

NORTH PENN SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

NORTH PENN SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Penn School District
Lansdale, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, 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.

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Adoption of Governmental Accounting Standards Board Pronouncements

As described in Note 16 to the financial statements, in 2020 the District adopted the provisions of Governmental Accounting Standards Board's Statement No. 83, "*Certain Asset Retirement Obligations*," the provisions of Governmental Accounting Standards Board's Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*," the provisions of Governmental Accounting Standards Board's Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*," and the provisions of Governmental Accounting Standards Board's Statement No. 95, "*The Effective Dates of Certain Provisions Contained in the Following Pronouncements Are Delayed by One Year: Statement No. 83, 84, 88, 89, 90, 91, 92 and 93. The effective date for the following pronouncements are postponed by 18 months: Statement No. 87.*" Our opinion is not modified with respect to these matters.

Emphasis of Matter

As discussed in Note 21, a subsequent event may have a significant impact on the operations of the District. Management has determined that it is not possible to predict the eventual outcome of the subsequent event. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, schedule of the District's pension contributions, schedule of the District's proportionate share of the PSERS net other postemployment benefits liability, schedule of the District's PSERS other postemployment benefit plan contributions, and schedule of changes in the total other postemployment benefits plan liability and related ratios 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.



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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal and certain state awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal and certain state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, supplemental schedules 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 15, 2020, on our consideration of the 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Zelenkofske Axlerod LLC

ZELENKOFESKE AXELROD LLC

Jamison, Pennsylvania
December 15, 2020

This section of the North Penn School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2020.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting and the budgeting system is designed to tightly control site budgets but provide flexibility for site management.

For the General Fund, actual revenues, excluding the two bond refundings, were \$264.9 million or \$2.2 million below the original budgeted revenues. The weak revenues are a reflection of the COVID-19-related economy (discussed later) which impacted several local revenue sources. Actual expenditures, excluding the two bond refundings, totaled \$268.3 million and included \$2.5 million that was transferred to the Capital Reserve Fund. The unassigned fund balance was reduced by \$3,226,254 as a result bringing the total to \$18,107,387.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: management's discussion and analysis (this section), basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that 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 status.
- 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.
 - ü **Governmental Funds** statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
 - ü **Proprietary Funds** statements offer short- and long-term financial information about the activities the District operates like businesses, such as School Nutrition Services.
 - ü **Fiduciary Funds** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and 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 A-1 shows how the various parts of this annual report are arranged and related to one another.

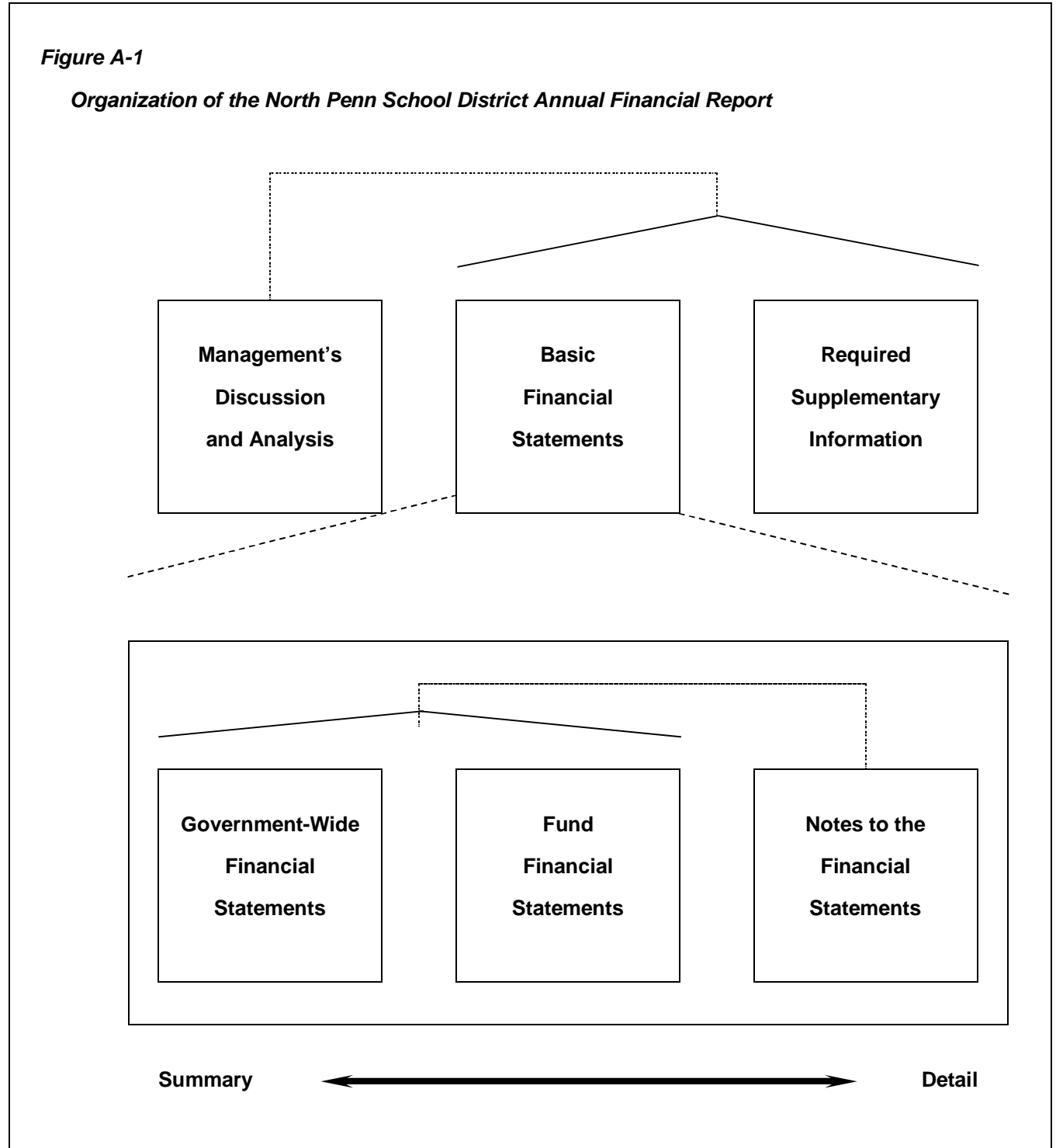


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

Figure A-2				
Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School District operates similar to private businesses: school nutrition services and community education	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> Statement of net assets 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 assets Statement of revenues, expenses and changes in net assets Statement of cash flows 	<ul style="list-style-type: none"> Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can

Type of in-flow/ outflow information	All revenues and expenses during the 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	All additions and deductions during the year, regardless of when cash is received or paid
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Government-Wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indication of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities:** The District's community education, extended child care and school nutrition service programs are included here. The District charges fees to cover the costs of the services provided.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not on the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has three kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Fund's statements provide a detailed short-term view that help one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the District-wide statements, additional information accompanying the Governmental Funds statements explains the relationship (or differences) between them.
- **Proprietary Funds:** Services for which the District charges a fee are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way as the District-wide statements. The District's Enterprise Funds (one type of Proprietary Fund) report its business-type activities, providing more detail and additional information such as cash flows.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund and the Student Activities Funds. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

- The net asset deficit of the governmental activities decreased by \$1.3 million. Net assets of the business-type activities decreased by \$2.1 million.
- Program specific revenues in the form of charges for services and grants and contributions accounted for \$62.2 million or 23% of total revenues. General revenues accounted for \$210.6 million or 77% of total revenues (Figure A-4).
- Governmental fund expenses totaled \$289.1 million of which \$169.2 million was spent on instructional services, \$77.9 million was spent on support services, \$2.9 million was spent on non-instructional services, \$35.4 million was spent for debt service payments, \$3.5 million was spent on facilities acquisition, construction, and improvement services, and \$0.2 million was for refunds of prior year revenues (See Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds).
- The North Penn Education Association (NPEA), an affiliation of the Pennsylvania State Education Teachers Association, represents the professional staff of the District. The District and NPEA have a four-year agreement that expires June 30, 2021.
- The North Penn Educational Support Personnel Association (NPESPA), an affiliation of the Pennsylvania State Education Teachers Association, represents part of the support staff of the District. The District and NPESPA have a one-year agreement that expires June 30, 2021.
- The District administrators have a one-year agreement with the Board of School Directors that expires June 30, 2021.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2020

FIGURE A-3
Condensed Statement of Net Position (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2020 - 2019
	2020	2019	2020	2019	2020	2019	
Assets							
Current and Other Assets	\$ 131.9	\$ 130.0	\$ 1.4	\$ 2.2	\$ 133.3	\$ 132.2	
Capital Assets, Net	189.1	191.2	0.4	0.4	189.5	191.6	
Total Assets	321.0	321.2	1.8	2.6	322.8	323.8	-0.3%
Deferred Outflows of Resources	174.9	159.7	5.4	4.6	180.3	164.3	9.7%
Liabilities							
Long-Term Liabilities	566.5	532.6	14.9	12.0	581.4	544.6	
Other Liabilities	52.7	38.3	0.6	0.7	53.3	39.0	
Total Liabilities	619.2	570.9	15.5	12.7	634.7	583.6	8.8%
Deferred Inflows of Resources	94.5	129.1	3.0	3.7	97.5	132.8	-26.6%
Net Position							
Net Investment in Capital Assets	74.7	88.4	0.4	0.4	75.1	88.8	
Restricted	23.0	22.3	-	-	23.0	22.3	
Unrestricted	(315.5)	(329.8)	(11.7)	(9.6)	(327.2)	(339.4)	
Total Net Position	\$ (217.8)	\$ (219.1)	\$ (11.3)	\$ (9.2)	\$ (229.1)	\$ (228.3)	0.4%

FIGURE A-4
Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2020 - 2019
	2020	2019	2020	2019	2020	2019	
Revenues							
Program Revenues	\$ 55.1	\$ 42.5	\$ 7.1	\$ 8.6	\$ 62.2	\$ 51.1	
Other Revenues	210.5	219.1	-	-	210.5	219.1	
Total Revenues	265.6	261.6	7.1	8.6	272.7	270.2	0.9%
Expenses	264.3	243.6	9.2	8.1	273.5	251.7	8.7%
Change in Net Position	\$ 1.3	\$ 18.0	\$ (2.1)	\$ 0.5	\$ (0.8)	\$ 18.5	-104.3%

Governmental Activities

Governmental activities consist of the General Fund, Capital Reserve, and Bond Funds. Total governmental assets decreased by \$0.2 million and total liabilities increased by \$48.3 million due to changes in the net pension and OPEB liabilities. The Governmental Net Asset deficit decreased by \$1.3 million (Figure A-3).

The District depends heavily on local taxes to fund the District's programs. For 2019-2020, local sources comprised 78.3% of total revenue, of which current real estate taxes, including interim taxes, were \$179.5 million, delinquent real estate taxes were \$1.5 million, transfer taxes were \$3.0 million and earned income taxes were \$17.5 million. Other revenue comes from state subsidies (20.3%) and federal grants and other sources (1.4%).

Business-Type Activities

Business-type activities include the School Nutrition Services Program, the Extended School Care Program and the Community Education Program. Each Enterprise Fund is operated separately. These programs had operating and non-operating revenues of \$7.1 million and expenses of approximately \$9.2 million, resulting in a \$2.1 million decrease in net position for the year. The programs are designed to operate at or near break-even so that the cost for the services offered will benefit the District residents. Business-type activities received no support from tax revenues. The business-type activities were materially impacted by the COVID-19 pandemic shutdown. Act 13 of 2020 required Pennsylvania School Districts to continue to pay school district staff their normal wages even though some of these programs were closed for the remainder of the 2019-20 school year. (Figure A-4).

