	57,850	53,322	-	57,850	4,528
Subtotal - ALN 84.365						57,190	298	61,420	4,528
Student Support and Academic Enrichment	I	84.424	144-210274	07/01/20 - 09/30/21	58,133	34,880	29,526	5,354	-
Student Support and Academic Enrichment	I	84.424	144-220274	07/01/21 - 09/30/22	56,984	34,171	-	56,984	22,813
Subtotal - ALN 84.424						69,051	29,526	62,338	22,813
Education Stabilization Fund									
COVID-19 - Governor's Emergency Education Relief Fund (SECIM)	I	84.425C	252-20-0274	03/13/20 - 09/30/21	27,375	20,171	20,171	-	-
COVID-19 - Governor's Emergency Education Relief Fund (GEER CEEG)	I	84.425C	253-20-0274	03/13/20 - 09/30/21	79,400	-	(218)	-	(218)
COVID-19 - Governor's Emergency Education Relief Fund (aTSI GEER)	I	84.425C	254-20-0274	03/13/20 - 09/30/21	100,664	15,894	15,894	-	-
COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER I)	I	84.425D	200-20-0274	03/13/20 - 09/30/21	629,591	-	(67,145)	63,971	(3,174)
COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II)	I	84.425D	200-21-0274	03/13/20 - 09/30/23	2,798,184	2,212,518	-	2,214,789	2,271
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (ESSER III)	I	84.425U	223-21-0274	03/13/20 - 09/30/24	5,659,916	308,723	-	1,748,985	1,440,262
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (ESSER 2.5%)	I	84.425U	224-21-0274	03/13/20 - 09/30/24	92,277	5,033	-	-	(5,033)
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (Learning Loss)	I	84.425U	225-21-0274	03/13/20 - 09/30/24	314,090	68,556	-	11,337	(57,219)
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (Summer Programs)	I	84.425U	225-21-0274	03/13/20 - 09/30/24	62,906	13,711	-	29,680	15,969
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (Afterschool Programs)	I	84.425U	225-21-0274	03/13/20 - 09/30/24	62,906	13,711	-	62,843	49,132
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth	I	84.425W	181-21-2275	07/01/21 - 09/30/24	34,589	2,661	-	8,447	5,786
Passed through Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Elementary Secondary School Emergency Relief Fund	I	84.425D	2020-ES-01 35217	03/13/20 - 09/30/22	127,288	127,110	126,591	519	-
Subtotal - ALN 84.425						2,788,088	95,293	4,140,571	1,447,776

See notes to schedule of expenditures of federal awards.