The School Nutrition Services Program provides school lunches and operates a breakfast program as well as catering services. The School Nutrition Services Program receives both federal and state subsidies for lunch and breakfast programs. It also receives some government commodities on a routine basis. The majority of revenue comes from federal subsidies.

The Extended School Care Program provides before and after school care and summer camps for the resident children of the District. Revenues are generated by those utilizing the services.

The Community Education Program provides trips, tours and classes for the residents of the North Penn area. Evening classes are held at several of the District's schools. These programs cater to the improvement of the quality of life for the residents of the North Penn area.

General Fund Budgetary Highlights

The economic environment deteriorated after the COVID-19 pandemic shutdown (discussed later). Real estate tax collections remained strong as the collections were completed prior to the COVID-19 pandemic. However, the realty transfer tax (\$0.8 million), earned income tax (\$0.2 million) and investment income (\$0.4 million) all fell short of the budgeted amounts. This is the first time in nearly ten years that these line items fell short of the budgeted amount. In prior years these items were the source of surpluses relative to the budgeted amounts. The revenue shortfalls were the direct result of the COVID-19 pandemic.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

For the North Penn School District, capital assets include land, buildings, furniture and equipment, vehicles and other items that meet the following criteria:

- a. The individual asset must have a useful life greater than one year.
- b. The individual asset cost is equal to or greater than \$5,000 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets as well as for any item costing over \$1,000 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

The District maintains more than 16,000 computers for students and staff. Technology equipment is replaced when the functionality or educational requirement necessitate it, not based on a set time period. The District embarked on a 1:1 student computer initiative in the summer of 2016. The District maintains approximately 114 buses and 20 vans that typically transport the District's students over 1.8 million miles per year. The District also transports approximately 1,700 non-public students each year. The District purchased an additional 11 propane-powered buses during the 2019-2020 fiscal year, bringing the total propane fleet to 21. The District also installed an on-site propane fueling station with the assistance of grant proceeds from the Pennsylvania Department of Environmental Protection. Regular improvements to the buildings of the District are ongoing as well as major renovation projects at Crawford Stadium and Knapp Elementary School.

Figure A-5
Capital Assets (Net of Depreciation, In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2020 - 2019
	2020	2019	2020	2019	2020	2019	
Land and Site Improvements	\$ 8.8	\$ 8.8	\$ -	\$ -	\$ 8.8	\$ 8.8	
Construction in Progress	3.8	28.6	-	-	3.8	28.6	
Buildings	165.7	145.6	-	-	165.7	145.6	
Furniture and Equipment	10.9	8.2	0.4	0.4	11.3	8.6	
	<u>\$ 189.2</u>	<u>\$ 191.2</u>	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$ 189.6</u>	<u>\$ 191.6</u>	-1.0%

Long-Term Obligations

Long-term obligations increased by \$49.2 million, primarily due to increases in the net pension and OPEB liabilities. The short-term debt decreased by \$0.8 million due to the schedule of bond, note, and lease obligations. Total outstanding long-term obligations increased by 8.9% (Figure A-6).

Figure A-6
Outstanding Long-Term Obligations (In Millions of Dollars)

	2020	2019	Total Percentage Change
Long-Term Obligations			
General Obligation Bonds and Notes	\$ 80.5	\$ 91.3	
Other General Obligations	500.8	440.8	
Total Long-Term Obligations	<u>581.3</u>	<u>532.1</u>	
Short-Term Obligations			
General Obligation Bonds and Notes	11.4	12.2	
Other General Obligations	0.3	0.3	
Total Short-Term Obligations	<u>11.7</u>	<u>12.5</u>	
TOTAL	<u>\$ 593.0</u>	<u>\$ 544.6</u>	<u>8.9%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and on-going financial obligations and prudently manages its financial assets. Academic performance is supported by regionally competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

Financial challenges face many school districts in the state of Pennsylvania and North Penn School District is not alone in this regard. With the passage of Act 1 of 2006, school districts are faced with a cap on the money that can be funded from a property tax increase. The cap is an inflationary index annually calculated by the Pennsylvania Department of Education (PDE). Act 1 does provide for some exceptions that permit districts to increase property taxes in excess of the cap. Exceptions are approved by the PDE. Limited tax relief arrived starting in the 2008-2009 fiscal year as the state distributed a portion of gambling revenue to offset real estate tax increases. The School District was fortunate to receive \$5,210,934 in the 2019-2020 fiscal year that offset property taxes for those property owners who qualified for the homestead exemption.

The 2019-2020 school year was another strong year financially for the North Penn School District prior to the COVID-19 pandemic. The District was able to make a \$2.5 million transfer to the Capital Reserve Fund from the General Fund to support capital projects. The unassigned fund balance in the General Fund decreased from \$21,264,066 to \$18,107,387. However, the decrease was far less than originally budgeted. Total fund balances in the general fund amounted to a fiscally healthy \$37,888,161

North Penn School District has committed itself to educational and financial excellence. The District's system of budgeting, internal controls, and long-term financial projections are well regarded and consistently followed. The District was recognized by the Association of School Business Officials International with the prestigious Meritorious Budget Award for the fifth straight year. The District also maintained its Aa1 bond rating with Moody's during the fiscal year. Continued diligence in all financial matters will be a key component of continued successful financial performance well into the future.

The district is currently faced with uncertain times due to the COVID-19 pandemic. The Governor of Pennsylvania mandated school closures beginning March 13, 2020, in Montgomery County and on April 9, 2020, announced that all schools will stay closed through the end of the 2019-2020 school year. The District implemented a Continuity of Education Plan for the remainder of the 2019-2020 school year, in a virtual environment. The district started virtually but moved into a hybrid format for the 2020-2021 school year.

North Penn School District, like all school districts across the state of Pennsylvania, is estimating a decline in local revenue for the upcoming school year and subsequent years. The district anticipates a reduction in real estate taxes, transfer taxes, earned income taxes and investment income. Minimal increases to property assessment values, potentially decreasing collection rates, increasing unemployment rates and a significant cut in short term investment rates all contribute to the projected revenue loss for next year.

Fortunately, the state committed to maintain state funding for 2020-2021 without any reductions. The economic decline presented by COVID-19 will provide challenges for the state of Pennsylvania and additional uncertainty surrounding the state's funding for school districts in the future. In addition, there is no relief to school districts for state mandated cost increases, such as charter school tuition and special education required services, which are increasing at a pace greater than Act 1.

In addition to the relatively unknown economic impact of COVID-19, major factors that affect the District's current and future budgets are increasing costs and diminishing state and federal funding, all of which combined affect the ability to maintain the level quality of education for the students. The future direction of the District remains to uphold its high level of quality education while managing and preserving resources in an effort to maintain a budget near the Act 1 index and minimizes the impact on its taxpayers.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

The financial report is designed to provide the citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Steve Skrocki, Chief Financial Officer, North Penn School District, 401 East Hancock Street, Lansdale, PA 19446, 215-853-1010, skrocksb@npenn.org or visit the School District's website at www.npenn.org.

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2020**

	Governmental Activities	Business-Type Activities	Totals
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 98,798,628	\$ 1,376,937	\$ 100,175,565
Investments	4,553,583	-	4,553,583
Taxes Receivable	1,756,854	-	1,756,854
Internal Balances	488,661	(488,661)	-
Due From Agency Funds	4,464	-	4,464
Due from Other Governments	10,629,576	242,531	10,872,107
Inventories	199,960	169,391	369,351
Other Receivables	1,096,861	11,594	1,108,455
Prepaid Expenses	14,299,831	1,000	14,300,831
Capital Assets			
Land	8,431,732	-	8,431,732
Construction in Progress	3,849,406	-	3,849,406
Site Improvements	661,917	-	661,917
Building and Building Improvements	302,267,889	-	302,267,889
Furniture and Equipment	40,849,499	1,814,513	42,664,012
Accumulated Depreciation	(166,886,271)	(1,458,129)	(168,344,400)
Total Assets	<u>321,002,590</u>	<u>1,669,176</u>	<u>322,671,766</u>
Deferred Outflows of Resources			
Deferred Amount of Refunding	1,268,540	-	1,268,540
Deferred Outflows of Resources, Pension Activity	164,444,439	5,085,910	169,530,349
Deferred Outflows of Resources, OPEB Activity	9,184,594	284,060	9,468,654
Total Deferred Outflows of Resources	<u>174,897,573</u>	<u>5,369,970</u>	<u>180,267,543</u>
Liabilities			
Accounts Payable	7,455,837	20,173	7,476,010
Accrued Interest on Long-Term Debt	1,038,226	-	1,038,226
Accrued Salaries and Benefits	32,392,600	88,466	32,481,066
Due to Agency Funds	11,906	-	11,906
Unearned Revenue	161,714	512,211	673,925
Long-Term Liabilities			
Portion Due or Payable Within One Year			
Bonds Payable	11,400,000	-	11,400,000
Compensated Absences	262,156	-	262,156
Portion Due or Payable After One Year			
Bonds Payable	80,555,424	-	80,555,424
Compensated Absences	5,599,883	-	5,599,883
Net Pension Liability	452,566,110	13,996,890	466,563,000
Net OPEB Obligation	27,762,239	858,626	28,620,865
Total Liabilities	<u>619,206,095</u>	<u>15,476,366</u>	<u>634,682,461</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources, Pension Activity	86,855,740	2,686,258	89,541,998
Deferred Inflows of Resources, OPEB Activity	7,645,951	236,470	7,882,421
Total Deferred Inflows of Resources	<u>94,501,691</u>	<u>2,922,728</u>	<u>97,424,419</u>
Net Position			
Net Investment in Capital Assets	74,650,109	356,384	75,006,493
Restricted	23,015,489	-	23,015,489
Unrestricted	(315,473,221)	(11,716,332)	(327,189,553)
Total Net Position	<u>\$ (217,807,623)</u>	<u>\$ (11,359,948)</u>	<u>\$ (229,167,571)</u>

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities							
Instruction							
Regular Programs	\$ 120,175,788	\$ -	\$ 37,945,806	\$ -	\$ (82,229,982)	\$ -	\$ (82,229,982)
Special Programs	47,606,315	-	7,100,267	-	(40,506,048)	-	(40,506,048)
Vocational Programs	4,179,688	-	-	-	(4,179,688)	-	(4,179,688)
Other Instructional Programs	296,505	313,171	4,035,325	-	4,051,991	-	4,051,991
Nonpublic Schools	19,286	-	-	-	(19,286)	-	(19,286)
Support Services							
Pupil Personnel Services	15,232,722	-	1,900,000	-	(13,332,722)	-	(13,332,722)
Instructional Staff Services	8,917,213	-	-	-	(8,917,213)	-	(8,917,213)
Administrative Services	13,543,047	-	-	-	(13,543,047)	-	(13,543,047)
Pupil Health Services	5,220,777	-	280,951	-	(4,939,826)	-	(4,939,826)
Business Services	2,483,547	-	-	-	(2,483,547)	-	(2,483,547)
Operation & Maintenance of Plant Services	16,808,622	-	48,028	-	(16,760,594)	-	(16,760,594)
Facilities Acquisition, Construction and Improvement Services	6,862,471	-	-	-	(6,862,471)	-	(6,862,471)
Operation of Non-Instructional Services							
Student Transportation Services	12,673,225	-	2,219,428	-	(10,453,797)	-	(10,453,797)
Central and Other Support Services	3,958,682	-	216,714	-	(3,741,968)	-	(3,741,968)
Student Activities and Athletics	2,865,002	104,288	-	-	(2,760,714)	-	(2,760,714)
Community Services	53,499	-	-	966,794	913,295	-	913,295
Miscellaneous	223,874	-	-	-	(223,874)	-	(223,874)
Interest on Long-Term Debt	3,226,239	-	-	-	(3,226,239)	-	(3,226,239)
Total Governmental Activities	264,346,502	417,459	53,746,519	966,794	(209,215,730)	-	(209,215,730)
Business-Type Activities							
School Nutrition Services	5,850,819	1,900,413	2,894,977	-	-	(1,055,429)	(1,055,429)
Extended Care	2,834,620	1,824,727	72,902	-	-	(936,991)	(936,991)
Community Education	557,862	392,727	-	-	-	(165,135)	(165,135)
Total School District Activities	9,243,301	4,117,867	2,967,879	-	-	(2,157,555)	(2,157,555)
Total Primary Government	\$ 273,589,803	\$ 4,535,326	\$ 56,714,398	\$ 966,794	(209,215,730)	(2,157,555)	(211,373,285)
General Revenues and Transfers							
Taxes							
Property Taxes, Levied for General Purposes							
					189,348,220	-	189,348,220
Earned Income							
					17,515,990	-	17,515,990
Public Utility Taxes							
					176,699	-	176,699
Investment Earnings							
					2,803,795	31,991	2,835,786
Grants and Contributions not Restricted to Specific Programs							
					-	10,000	10,000
Receipts from Member Districts							
					-	-	-
Gain on Sale of Capital Assets							
					38,437	-	38,437
Transfers							
					50,000	(50,000)	-
Miscellaneous Income							
					586,672	24,944	611,616
Total General Revenues and Transfers							
					210,519,813	16,935	210,536,748
Change in Net Position							
					1,304,083	(2,140,620)	(836,537)
Net Position at Beginning of Year							
					(219,111,706)	(9,219,328)	(228,331,034)
Net Position at End of Year							
					\$ (217,807,623)	\$ (11,359,948)	\$ (229,167,571)

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

**NORTH PENN SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020**

	General Fund	2018/2019 Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents - Unrestricted	\$ 62,219,630	\$ -	\$ -	\$ 62,219,630
Cash and Cash Equivalents - Restricted	-	16,836,832	11,147,364	27,984,196
Investments	2,561,583	1,992,000	-	4,553,583
Taxes Receivable, Net	1,756,854	-	-	1,756,854
Due from Other Funds	495,483	-	2,000,936	2,496,419
Due from Agency Funds	4,464	-	-	4,464
Due from Other Governments	10,629,576	-	-	10,629,576
Inventories	199,960	-	-	199,960
Other Receivables, Net	439,967	1,659	-	441,626
Prepaid Expenditures	74,291	-	-	74,291
Total Assets	\$ 78,381,808	\$ 18,830,491	\$ 13,148,300	\$ 110,360,599
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts Payable	\$ 6,504,827	\$ 818,689	\$ 66,135	\$ 7,389,651
Due to Other Funds	2,000,936	4,131	1,040	2,006,107
Due to Agency Funds	11,906	-	-	11,906
Unearned Revenue	161,714	-	-	161,714
Accrued Salaries and Benefits	30,435,268	-	-	30,435,268
Total Liabilities	39,114,651	822,820	67,175	40,004,646
Deferred Inflows of Resources				
Unavailable Revenue, Property Taxes	1,378,996	-	-	1,378,996
Fund Balances				
Nonspendable, Prepaid Expenditures	74,291	-	-	74,291
Nonspendable, Inventory	199,960	-	-	199,960
Restricted for Capital Projects	-	18,007,671	5,007,818	23,015,489
Committed to				
Future Retirement Rate Increase	16,806,523	-	-	16,806,523
Assigned to				
Capital Projects	-	-	8,073,307	8,073,307
Self-funded Insurance	2,700,000	-	-	2,700,000
Unassigned	18,107,387	-	-	18,107,387
Total Fund Balances	37,888,161	18,007,671	13,081,125	68,976,957
Total Liabilities, Deferred Inflows of Resources & Fund Balances	\$ 78,381,808	\$ 18,830,491	\$ 13,148,300	\$ 110,360,599

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

**NORTH PENN SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVIES
YEAR ENDED JUNE 30, 2020**

Total Governmental Funds Balances	<u>\$ 68,976,957</u>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	8,431,732
Construction in Progress	3,849,406
Site Improvements	661,917
Building and Building Improvements	302,267,889
Furniture and Equipment	40,849,499
Accumulated Depreciation	<u>(166,886,271)</u>
	<u>189,174,172</u>
<p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These consist of:</p>	
Deferred Amount on Refunding	<u>1,268,540</u>
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.</p>	
	<u>77,588,699</u>
<p>Deferred inflows and outflows of resources related to OPEB activities are not financial resources and therefore not reported in the governmental funds.</p>	
	<u>1,538,643</u>
<p>Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
	<u>1,378,996</u>
<p>The assets and liabilities of certain Internal Service Funds are not included in the fund financial statements but are included in the governmental activities on the statement of net position.</p>	
	<u>21,450,408</u>
<p>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:</p>	
Bonds Payable	(88,229,000)
Bond Premium/Discount, Net of Amortization	(3,726,424)
Accrued Interest	(1,038,226)
Compensated Absences	(5,862,039)
Net Pension Liability	(452,566,110)
Other Postemployment Benefits	<u>(27,762,239)</u>
	<u>(579,184,038)</u>
Net Position of Governmental Activities	<u>\$ (217,807,623)</u>

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020**

	General Fund	2018/2019 Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local Sources	\$ 207,383,133	\$ 302,575	\$ 153,910	\$ 207,839,618
State Sources	53,883,568	-	-	53,883,568
Federal Sources	3,637,347	-	-	3,637,347
Total Revenues	264,904,048	302,575	153,910	265,360,533
Expenditures				
Current:				
Instruction	169,195,612	-	-	169,195,612
Support Services	77,912,948	1,748	-	77,914,696
Operation of Non-Instructional Services	2,891,331	-	-	2,891,331
Facilities Acquisition, Construction and Improvement Services	-	2,095,138	1,436,909	3,532,047
Refund of Prior Year Revenues	222,748	-	-	222,748
Miscellaneous	1,127	-	-	1,127
Debt Service	35,383,695	-	-	35,383,695
Total Expenditures	285,607,461	2,096,886	1,436,909	289,141,256
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,703,413)	(1,794,311)	(1,282,999)	(23,780,723)
Other Financing Sources (Uses)				
Payment to Refund Bond Escrow Agent	(31,292,309)	-	-	(31,292,309)
Issuance of Refunding Bonds	49,464,000	-	-	49,464,000
Bond Premium Proceeds	1,665,036	-	-	1,665,036
Issuance Recoveries	51,995	-	-	51,995
Proceeds from Sale of Capital Assets	38,437	-	-	38,437
Transfers In	50,000	-	2,500,000	2,550,000
Transfers Out	(2,500,000)	-	-	(2,500,000)
Total Other Financing Sources (Uses)	17,477,159	-	2,500,000	19,977,159
Net Change in Fund Balances	(3,226,254)	(1,794,311)	1,217,001	(3,803,564)
Fund Balances at Beginning of Year	41,114,415	19,801,982	11,864,124	72,780,521
Fund Balances at End of Year	\$ 37,888,161	\$ 18,007,671	\$ 13,081,125	\$ 68,976,957

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

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

Net Changes in Fund Balances - Total Governmental Funds	<u>\$ (3,803,564)</u>
 Amounts reported for governmental activities in the statement of activities are different because:	
 Capital outlays are reported in Governmental Funds as expenditures and sale of capital assets are reported as revenues. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.	
Capital Outlays	8,191,770
Depreciation	<u>(10,204,678)</u>
	<u>(2,012,908)</u>
 Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Unavailable tax revenues decreased by this amount.	
	<u>149,620</u>
 In the statement of activities, certain operating expenses - compensated absences (vacation and sick leave) - are measured by the amounts earned during the year. In the Governmental Funds, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	<u>(598,853)</u>
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds:	
Accrued Interest	178,848
Insurance Provision	2,539,753
OPEB Plan Expense	74,717
Pension Plan Expense	<u>(7,365,411)</u>
	<u>(4,572,093)</u>
 The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to Governmental Funds, while the repayment of the principal long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Issuance of Refunding Bonds	(49,464,000)
Repayment of Bond Principal	60,315,000
Amortization of Bond Discounts, Premiums and Refunding Loss	1,196,155
Repayment of Capital Lease Obligations	94,726
	<u>12,141,881</u>
 Change in Net Position of Governmental Activities	 <u><u>\$ 1,304,083</u></u>

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020**

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 906,432	\$ 436,458	\$ 34,047	\$ 1,376,937	\$ 8,594,802
Due from Other Governments	207,431	35,100	-	242,531	-
Due from Other Funds	9,461	-	-	9,461	-
Other Receivables	5,473	6,121	-	11,594	655,235
Prepaid expenses	-	1,000	-	1,000	14,225,540
Inventories	169,391	-	-	169,391	-
Total Current Assets	1,298,188	478,679	34,047	1,810,914	23,475,577
Capital Assets, Net	337,791	-	18,593	356,384	-
Total Assets	1,635,979	478,679	52,640	2,167,298	23,475,577
Deferred Outflows of Resources					
Deferred Outflows of Resources - Pension Activity	2,787,296	1,918,528	380,086	5,085,910	-
Deferred Outflows of Resources - OPEB Activity	155,674	107,152	21,234	284,060	-
Total Deferred Outflows of Resources	2,942,970	2,025,680	401,320	5,369,970	-
Liabilities					
Accounts Payable	19,538	183	452	20,173	66,186
Accrued Salaries and Benefits	51,606	36,860	-	88,466	1,957,332
Due to Other Funds	277,943	203,949	16,230	498,122	1,651
Unearned Revenue	229,300	280,895	2,016	512,211	-
Long-Term Liabilities					
Net Pension Liability	7,670,893	5,279,966	1,046,031	13,996,890	-
Other Postemployment Benefits	457,486	334,806	66,334	858,626	-
Total Liabilities	8,706,766	6,136,659	1,131,063	15,974,488	2,025,169
Deferred Inflows of Resources					
Deferred Inflows of Resources - Pension Activity	1,472,185	1,013,321	200,752	2,686,258	-
Deferred Inflows of Resources - OPEB Activity	129,596	89,202	17,672	236,470	-
Total Deferred Inflows of Resources	1,601,781	1,102,523	218,424	2,922,728	-
Net Position					
Net Investment in Capital Assets	337,791	-	18,593	356,384	-
Unrestricted	(6,067,389)	(4,734,823)	(914,120)	(11,716,332)	21,450,408
Total Net Position	\$ (5,729,598)	\$ (4,734,823)	\$ (895,527)	\$ (11,359,948)	\$ 21,450,408