MUHLENBERG SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Contract/Grant Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Receipts for the Year	Accrued/ (Unearned) Revenue at June 30, 2021	Revenue Recognized/ Expenditures	Accrued/ (Unearned) Revenue at June 30, 2022
U.S. Department of Education - continued									
Special Education Cluster (IDEA)									
Passed through Berks County Intermediate Unit:									
Special Education - Grants to States	I	84.027	N/A	07/01/20 - 09/30/21	677,901	280,858	280,858	-	-
Special Education - Grants to States	I	84.027	N/A	07/01/21 - 09/30/22	687,464	456,356	-	687,464	231,108
COVID-19 - Special Education - Grants to States	I	84.027	N/A	07/01/21 - 09/30/22	160,463	19,880	-	60,519	40,639
Subtotal - ALN 84.027						757,094	280,858	747,983	271,747
Special Education - Preschool Grants	I	84.173	N/A	07/01/20 - 06/30/21	10,143	10,143	10,143	-	-
Special Education - Preschool Grants	I	84.173	N/A	07/01/21 - 06/30/22	9,129	9,129	-	9,129	-
Subtotal - ALN 84.173						19,272	10,143	9,129	-
Total Special Education Cluster (IDEA)						776,366	291,001	757,112	271,747
TOTAL U.S. DEPARTMENT OF EDUCATION						4,635,496	532,084	5,937,365	1,833,953
U.S. Department of Health and Human Services									
Medicaid Cluster									
Passed through Pennsylvania Department of Human Services:									
Medical Assistance Program	I	93.778	N/A	07/01/21 - 06/30/22	N/A	21,103	-	21,103	-
TOTAL MEDICAID CLUSTER AND U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						21,103	-	21,103	-
U.S. Department of Agriculture									
Child Nutrition Cluster									
Passed through PA Department of Agriculture:									
National School Lunch Program (Donated Commodities)	I	10.555	N/A	07/01/21 - 06/30/22	N/A	147,464	(65,526)	163,383	(49,607)
Passed through PA Department of Education:									
COVID-19 - National School Lunch Program	I	10.555	N/A	07/01/21 - 06/30/22	N/A	2,041,931	-	2,105,231	63,300
COVID-19 - National School Lunch Program (Supply Chain Assistance)	I	10.555	N/A	07/01/21 - 06/30/22	N/A	81,556	-	81,556	-
COVID-19 - National School Lunch Program (SNP Emergency Operating Costs)	I	10.555	N/A	07/01/21 - 06/30/22	N/A	136,337	-	136,337	-
Subtotal - ALN 10.555						2,407,288	(65,526)	2,486,507	13,693
COVID-19 - School Breakfast Program	I	10.553	N/A	07/01/21 - 06/30/22	N/A	675,136	-	700,199	25,063
COVID-19 - Summer Food Service Program for Children	I	10.559	N/A	07/01/20 - 06/30/21	N/A	96,391	96,391	-	-
COVID-19 - Summer Food Service Program for Children	I	10.559	N/A	07/01/21 - 06/30/22	N/A	144,307	-	179,679	35,372
Subtotal - ALN 10.559						240,698	96,391	179,679	35,372
TOTAL CHILD NUTRITION CLUSTER						3,323,122	30,865	3,366,385	74,128
Passed through PA Department of Education:									
COVID-19 - State Pandemic Electronic Benefit Transfer Administrative Costs Grant	I	10.649	N/A	07/01/21 - 06/30/22	N/A	3,063	-	3,063	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE						3,326,185	30,865	3,369,448	74,128
TOTAL FEDERAL AWARDS						\$ 8,042,524	\$ 562,949	\$ 9,482,016	\$ 2,002,441

D = Direct Source of Funding
I = Indirect Source of Funding

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2022.

See notes to schedule of expenditures of federal awards.

MUHLENBERG SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Muhlenberg School District under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Muhlenberg School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Muhlenberg School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

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

NOTE 4 - ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2022, was \$190,462.

NOTE 5 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the District has \$49,607 of food commodity inventory.

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

**To the Board of School Directors
Muhlenberg School District
Laureldale, Pennsylvania**

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Muhlenberg School District's basic financial statements, and have issued our report thereon dated December 5, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muhlenberg School District's internal control over financial reporting (internal control) as a basis for designing 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 Muhlenberg School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg School District's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 5, 2022

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

**To the Board of School Directors
Muhlenberg School District
Laureldale, Pennsylvania**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Muhlenberg School District’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Muhlenberg School District’s major federal programs for the year ended June 30, 2022. Muhlenberg School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Muhlenberg 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, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibility for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 5, 2022

MUHLENBERG SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? _____ yes X none reported
Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? _____ yes X none reported
Type of auditor's report issued on compliance for
major programs: Unmodified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a)? _____ yes X no

Identification of major program(s):

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<u>Special Education Cluster</u>
84.027	IDEA - Special Education Grants to States
84.173	IDEA - Special Education Preschool Grants
84.425	<u>COVID-19 Education Stabilization Fund</u>

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

Auditee qualified as low-risk auditee? X yes _____ no

MUHLENBERG SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.



MUHLENBERG SCHOOL DISTRICT

Joseph E. Macharola, Ed.D.

Superintendent

Alan S. Futrick, Ed.D.
Assistant Superintendent

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Shane M. Mathias, CPA
Business Manager

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

Section II - Financial Statement Findings

There were no financial statements findings reported for the year ended June 30, 2021.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2021.