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020**

	Business-Type Activities				Governmental Activities
	Enterprise Funds				
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	
Operating Revenues					
Charges for Service	\$ 1,900,413	\$ 1,824,727	\$ 392,727	\$ 4,117,867	\$ -
Premiums transferred from General Fund	-	-	-	-	29,547,841
Other	20,830	4,114	-	24,944	710,468
Total Operating Revenues	<u>1,921,243</u>	<u>1,828,841</u>	<u>392,727</u>	<u>4,142,811</u>	<u>30,258,309</u>
Operating Expenses					
Salaries	2,177,960	1,491,368	189,001	3,858,329	-
Employee Benefits	1,720,878	1,168,078	193,136	3,082,092	27,908,115
Purchased professional and technical service	3,302	33,235	87,323	123,860	-
Purchased property service	22,820	-	11,205	34,025	-
Other purchased service	2,348	17,538	42,890	62,776	34,392
Supplies	1,867,726	89,441	9,002	1,966,169	-
Depreciation	52,263	-	5,371	57,634	-
Other operating expenses	3,522	34,960	19,934	58,416	207
Total Operating Expenses	<u>5,850,819</u>	<u>2,834,620</u>	<u>557,862</u>	<u>9,243,301</u>	<u>27,942,714</u>
Operating Income (Loss)	<u>(3,929,576)</u>	<u>(1,005,779)</u>	<u>(165,135)</u>	<u>(5,100,490)</u>	<u>2,315,595</u>
Nonoperating Revenues					
Contributions	10,000	-	-	10,000	-
Investment Income	16,074	13,076	2,841	31,991	224,158
Local Sources	12,300	-	-	12,300	-
State Sources	107,190	602	-	107,792	-
Federal Sources	2,775,487	72,300	-	2,847,787	-
Total Nonoperating Revenues	<u>2,921,051</u>	<u>85,978</u>	<u>2,841</u>	<u>3,009,870</u>	<u>224,158</u>
Income (Loss) before transfers	<u>(1,008,525)</u>	<u>(919,801)</u>	<u>(162,294)</u>	<u>(2,090,620)</u>	<u>2,539,753</u>
Transfers In (Out)	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Change in Net Position	<u>(1,008,525)</u>	<u>(969,801)</u>	<u>(162,294)</u>	<u>(2,140,620)</u>	<u>2,539,753</u>
Net Position at Beginning of Year	<u>(4,721,073)</u>	<u>(3,765,022)</u>	<u>(733,233)</u>	<u>(9,219,328)</u>	<u>18,910,655</u>
Net Position at End of Year	<u>\$ (5,729,598)</u>	<u>\$ (4,734,823)</u>	<u>\$ (895,527)</u>	<u>\$ (11,359,948)</u>	<u>\$ 21,450,408</u>

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020**

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
Cash Flows From Operating Activities					
Cash Received from Users	\$ 2,252,771	\$ 1,828,841	\$ 392,727	\$ 4,474,339	\$ -
Premiums Transferred from General Fund	-	-	-	-	29,547,841
Cash Payments to Employees for Services	(3,207,706)	(2,194,548)	(290,207)	(5,692,461)	-
Cash Payments to Suppliers for Goods and Services	(1,836,093)	(70,702)	(319,238)	(2,226,033)	(29,183,433)
Cash Payments for Other Operating Expenses	(77,335)	(20,765)	(26,905)	(125,005)	65,443
Net Cash Used By Operating Activities	<u>(2,868,363)</u>	<u>(457,174)</u>	<u>(243,623)</u>	<u>(3,569,160)</u>	<u>429,851</u>
Cash Flows From Noncapital Financing Activities					
Local Sources	12,300	72,902	-	85,202	-
State Sources	107,190	-	-	107,190	-
Federal Sources	2,443,959	-	-	2,443,959	-
Net Cash Provided by Noncapital Financing Activities	<u>2,563,449</u>	<u>72,902</u>	<u>-</u>	<u>2,636,351</u>	<u>-</u>
Cash Flows From Capital Financing Activities					
Capital Purchases	(31,401)	-	-	(31,401)	-
Net Cash Used by Capital Financing Activities	<u>(31,401)</u>	<u>-</u>	<u>-</u>	<u>(31,401)</u>	<u>-</u>
Cash Flows From Investing Activities					
Interest Received	16,074	13,076	2,841	31,991	224,158
Transfers available for Operating Purposes	854,374	(50,000)	-	804,374	-
Contributions Received	10,000	-	-	10,000	-
Net Cash Provided By Investing Activities	<u>880,448</u>	<u>(36,924)</u>	<u>2,841</u>	<u>846,365</u>	<u>224,158</u>
Net Increase In Cash and Cash Equivalents	<u>544,133</u>	<u>(421,196)</u>	<u>(240,782)</u>	<u>(117,845)</u>	<u>654,009</u>
Cash and Cash Equivalents At Beginning Of Year	<u>362,299</u>	<u>857,654</u>	<u>274,829</u>	<u>1,494,782</u>	<u>7,940,793</u>
Cash and Cash Equivalents at End of Year	<u>\$ 906,432</u>	<u>\$ 436,458</u>	<u>\$ 34,047</u>	<u>\$ 1,376,937</u>	<u>\$ 8,594,802</u>
Reconciliation of Operating Loss To Net Cash Used By Operating Activities					
Operating Loss	\$ (3,929,576)	\$ (1,005,779)	\$ (165,135)	\$ (5,100,490)	\$ 2,315,595
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities					
Depreciation	52,263	-	5,371	57,634	-
Donated Foods	331,528	-	-	331,528	-
Pension Expense	666,550	458,795	90,893	1,216,238	-
OPEB Expense (Increase) Decrease in	13,910	29,486	5,841	49,237	-
(Increase) Decrease in					
Due From Other Funds	(9,232)	-	-	(9,232)	2,962
Due From Other Governments	(69,279)	(35,100)	-	(104,379)	-
Prepays	528	2,513	6,966	10,007	(1,597,259)
Other Receivables	9,719	(850)	5,350	14,219	(637,939)
Inventories	9,529	-	-	9,529	-
Increase (Decrease) in					
Due to Other Funds	(17,775)	15,185	(32,255)	(34,845)	(10,048)
Unearned Revenue	85,084	109,175	(127,203)	67,056	(428)
Accrued Salaries	10,671	(23,383)	(4,804)	(17,516)	346,487
Accounts Payable	(22,283)	(7,216)	(28,647)	(58,146)	10,481
Net Cash Used By Operating Activities	<u>\$ (2,868,363)</u>	<u>\$ (457,174)</u>	<u>\$ (243,623)</u>	<u>\$ (3,569,160)</u>	<u>\$ 429,851</u>
Supplemental Disclosures					
Noncash Activities					
Donated Foods	<u>\$ 331,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF FIUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020**

	Private Purpose Trust Funds	Agency Funds
	Scholarship Trust Funds	Student Activities
Assets		
Cash and Cash Equivalents	\$ 251,721	\$ 435,506
Investments	226,810	-
Due from other funds	-	11,906
Due from primary government	-	3,800
Total Assets	478,531	\$ 451,212
Liabilities		
Accounts payable	83,081	\$ 446,748
Due to other funds	-	4,464
Total Liabilities	83,081	\$ 451,212
Net Position		
Held in Trust for Benefits and Other Purposes	\$ 395,450	

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

**NORTH PENN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2020**

	<u>Private Purpose Trust Funds</u>
	<u>Scholarship Trust Funds</u>
Additions	
Investment Earnings	
Net Investment Loss	\$ (27,301)
Net Investment Loss	(27,301)
Total Additions	<u>(27,301)</u>
Deductions	
Scholarships Awarded and Fees Paid	<u>6,000</u>
Total Deductions	<u>6,000</u>
Change in Net Position	<u>(33,301)</u>
Net Position At Beginning of Year	<u>428,751</u>
Net Position At End of Year	<u>\$ 395,450</u>

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

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Penn School District (the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The accompanying financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the North Penn School District. Based upon the application of these criteria, the School District is not a component unit of another reporting entity. Currently, the School District does not have any potential component units that should be included in the School District's reporting entity.

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary funds financial statements but differs from the manner in which governmental funds financial statements are prepared. Governmental funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between School District expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are associated specifically with a service, program or department and therefore clearly identifiable to a particular function.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting (Continued)

Government-Wide Financial Statements (Continued)

Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the School District. The focus of governmental and proprietary funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collective within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under actual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e. expenditures and other financing used) of current financial resources.

All Proprietary Fund Types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e. revenues) and decreases (i.e. expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting (Continued)

Fund Financial Statements (Continued)

services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The School District used funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements. The School District's Capital Reserve Fund is accounted for in this fund type.

Proprietary Funds

Enterprise Funds – The Enterprise Funds (School Nutrition Services Fund, Extended Care Fund and Community Education Fund) are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body had decided that periodic determination of revenues earned, expenses incurred and/or net income are appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds (Continued)

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by an activity to other departments, funds, or component units of the School District on a cost-reimbursement basis. Because the principal users of the internal services are the School District’s governmental activities, the financial statements of the Internal Service Fund are consolidated into the governmental activities column when presented in the government-wide financial statements.

Self-Insurance Fund – The Self-Insurance Fund is used to account for all financial transactions related to the administration of the School District’s self-insured health plans.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

The School District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and no restrictions on withdrawal.

Investments

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

The School District has adopted GASB Statements No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools,” No. 72, “Fair Value Measurement and Application,” and No. 79 “Certain External Investment Pools and Pool Participants.” In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the Governmental Funds balance sheet. Short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items

Inventory of food and milk in the School Nutrition Services Fund consists of supplies purchased and donated commodities received from the federal government. The donated commodities are valued at their fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method.

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.

Capital Assets

Capital assets, which include property, plant, and equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$5,000 or purchased with debt proceeds and must have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

Site improvements	15 - 20 years
Buildings and building improvements	10 – 45 years
Furniture and equipment	5 – 20 years

Unearned Revenue

Unearned revenue arises when assets are recognized before the revenue recognition criteria have been satisfied. Such is the case when resources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met or when the School District has a legal claim to the resources, the liability for unearned revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized during the period in which they were incurred.

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

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The benefits are accrued when incurred in the government-wide, Proprietary Funds and Fiduciary Funds financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity

In the fund financial statement, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted on the government-wide statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position is reported as unrestricted when there are no limitations on its use.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. They are the deferred charge on reported refunding in the government-wide statement of net position and the deferred charge outflow related to pension and OPEB activity, reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

The deferred outflows related to pension and OPEB activity are reported in the statement of net position and are deferred and recognized as an outflow of resources in the period to which the expense applies.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three types of items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The other items, deferred inflows related to pension and OPEB activity, are reported in the government-wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance

The School District has previously implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are inventories and prepaid expenditures.

Restricted – Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation. Fund balance types in this category include amounts for capital projects.

Committed – Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end. Fund balance of this type is for the retirement rate increase. Since the School District is required to contribute to the retirement plan, the retirement rate increase has been set up by the Board of School Directors to provide for fluctuations to the rate increases.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Assigned – Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent should be expressed by the Board or the CFO.

Unassigned – Amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. It is the policy of the School District to follow state requirements that unassigned fund balance will not exceed 8% of the subsequent year operating budget in the unassigned category.

The Board of School Directors established (and modified or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the government for specific purposes but does not meet the criteria to be classified as restricted or committed. The details of the fund balances are included in the Governmental Funds balance sheet (page 15). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Use of Estimates

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

PSERS Pensions and OPEB

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

NOTE 2: CASH AND INVESTMENTS

Cash

The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$1,361,509 was covered by federal depository insurance, and \$101,125,815 was collateralized by the District's depositories in accordance with Act 72, specifically an irrevocable Federal Home Loan Bank letter of credit, and the collateral was held by the depositories' agent in pooled public funds.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk – The School District’s investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

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

Investment Type	Balance	Investment Maturities <u>Less Than One Year</u>
State Investment Pools	\$ 320,583	\$ 320,583
Stocks	226,810	226,810
Certificates of Deposit	4,233,000	4,233,000
	<u>\$ 4,780,393</u>	<u>\$ 4,780,393</u>

The District was the recipient of a stock donation into the Private Trust Fund. The balance of the account on June 30, 2020 was \$226,810.

A portion of the School District’s investments are in the PSDLAF program, which are similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer’s investment pool of mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2020, is \$320,583. These assets maintain a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor’s and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79.

Certificates of deposit held by banks of \$4,233,000 are stated at cost plus interest earned.

Credit Risk – State law permits the School District to invest funds in the following types of investments:

Obligations of (1) 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, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit the Commonwealth, or (3) 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.

The School District’s investment policy does not further limit its investment choices. As of June 30, 2020, the School District’s investment in the state investment pool was rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The School District does not have an investment in any one issue that is in excess of 5% of the School District’s total investments.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

The School District categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The School District's investment in stocks are classified as Level 1 investments.

Equity Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active market for those securities.

NOTE 3: TAXES – REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. In addition, the School District levies a .5% earned income tax. Property taxes are based on assessed valuations of real property within the School District.

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

- Discount period: July 1 to August 31 – 2% of gross levy
- Face period: September 1 to October 31
- Penalty period: October 31 to collection – 10% of gross levy
- Lien date: January 15

School District taxes are billed and collected by the local elected tax collectors. Property taxes attach as an enforceable lien on property as of July 1.

NOTE 4: RECEIVABLES

Receivables at June 30, 2020, consisted of taxes, other revenue and intergovernmental grants and entitlements. The real estate taxes receivable account represents real estate transfer taxes and prior year uncollected tax levies. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of receivables by fund is as follows:

	General Fund	2018/2019 Bond Fund	School Nutrition Services Fund	Extended Care Fund
Real Estate Taxes	\$ 1,429,419	\$ -	\$ -	\$ -
Earned Income Tax	50,170	-	-	-
Real Estate Transfer Tax	277,265	-	-	-
Federal Subsidies	1,284,940	-	207,431	35,100
State Subsidies	9,344,636	-	-	-
Other Revenue	439,967	1,659	5,473	6,121
	<u>\$ 12,826,397</u>	<u>\$ 1,659</u>	<u>\$ 212,904</u>	<u>\$ 41,221</u>

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 499,947	\$ (2,012,842)
Nonmajor Governmental Funds	2,000,936	(1,040)
Nutrition Services Fund	9,461	(277,943)
Extended Care Fund	-	(203,949)
Community Education Fund	-	(16,230)
Self Insurance	-	(1,651)
2018/2019 Bond Fund	-	(4,131)
Agency Funds	11,906	(4,464)
	<u>\$ 2,522,250</u>	<u>\$ (2,522,250)</u>

Due to/from Other Funds

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The amounts between the General Fund, School Nutrition Services Fund, Extended Care Fund and Community Education Fund are for payroll. The amounts between the General Fund and Other Governmental Funds are for future capital projects. The amounts between the General Fund and the Self-Insurance Fund are for insurance premiums.

Interfund Transfers

Transfer In	Transfer Out	
Nonmajor Governmental Funds	General Fund	\$ 2,500,000
General Fund	Extended Care Fund	50,000
		<u>\$ 2,550,000</u>

The Board approved a transfer from the General Fund to the Capital Reserve Fund. In addition, the School District made a transfer from the Extended Care Fund to the General Fund.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 6: CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets not being depreciated				
Land	\$ 8,431,732	\$ -	\$ -	\$ 8,431,732
CIP	28,627,889	3,521,538	(28,300,021)	3,849,406
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	37,059,621	3,521,538	(28,300,021)	12,281,138
Capital Assets being depreciated				
Site Improvements	661,917	-	-	661,917
Buildings and building improvements	273,958,739	28,309,150	-	302,267,889
Furniture and Equipment	37,704,922	4,661,103	(1,516,527)	40,849,498
TOTAL CAPITAL ASSETS BEING DEPRECIATED	312,325,578	32,970,253	(1,516,527)	343,779,304
Accumulated Depreciation				
Site improvements	(296,695)	(33,526)	-	(330,221)
Buildings and building improvements	(128,397,465)	(8,172,658)	-	(136,570,123)
Furniture and equipment	(29,503,960)	(1,998,494)	1,516,527	(29,985,927)
TOTAL ACCUMULATED DEPRECIATION DEPRECIATED, NET	(158,198,120)	(10,204,678)	1,516,527	(166,886,271)
GOVERNMENTAL ACTIVITIES CAPITAL	\$ 191,187,079	\$ 26,287,113	\$ (28,300,021)	\$ 189,174,171
BUSINESS TYPE ACTIVITIES				
Capital assets being depreciated Furniture	\$ 1,783,111	\$ 31,402	\$ -	\$ 1,814,513
Accumulated depreciation	(1,400,495)	(57,634)	-	(1,458,129)
BUSINESS TYPE ACTIVITIES CAPITAL ASSETS, NET	382,616	(26,232)	-	356,384
Total Capital Assets, net	\$ 191,569,695	\$ 26,260,881	\$ (28,300,021)	\$ 189,530,555

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular Programs	\$ 1,668,592
Special Programs	328,320
Other Instructional Programs	62,299
SUPPORT	
Support	89,408
Support-Instruction	163,929
Admin	163,464
Pupil Health	22,035
Business	37,030
Plant	379,802
Facilities Acquisition and Construction	6,507,284
Transportation	592,456
Central	152,660
OPERATION OF NON-INSTRUCTIONAL SERVICES	
Non Instruction	37,399
	<u>\$ 10,204,678</u>

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 7: LONG-TERM DEBT

General Obligation Bonds and Note

The School District issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. At June 30, 2020, the outstanding balance of general obligation bonds and notes issued was \$88,229,000.

In March of 2020, the School District issued General Obligations Notes, Series of 2020 in the amount of \$21,559,000. The proceeds were used for the advanced refunding of the General Obligation Bonds Series of 2018 and 2019 in the amount of \$9,565,000 and \$9,370,000, respectively. The School District defeased the 2018 and 2019 General Obligation Bonds through issuance of the 2020 Series General Obligation Notes. The School transferred \$21,485,361 to a Bond Escrow Agent to be used to advance refund the General Obligation Bonds Series of 2018 and 2019. These funds were placed in an irrevocable trust to provide for future debt service payments on the 2018 and 2019 General Obligation Bonds. Accordingly the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2020 \$18,935,000 of defeased bonds are still outstanding.

In addition, the School District paid bond issuance costs in the amount of \$73,639. The Bonds mature serially through March 1, 2034 and carry an interest rate of 2.285%.

This refunding transaction resulted in an estimated cash flow savings of \$404,719 and an estimated economic gain of \$398,018 for the School District.

In December of 2019 the School District issued General Obligation Bonds, Series of 2019A in the amount of \$27,905,000. The proceeds were used to currently refund the outstanding General Obligation Bonds, Series of 2013 and 2014 in the amounts of \$9,920,000, \$9,735,000, respectively.

The School District defeased the 2015 General Obligation Bonds through issuance of the 2019A Series General Obligation Bond. The School transferred \$9,806,948 to a Bond Escrow Agent to be used to advance refund the General Obligation Bonds Series of 2015. These funds were placed in an irrevocable trust to provide for future debt service payments on 2015 General Obligation Bonds. Accordingly the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. As of June 30, 2020, \$0 of the defeased bonds were still outstanding.

In addition, the School District Paid bond issuance costs in the amount \$101,542. The notes mature serially through January 15, 2025 and carry an interest rate of 3.00%.

This refunding transaction resulted in an estimated cash flow saving of \$753,458 and an estimated economic gain of \$99,854 for the School District.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 7: LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Note (Continued)

Annual debt service requirements to maturity for general obligation bonds and note are as follows:

Year Ending June 30,	Principal	Interest
2021	\$ 11,400,000	\$ 2,776,386
2022	8,854,000	2,279,323
2023	9,710,000	2,003,991
2024	10,202,000	1,702,278
2025	10,518,000	1,385,049
2026-2030	25,537,000	2,974,952
2030-2034	12,008,000	699,941
	<u>\$ 88,229,000</u>	<u>\$ 13,821,920</u>

NOTE 8: CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2020, was as follows:

GENERAL OBLIGATION BONDS AND NOTES	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds					
Series of 2010	\$ 2,245,000	\$ -	\$ (2,245,000)	\$ -	\$ -
Series A of 2010	3,715,000	-	(3,715,000)	-	-
Series of 2013	9,920,000	-	(9,920,000)	-	-
Series of 2014	9,735,000	-	(9,735,000)	-	-
Series of 2015	9,750,000	-	(9,750,000)	-	-
Series of 2016	9,830,000	-	(5,000)	9,825,000	5,000
Series of 2017	17,560,000	-	(5,000)	17,555,000	5,000
Series A of 2017	17,390,000	-	(6,005,000)	11,385,000	11,385,000
Series of 2018	9,565,000	-	(9,565,000)	-	-
Series of 2019	9,370,000	-	(9,370,000)	-	-
Series A of 2019	-	27,905,000	-	27,905,000	5,000
Series of 2020	-	21,559,000	-	21,559,000	-
	<u>99,080,000</u>	<u>49,464,000</u>	<u>(60,315,000)</u>	<u>88,229,000</u>	<u>11,400,000</u>
Deferred amounts					
Issuance premium	4,366,300	1,665,036	(2,304,912)	3,726,424	-
TOTAL GENERAL OBLIGATION BONDS AND NOTES	103,446,300	51,129,036	(62,619,912)	91,955,424	11,400,000
CAPITAL LEASES	94,726	-	(94,726)	-	-
COMPENSATED ABSENCES	5,263,186	861,009	(262,156)	5,862,039	262,156
NET OPEB LIABILITY	27,729,550	891,315	-	28,620,865	-
NET PENSION LIABILITY	408,042,000	58,521,000	-	466,563,000	-
TOTAL LONG-TERM LIABILITIES	<u>\$ 544,575,762</u>	<u>\$ 111,402,360</u>	<u>\$ (62,976,794)</u>	<u>\$ 593,001,328</u>	<u>\$ -</u>

Debt service for general obligation bonds is funded primarily from real estate taxes. Compensated absences attributable to governmental activities are generally liquidated by the General Fund. Other postemployment benefits costs attributed to governmental activities are also generally liquidated by the General Fund.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 9: UNEARNED REVENUE

General Fund

Program grants received prior to the incurrence of qualifying expenditures are recorded as unearned revenue. At June 30, 2020, unearned revenue consisted of \$161,714, which represents funds received to be used for future expenditures.

School Nutrition Services Fund

Unearned revenue of \$229,300 in the School Nutrition Services Fund represents the carryover of student deposits.

Community Education Fund

Unearned revenue of \$2,016 represents deposits received for 2020-2021 school year programs.

Extended Care Fund

Unearned revenue of \$280,895 represents unapplied credit accounts.

NOTE 10: PENSIONS

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

The Pennsylvania Public School Employees' Retirement System ("PSERS") is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System 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 was established on July 18, 1917, under the provisions of Pamphlet Law, No. 343. Benefit payments to members and contribution provision by employers and employees are specified in the Pennsylvania Public School Employees' Retirement Code ("Code"). The Commonwealth General Assembly has the authority to amend the benefit terms of the PSERS by passing a bill in the Senate and House of Representatives and sending the bills to the Governor for approval. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F").

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service. Class T-G members must work until age 67 with a minimum of three of three years of service, or any combination of age and service that totals 97 with a at least 35 years of credited service. Class T-H members must work until age 67 with a minimum of three years of service credit.

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

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

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

All members are fully vested in their individual balance in the Members' Saving Account. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

Contributions

Member Contributions

Member contribution rates are set by law (redefined with the provisions of Act 9 of 2001 and Act 120) and are dependent upon membership class. Member contribution rate are as follows:

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

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

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

Members who joined the system after June 30, 2011 and before July 1, 2019 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.30 percent (base rate) of the member's qualifying compensation. Membership Class TE and T-F are affected by a "shared risk" provision in Act 120 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Members who joined the system after June 30, 2019 are eligible for Hybrid Defined Benefit and Defined Contribution Membership Classes T-G or T-H or a 100% Defined Contribution option, as enacted by Act 5.

Employer Contributions

The contribution policy is set by the code. The School District's contractually required contribution rate for the fiscal year ended June 30, 2020, was 33.45 percent 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. Included in the District's contractually required contribution rate is the Act 5 contribution rate totaling .09 percent. Contributions to the plan from the School District were \$43,214,349 for the year ended June 30, 2020.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

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

At June 30, 2020, the School District reported a total liability of \$466,563,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll for all members of the PSERS Plan. At June 30, 2019, the School District's proportion was 0.9973 percent, which was an increase of 0.1473 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$57,815,000. At June 30, 2020, the School 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
GOVERNMENTAL ACTIVITIES		
Differences between expected and actual experience	\$ 2,491,930	\$ 15,000,080
Changes in assumptions	4,326,200	-
Changes in proportions	112,416,210	70,558,770
Difference between employer contributions and proportionate share of total contributions	3,292,180	-
Contributions subsequent to the measurement date	41,917,919	-
Net difference between projected and actual investment earnings	-	1,296,890
Changes in proportions	<u>\$ 164,444,439</u>	<u>\$ 86,855,740</u>
BUSINESS-TYPE ACTIVITIES		
Differences between expected and actual experience	\$ 77,070	\$ 463,920
Changes in assumptions	133,800	-
Net difference between projected and actual investment earnings	-	40,108
Changes in proportions	3,476,790	2,182,230
Difference between employer contributions and proportionate share of total contributions	101,820	-
Contributions subsequent to the measurement date	1,296,430	-
	<u>\$ 5,085,910</u>	<u>\$ 2,686,258</u>

\$43,214,349 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

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

Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2020	\$ 11,197,825	\$ 346,324	\$ 11,544,149
2021	1,134,392	35,084	1,169,476
2022	4,480,883	138,584	4,619,467
2023	9,828,661	303,979	10,132,640
2024	9,029,924	279,276	9,309,200
Thereafter	(905)	(25)	(930)
	<u>\$ 35,670,780</u>	<u>\$ 1,103,222</u>	<u>\$ 36,774,002</u>

Actuarial Assumptions

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

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

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

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

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

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

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

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

Sensitivity of the District's and Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents District's Proportionate Share of the net pension liability, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate.

1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
<u>\$ 581,155,000</u>	<u>\$ 466,563,000</u>	<u>\$ 369,531,000</u>

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 10: PENSIONS (CONTINUED)

Act 5 of 2017

On June 12, 2017, the Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation established a new hybrid defined benefit/defined contribution retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan options under Act 5 are as follows:

Option 1: (Default Hybrid): A side-by-side DB/DC hybrid with a 1.25% multiplier for the DB component. This is the default plan if no election is made by the employee within 90 days. School employees become members of a new Class T-G.

Option 2: (Alternative Hybrid): A side-by-side DB/DC hybrid with a 1% multiplier for the DB component. School employees become members of a new Class T-H.

Option 3: Defined Contribution Plan

The current stand-alone defined benefit plan is no longer available to new members after June 30, 2019.

Pension Plan Fiduciary Net Position – Detailed information about PSERS’s fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System’s website at www.psers.state.pa.us.

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - PSERS

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

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – PSERS
(CONTINUED)**

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the PSERS Plan 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 services and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Plan Description

PSERS is a governmental cost-sharing multiple-employer postemployment benefits pension plan that provides premium assistance to eligible 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 district employer or the PSERS' Health Options Program. As of June 30, 2019 there were no assumed future benefit increases to participating eligible retirees.

Contributions

The School Districts' contractually required contribution rate for fiscal year ended June 30, 2020 was 0.83% of covered payroll, an actuarially determined 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 \$1,088,131 for the year ended June 30, 2020.

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

At June 30, 2020, the School District reported a liability of \$21,111,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The School District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll of all School Districts in the PSERS Plan. At June 30, 2020, the School District's proportion was 0.9973 percent, which was an increase of 0.1473 percent from its proportion measured as of June 30, 2019.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – PSERS
(CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB (Continued):

For the year ended June 30, 2020, the School District recognized OPEB expense of \$1,787,000. At June 30, 2020, the School 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 Resource
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ 115,430	\$ -
Change in assumptions	681,910	611,100
Net Difference between projected and actual investment earnings	34,920	-
Change in Proportions	6,776,420	3,770,390
Contributions made subsequent to measurement date	1,055,487	-
Difference between employer contributions and proportionate share of total contributions	-	53,223
	<u>\$ 8,664,167</u>	<u>\$ 4,434,713</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ 3,570	\$ -
Change in assumptions	21,090	18,900
Net Difference between projected and actual investment earnings	1,080	-
Change in Proportions	209,580	116,610
Contributions made subsequent to measurement date	32,644	-
Difference between employer contributions and proportionate share of total contributions	-	1,646
	<u>\$ 267,964</u>	<u>\$ 137,156</u>

\$1,088,131 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2020	\$ 595,350	\$ 18,413	\$ 613,763
2021	595,350	18,413	613,763
2022	590,136	18,252	608,388
2023	585,492	18,108	603,600
2024	735,784	22,756	758,540
Thereafter	71,855	2,222	74,077
	<u>\$ 3,173,967</u>	<u>\$ 98,164</u>	<u>\$ 3,272,131</u>

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – PSERS
(CONTINUED)**

Actuarial Assumptions

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

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017 determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2014 Morality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Change in Actuarial Assumptions

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

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

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

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – PSERS
(CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2%	0.2%
US Core Fixed Income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
	<u>100%</u>	

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

Discount Rate

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

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the District's net OPEB liability for June 30, 2019, calculated using current Healthcare cost trends as well as what the District's Proportionate Share of the net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage higher than the current rate:

	1% Decrease (Between 4% to 6.50%)	Current Trend Rate (Between 5% to 7.50%)	1 % Increase (Between 6% to 8.50%)
District's Proportionate Share of net OPEB liability	\$ 21,208,000	\$ 21,211,000	\$ 21,214,000

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

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

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – PSERS
(CONTINUED)**

Discount Sensitivity

	1% Decrease 1.79%	Current Discount Rate 2.79%	1% Increase 3.79%
District's Proportionate Share of net OPEB liability	\$ 24,164,000	\$ 21,211,000	\$ 18,764,000

NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - SINGLE EMPLOYER PLAN

Plan Description

The School administers a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Plan Membership

As of June 30, 2020, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits:	54
Inactive plan member entitled to but not yet receiving benefits:	-
Active total plan members:	<u>1,889</u>
	1,943

Funding Policy and Funding Status

The plan is an unfunded plan with no assets accumulated in a trust that meet the criteria in paragraph four of GASB Statement No. 75. The plan is funded on a pay-as-you-go basis; contributions to the plan are equal to benefit payments. For the year ending June 30, 2020 benefit payments paid as they came due were \$337,679.

Benefits Provided

The plan provides the following benefits:

Administrators

Administrators who retired before July 1, 2011 shall be eligible for up to \$1,500 per year reimbursement of premiums for medical and prescription drug insurance for the member only until Medicare age. Superintendents and administrators who retire after July 1, 2011, and who are eligible for PSERS retirement, shall be eligible for participation in medical, prescription drug, dental, and vision insurance until Medicare age. Members are responsible for the full premium until age 70.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - SINGLE EMPLOYER PLAN
(CONTINUED)**

Administrators (continued)

Administrators who retire after July 1, 2011 are entitled to participate in group life insurance coverage until age 70. Members are responsible for the full premium.

All Other Employees

All employees other than administrators, who are eligible for PSERS retirement, will be eligible to participate in group coverage for medical and prescription drug insurance until reaching Medicare age. Members are responsible for the full premium.

Total OPEB Liability

The District's total OPEB liability of \$7,409,865 was measured as of July 1, 2019 and used actuarial assumptions for the valuation date of July 1, 2019.

Assumptions

The following assumptions and actuarial methods and calculation were used:

Interest Rate – 3.36%, based on S&P Municipal Bond 20 Year High grade Rate Index at July 1, 2019.

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

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

- Withdrawal – Rates of withdrawal vary by age, gender and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 229% for both men and women and decrease with age and service.

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

- Morality – Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.
- Disability – No disability was assumed.
- Retirement – Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SINGLE EMPLOYER PLAN
(CONTINUED)**

Assumptions (Continued)

- Percent of Eligible Retirees Electing Coverage in Plan – 50% of teachers and administrators are 20% of the support staff are assumed to elect coverage. 75% of administrators are assumed to elect live insurance coverage.
- Percent Married at Retirement – 25% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.
- Spouse Age – Wives are assumed to be two years younger than their husbands.
- Retiree Contributions – Retiree Contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Actuarial Value of Assets – Equal to the Market Value of Assets.
- Actuarial Cost Method – Entry Age Normal – Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Changes in Assumptions – In the 2019 actuarial valuation, the discount rate changed from 2.98% to 3.36%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS assumptions.

Changes in the District's total OPEB liability for the fiscal year ended June 30, 2020 were as follow:

Balance at June 30, 2019	\$ 10,007,550
Changes for the year	
Service Cost	782,829
Interest Cost	316,102
Changes of Benefit Terms	94
Difference between Expected and Actual Experience	(3,141,478)
Change of Assumptions	(217,553)
Benefit Payments	(337,679)
Net Changes	<u>(2,597,685)</u>
Balance at June 30, 2020	<u>\$ 7,409,865</u>

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SINGLE EMPLOYER PLAN
(CONTINUED)**

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

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using discount rate that is 1- percentage point lower (2.36 percent) or 1 percentage point higher (4.36 percent) than the current discount rate:

	1% Decrease 2.36%	Current Discount Rate 3.36%	1% Increase 4.36%
System Total OPEB liability	\$ 7,992,098	\$ 7,409,865	\$ 6,860,374

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

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rate that is 1- percentage point lower (4.5 percent) or 1 percentage point higher (6.5 percent) than the current healthcare cost trend rate:

	1% Decrease 4.50%	Current Trend Rate 5.50%	1% Increase 6.50%
System Total OPEB liability	\$ 6,545,787	\$ 7,409,865	\$ 8,434,835

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2020, the School District recognized OPEB expense of \$830,124. At June 30, 2020, the School 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 Resource
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 3,017,797
Change in assumptions	321,410	193,441
Benefit payments made subsequent to measurement date	199,017	-
	\$ 520,427	\$ 3,211,238
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 93,334
Change in assumptions	9,941	5,980
Benefit payments made subsequent to measurement date	6,155	-
	\$ 16,096	\$ 99,314

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

**NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SINGLE EMPLOYER PLAN
(CONTINUED)**

\$205,172 is reported as deferred outflows of resources related to OPEB resulting from School District benefit payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2021	\$ (260,834)	\$ (8,067)
2022	(260,834)	(8,067)
2023	(260,834)	(8,067)
2024	(260,834)	(8,067)
2025	(260,834)	(8,067)
Thereafter	(1,585,658)	(49,038)
	<u>\$ (2,889,828)</u>	<u>\$ (89,373)</u>

NOTE 13: COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

School District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation (for most employee categories) may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay.

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$1,658,473 at June 30, 2020, is recorded in compensated absences on the statement of net position.

The School District pays various per diem rates to retirees for unused sick time. Compensation payable in future years, which was \$4,203,566 at June 20, 2020, is recorded in compensated absences on the statement of net position.

NOTE 14: COMMITMENTS AND CONTINGENCIES

There are a number of tax assessment appeals in the Court of Common Pleas of Montgomery County from the decisions of the Board of Assessment Appeals. Legal counsel for the School District cannot give an opinion on the outcome of these appeals nor can they reasonable estimate the financial impact.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 15: RISK MANAGEMENT

The School 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. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed, including worker’s compensation and employee health and accident insurance. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

NOTE 16: JOINT VENTURE

The School District is a participating member of the North Montco Technical Career Center (the “Center”). The Center is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The Board of School Directors of each participating district must approve the Center’s annual operating budget. Each participating district pays a pro rata share of the Center’s operating costs based on the number of students attending the Center from each district. The School District’s share of the Center’s operating and debt service costs for 2019-2020 was \$4,117,389.

On dissolution of the Center, the net position of the Center will be shared on a pro rata basis of each participating district’s current market value of taxable real property as certified by the Pennsylvania State Equalization Board. However, the School District does not have an equity interest in the Center, as defined by GASB Statement No. 14, except a residual interest in net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the Center can be obtained from the Center’s administrative office.

In June 2010, the District entered into a long-term sublease agreement with the Center through May 2031 for a portion of the debt service payments on the Center’s School Lease Revenue Bonds, Series of 2010.

Future minimum sublease payments (net of projected state subsidy) are as follows:

2021	\$	185,417
2022		185,201
2023		186,265
2024		185,819
2025		186,554
2026-2030		929,336
2031		185,978
	<u>\$</u>	<u>2,044,570</u>

NOTE 17: DONATED FOODS

The School Nutrition Services Fund generally contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated food inventory is valued at last unit cost in accordance with the recommendations of the Food Nutrition Service of the Department of Agriculture and are expensed as used. There was \$331,528 in donated foods received during the year ended June 30, 2020.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 18: SELF-INSURANCE

In July 2011, the School District elected to sponsor a self-insured employee welfare benefit plan for health care coverage. An administrative services agreement was signed with a third-party insurance company (claims administrator) to administer the costs and claims associated with the plan. The agreement required the School District to establish a deposit with the administrator. These funds are reported as prepaid expenses on the statement of net position in the amount of \$14,225,540. The deposit will be used to pay claims, retention charges and broker commissions incurred prior to but paid after the date of determination. The deposit is intended to secure only the School District's obligations to the claims administrator and has no effect, application, or operating regarding the School District's direct obligation to the benefit program. The claims administrator may, in its discretion, require a greater or lesser deposit amount from the School District to secure the School District's obligations under the agreement. If the claims administrator requires a lesser amount, the School District will receive a refund or credit.

The Self-Insurance Plan reported a liability for the years ended June 30, 2020 and June 30, 2019 as follows:

Liability as of 6-30-19	Incurred Claims	Payments Made	Liability as of 6-30-20
\$ 1,610,845	\$ 27,908,115	\$ (27,561,628)	\$ 1,957,332

Liability as of 6-30-18	Incurred Claims	Payments Made	Liability as of 6-30-19
\$ 1,831,867	\$ 26,788,746	\$ (27,009,768)	\$ 1,610,845

NOTE 19: ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The requirements of the Statement are effective for financial statements for periods beginning after June 15, 2018. The District has implemented the effects of this Statement for the reporting period ending June 30, 2020.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The District has implemented the effects of this Statement for the period ending June 30, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The District has implemented the effects of this Statement for the reporting period ending June 30, 2020.

In May 2020, the GASB issued Statement No. 95, *The Effective Dates of Certain Provisions Contained in the Following Pronouncements Are Delayed by One Year: Statement No. 83, 84, 88, 89, 90, 91, 92 and 93. The effective date for the following pronouncements are postponed by 18 months: Statement No. 87*. The requirements of this Statement are effectively immediately. The District has implemented the effect of this Statement for the reporting period ending June 30, 2020.

**NORTH PENN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020**

NOTE 20: NEW ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The District is required to adopt Statement No. 87 for its calendar 2021 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The District is required to adopt Statement No. 87 for its fiscal year 2022 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The District is required to adopt Statement No. 89 for its fiscal 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The District is required to adopt Statement No. 91 for its fiscal 2021 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The District is required to adopt Statement No. 92 for its fiscal 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The District is required to adopt Statement No. 93 for its fiscal 2022 financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The District is required to adopt Statement No. 94 for its fiscal 2023 financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The District is required to adopt Statement No. 96 for its fiscal 2023 financial statements.

District management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the District's financial reporting process.

NOTE 21: SUBSEQUENT AND CONTINUING EVENTS

The District has evaluated subsequent events for disclosure or recording through December 15, 2020, the date the audit was ready for release.

Prior to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has led to widespread voluntary and government-mandated closings of local stores and businesses, which has resulted in significant job losses. These job losses have the potential to have a significant impact on all aspects of the District's operations. In addition, due to the temporary closure of all businesses that are not deemed life sustaining, State and Federal tax revenues are also significantly decreased. This decrease could result in less grant money that is relied upon by local municipalities to fund specific projects. In addition, the District's own source revenue or derived revenues could be affected negatively.

On November 21, 2020, the School District finalized the issuance of General Obligation Notes, Series of 2020 in the amount of \$9,992,00. The proceeds of the note will be to refund all or a portion of their outstanding General Obligation Bonds, Series of 2016 and pay the costs of issuing the note.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISSON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 209,413,620	\$ 209,413,620	\$ 207,383,133	\$ (2,030,487)
State sources	54,878,026	54,878,026	53,883,568	(994,458)
Federal sources	2,856,368	2,856,368	3,637,347	780,979
Total Revenues	<u>267,148,014</u>	<u>267,148,014</u>	<u>264,904,048</u>	<u>(2,243,966)</u>
Expenditures				
Current:				
Instruction	174,555,896	171,769,508	169,195,612	2,573,896
Support	77,895,271	82,226,914	77,912,948	4,313,966
Operation of Non-Instructional Services	3,418,664	3,417,974	2,891,331	526,643
Facilities Acquisition, Construction and Improvement Services	50,000	5,435	-	5,435
Refund of Prior Year Revenues	242,438	242,438	222,748	19,690
Miscellaenous	-	-	1,127	(1,127)
Debt Service	15,815,020	15,815,020	35,383,695	(19,568,675)
Total Expenditures	<u>271,977,289</u>	<u>273,477,289</u>	<u>285,607,461</u>	<u>(12,130,172)</u>
Other Financing Sources (Uses):				
Budgetary Reserve	(1,500,000)	-	-	-
Payment to Refunding Bond Escrow Agent	-	-	(31,292,309)	(31,292,309)
Bond Issuance Proceeds	-	-	49,464,000	49,464,000
Bond Premium Proceeds	-	-	1,665,036	1,665,036
Insurance Recoveries	-	-	51,995	51,995
Proceeds from Sale of Capital Assets	10,000	10,000	38,437	28,437
Transfers In	50,000	50,000	50,000	-
Transfers Out	(500,000)	(500,000)	(2,500,000)	(2,000,000)
Total Other Financing Sources (Uses)	<u>(1,940,000)</u>	<u>(440,000)</u>	<u>17,477,159</u>	<u>17,917,159</u>
Net Change in Fund Balance	(6,769,275)	(6,769,275)	(3,226,254)	3,543,021
Fund Balance at Beginning of Year	<u>41,114,415</u>	<u>41,114,415</u>	<u>41,114,415</u>	<u>-</u>

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISSON SCHEDULE
YEAR ENEDED JUNE 30, 2020**

NOTE 1: BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all Capital Project Funds.

1. In January, the School District must make the Act 1 preliminary budget available for public inspection 20 days prior to the School Board vote.
2. The School Board of Directors must approve the Act 1 preliminary budget 90 days prior to the Pennsylvania primary election.
3. The operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1.
4. Public hearings are conducted at the School District offices to obtain taxpayer comments.
5. Prior to July 1, the budget is legally enacted through passage of an ordinance.
6. The Business Manager is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
7. Formal budgetary integration is employed as a management control device during the year for the General Funds. Formal budgetary integration is not employed for the Special Revenue Funds. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
8. Budgeted amounts are as originally adopted or as amended by the School Board.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2020, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

Miscellaneous	\$1,127
Debt Service	\$19,568,675

The excess miscellaneous expenditures were funded by available fund balance in the General Fund. The excess debt service expenditures were funded by the District's issuance of General Obligation Notes, Series of 2020 and General Obligation Bonds, Series A of 2019.

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST SIX FISCAL YEARS**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.9973%	0.8500%	1.1055%	0.7548%	0.9051%	0.8931%
District's proportionate share of the net pension liability	\$ 466,563,000	\$ 408,042,000	\$ 545,989,000	\$ 374,055,000	\$ 392,046,000	\$ 353,497,000
District's covered payroll	\$ 137,541,880	\$ 114,469,452	\$ 147,188,129	\$ 97,749,376	\$ 116,454,969	\$ 113,971,850
District's proportionate share of the net pension liability as a percentage of its covered payroll	339.22%	356.46%	370.95%	382.67%	336.65%	310.16%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	54.00%	51.84%	50.14%	46.54%	57.24%

* This schedule is intended to illustrate information for 10 years. However, until a 10 year trend is compiled, the School is presenting information for those years for which information is available.

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S
PENSION CONTRIBUTIONS
LAST SIX FISCAL YEARS**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 43,214,349	\$ 44,661,000	\$ 38,963,000	\$ 35,740,000	\$ 29,998,000	\$ 23,825,000
Contributions in relation to the contractually required contribution	43,214,349	44,661,000	38,963,000	35,740,000	29,998,000	23,825,000
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	129,190,879	137,541,880	114,469,452	147,188,129	97,749,376	116,454,969
Contributions as a percentage of covered payroll	33.45%	32.47%	34.04%	24.28%	30.69%	20.46%

* This schedule is intended to illustrate information for 10 years. However, until a 10 year trend is compiled, the School is presenting information for those years for which information is available.

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE PSERS NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY
LAST THREE FISCAL YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.9973%	0.8500%	1.1055%
District's proportionate share of the net OPEB liability	\$ 21,211,000	\$ 17,722,000	\$ 22,524,000
District's covered payroll	\$ 137,541,880	\$ 114,469,452	\$ 147,188,129
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	15.42%	15.48%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.56%	5.73%

* This schedule is intended to illustrate information for 10 years. However, until a 10 year trend is compiled, the School is presenting information for those years for which information is available.

**NORTH PENN SCHOOL DISTRICT
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF SCHOOL DISTRICT'S PSERS OTHER POSTEMPLOYMENT
 BENEFITS PLAN CONTRIBUTIONS
 LAST THREE FISCAL YEARS**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Contractually determined contribution	\$ 1,088,131	\$ 1,143,000	\$ 323,295
Contributions in relation to the contractually determined contribution	<u>1,088,131</u>	<u>1,143,000</u>	<u>323,295</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 129,190,879	\$ 137,541,880	\$ 114,469,452
Contributions as a percentage of covered payroll	0.84%	0.83%	0.28%

* This schedule is intended to illustrate information for 10 years. However, until a 10 year trend is compiled, the School is presenting information for those years for which information is available.

**NORTH PENN SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY
AND RELATED RATIOS
LAST THREE FISCAL YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 782,829	\$ 722,217	\$ 666,971
Interest	316,102	306,533	223,783
Change in benefit terms	94	-	(2,527)
Changes of assumptions	(217,553)	8,956	431,851
Differences between expected and actual experience	(3,141,478)	-	(308,591)
Benefit payments	(337,679)	(221,071)	(307,357)
Net change in total OPEB liability	(2,597,685)	816,635	704,130
Total OPEB liability - beginning	10,007,550	9,190,915	8,486,785
Total OPEB liability - ending	<u>\$ 7,409,865</u>	<u>\$ 10,007,550</u>	<u>\$ 9,190,915</u>
Covered payroll	\$ 126,547,566	\$ 116,833,571	\$ 116,833,571
District's total OPEB liability as a percentage of covered payroll	5.86%	8.57%	7.87%

Changes of Assumptions

- The discount rate changed from 2.98% to 3.36% in 2019 and from 3.13% to 2.98 in 2018.

* This schedule is intended to illustrate information for 10 years. However, until a 10 year trend is compiled, the School is presenting information for those years for which information is available.

NOTE

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

SUPPLEMENTARY INFORMATION SECTION

**ORTH PENN SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020**

	Capital Projects Funds				Total Nonmajor Governmental Funds	
	Capital Reserve Fund	2017/2018 Bond Fund	2016/2017 Bond Fund	2014/2015 Bond Fund		2013 Bond Fund
Assets						
Cash and Cash Equivalents - Restricted	\$ 6,139,017	\$ 2,625,440	\$ 801,935	\$ 1,379,382	\$ 201,590	\$ 11,147,364
Due from Other Funds	2,000,936	-	-	-	-	2,000,936
Total Assets	\$ 8,139,953	\$ 2,625,440	\$ 801,935	\$ 1,379,382	\$ 201,590	\$ 13,148,300
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts Payable	\$ 65,606	\$ 529	\$ -	\$ -	\$ -	\$ 66,135
Due to Other Funds	1,040	-	-	-	-	1,040
Total Liabilities	66,646	529	-	-	-	67,175
Fund Balances						
Restricted for capital projects	-	2,624,911	801,935	1,379,382	201,590	5,007,818
Assigned to capital projects	8,073,307	-	-	-	-	8,073,307
Total Fund Balances	8,073,307	2,624,911	801,935	1,379,382	201,590	13,081,125
Total Liabilities, Deferred Inflows of Resources & Fund Balances	\$ 8,139,953	\$ 2,625,440	\$ 801,935	\$ 1,379,382	\$ 201,590	\$ 13,148,300

**NORTH PENN SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2020**

	Capital Projects Funds					Total Nonmajor Governmental Funds
	Capital Reserve Fund	2017/2018 Bond Fund	2016/2017 Bond Fund	2014/2015 Bond Fund	2013 Bond Fund	
Revenues						
Local Sources	\$ 72,451	\$ 40,897	\$ 14,312	\$ 23,665	\$ 2,585	\$ 153,910
Total Revenues	<u>72,451</u>	<u>40,897</u>	<u>14,312</u>	<u>23,665</u>	<u>2,585</u>	<u>153,910</u>
Expenditures						
Facilities Acquisition, Construction and Improvement Services	754,711	560,592	38,159	77,846	5,601	1,436,909
Total Expenditures	<u>754,711</u>	<u>560,592</u>	<u>38,159</u>	<u>77,846</u>	<u>5,601</u>	<u>1,436,909</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(682,260)</u>	<u>(519,695)</u>	<u>(23,847)</u>	<u>(54,181)</u>	<u>(3,016)</u>	<u>(1,282,999)</u>
Other Financing Sources (Uses)						
Transfers In (Out)	2,500,000	-	-	-	-	2,500,000
Total Other Financing Sources (Uses)	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>
Net Change in Fund Balances	1,817,740	(519,695)	(23,847)	(54,181)	(3,016)	1,217,001
Fund Balances at Beginning of Year	<u>6,255,567</u>	<u>3,144,606</u>	<u>825,782</u>	<u>1,433,563</u>	<u>204,606</u>	<u>11,864,124</u>
Fund Balances at End of Year	<u>\$ 8,073,307</u>	<u>\$ 2,624,911</u>	<u>\$ 801,935</u>	<u>\$ 1,379,382</u>	<u>\$ 201,590</u>	<u>\$ 13,081,125</u>



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**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**

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
North Penn School District
Lansdale, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the North Penn School District ("the District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.



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

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 15, 2020



Zelenkofske Axlerod LLC

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**REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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



Zelenkofske Axlerod LLC

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Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 15, 2020

**SUPPLEMENTARY INFORMATION – MAJOR FEDERAL AWARD
PRGRAMS AUDIT**

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at June 30, 2019	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2020	Amount Paid to Subrecipients
U.S. DEPARTMENT OF EDUCATION											
Passed through the Pennsylvania											
Department of Education											
Title I Improving Basic Programs	I	84.010	13-190289	7/1/18 - 9/30/19	\$ 1,216,203	\$ 77,282	\$ 56,973	\$ 20,309	\$ 20,309	\$ -	\$ -
Title I Improving Basic Programs	I	84.010	13-200289	7/1/19 - 9/30/20	1,193,049	1,022,515	-	1,125,177	1,125,177	102,662	-
Total NCLB Title I					2,409,252	1,099,797	56,973	1,145,486	1,145,486	102,662	-
Title II Improving Teacher Quality	I	84.367	20-190289	7/1/18 - 9/30/19	292,117	123,834	8,177	115,657	115,657	-	-
Title II Improving Teacher Quality	I	84.367	20-200289	7/1/19 - 9/30/20	272,522	116,795	-	107,093	107,093	(9,702)	-
					564,639	240,629	8,177	222,750	222,750	(9,702)	-
Title III Language Inst LEP/Immigrant Students	I	84.365	10-180289	7/1/17 - 9/30/18	120,149	-	(16,841)	16,841	16,841	-	-
Title III Language Inst LEP/Immigrant Students	I	84.365	10-190289	7/1/18 - 9/30/20	135,887	87,356	16,593	49,383	49,383	(21,380)	-
Total NCLB Title III					256,036	87,356	(248)	66,224	66,224	(21,380)	-
Title III Language Inst LEP/Immigrant Students	I	84.365	10-200289	7/1/19 - 9/30/20	134,985	67,493	-	75,767	75,767	8,274	-
Title IV Student Support and Academic Enrichment	I	84.424	144-190289	7/1/18 - 9/30/19	88,802	12,686	3,870	8,816	8,816	-	-
Title IV Student Support and Academic Enrichment	I	84.424	144-200289	7/1/19 - 9/30/20	91,298	78,255	-	89,494	89,494	11,239	-
Total NCLB Title IV					180,100	90,941	3,870	98,310	98,310	11,239	-
Total State Department of Education					3,545,012	1,586,216	68,772	1,608,537	1,608,537	91,093	-

See Notes to Schedule of Federal and Certain State Awards

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at June 30, 2019	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2020	Amount Paid to Subrecipients
Passed through the Lancaster-Lebanon Intermediate Unit											
Dyslexia Screening and Early Literacy Intervention Pilot Program Expansion	I	84.027	N/A	7/1/19 - 9/30/20	40,000	-	-	39,935	39,935	39,935	-
Total Lancaster-Lebanon Intermediate Unit					40,000	-	-	39,935	39,935	39,935	-
Passed through the Montgomery County Intermediate Unit											
Special Education Cluster											
IDEA - Part B	I	84.027	N/A	7/1/18 - 9/30/19	2,245,087	1,148,754	1,148,754	-	-	-	-
IDEA - Part B	I	84.027	N/A	7/1/19 - 9/30/20	2,202,227	1,519,460	-	2,202,227	2,202,227	682,767	-
IDEA - SECTION 619	I	84.173	N/A	7/1/18 - 9/30/19	8,228	4,525	4,525	-	-	-	-
IDEA - SECTION 619	I	84.173	N/A	7/1/19 - 9/30/20	9,639	9,639	-	9,639	9,639	-	-
Total Special Education Cluster					4,465,181	2,682,378	1,153,279	2,211,866	2,211,866	682,767	-
Total Montgomery County Intermediate Unit					4,465,181	2,682,378	1,153,279	2,211,866	2,211,866	682,767	-
TOTAL DEPARTMENT OF EDUCATION					8,050,193	4,268,594	1,222,051	3,860,338	3,860,338	813,795	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES											
Passed through the Pennsylvania Department of Public Welfare											
Medicaid Cluster											
Medical Assistance Reimbursement	I	93.778	N/A	7/1/18 - 6/30/19	55,803	30,364	30,364	-	-	-	-
Medical Assistance Reimbursement	I	93.778	N/A	7/1/19 - 6/30/20	57,326	24,452	-	57,326	57,326	32,874	-
Total Medicaid Cluster					113,129	54,816	30,364	57,326	57,326	32,874	-
Passed through the Pennsylvania Department of Public Welfare											
Child Care and Development Block Grant	I	93.575	N/A	7/1/19 - 6/30/20	72,300	37,200	-	72,300	72,300	35,100	-
Total State Department of Public Welfare					185,429	92,016	30,364	129,626	129,626	67,974	-
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					185,429	92,016	30,364	129,626	129,626	67,974	-

See Notes to Schedule of Federal and Certain State Awards

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at June 30, 2019	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2020	Amount Paid to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE											
Passed through the Pennsylvania Department of Education											
Child Nutrition Cluster											
National School Lunch Program	I	10.555	N/A	7/1/18 - 6/30/19	N/A	81,210	81,210	-	-	*	-
	I	10.555	N/A	7/1/19 - 6/30/20	N/A	1,357,642	-	1,357,642	1,357,642	*	-
	S	N/A	N/A	7/1/18 - 6/30/19	N/A	5,385	5,385	-	-	-	-
	S	N/A	N/A	7/1/19 - 6/30/20	N/A	85,973	-	85,973	85,973	-	-
National School Breakfast Program	I	10.553	N/A	7/1/18 - 6/30/20	N/A	22,647	22,647	-	-	*	-
	I	10.553	N/A	7/1/19 - 6/30/20	N/A	308,707	-	308,707	308,707	*	-
	S	N/A	N/A	7/1/18 - 6/30/19	N/A	1,577	1,577	-	-	-	-
	S	N/A	N/A	7/1/19 - 6/30/20	N/A	21,218	-	21,218	21,218	-	-
Summer Food Program	I	10.559	N/A	7/1/18 - 6/30/19	N/A	25,137	25,137	-	-	*	-
	I	10.559	N/A	7/1/19 - 6/30/20	N/A	543,491	-	750,922	750,922	*	207,431
Subtotal Child Nutrition Cluster						2,452,987	135,956	2,524,462	2,524,462		207,431
Child and Adult Care Food Program	I	10.558	N/A	7/1/18 - 6/30/19	N/A	2,197	2,197	-	-	-	-
	I	10.558	N/A	7/1/19 - 6/30/20	N/A	26,688	-	26,688	26,688	-	-
Total Child and Adult Food Care Program						28,885	2,197	26,688	26,688	-	-
Total State Department of Education						2,481,872	138,153	2,551,150	2,551,150		207,431
Passed through the Pennsylvania Department of Agriculture											
Value of U.S.D.A. donated commodities National School Lunch Program	I	10.555	N/A	7/1/19 - 6/30/20		331,528 (A)	- (B)	331,528 (C)	331,528	*	-
Total State Department of Agriculture						331,528	-	331,528	331,528	-	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE						331,528	-	331,528	331,528	-	-
LESS: STATE FUNDS											
Total Child Nutrition Cluster						114,153	6,962	107,191	107,191	-	-
						2,699,247	131,191	2,775,487	2,775,487	207,431	-
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 7,059,857</u>	<u>\$ 1,383,606</u>	<u>\$ 6,765,451</u>	<u>\$ 6,765,451</u>	<u>\$ 1,089,200</u>	<u>\$ -</u>

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2019
- (C) Total amount of commodities used
- (D) Ending inventory at June 30, 2020

Source Codes:

- I = Indirect funding
- S = State share
- * = Major program

See Notes to Schedule of Federal and Certain State Awards

**NORTH PENN SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 SCOPE OF THIS SCHEDULE

The federal programs as listed in the schedule of expenditures of federal awards are accounted for by the School District in the General Fund for U.S. Department of Education and in the Food Service Fund for U.S. Department of Agriculture programs.

NOTE 2 REPORTING ENTITY

The North Penn School District (the "District") is the reporting entity for financial reporting purposes as detailed in Note 1 to the District's basic financial statements. For purposes of preparing the schedule of expenditures of federal awards and certain state awards, the District's reporting entity is the same that was used for financial reporting.

NOTE 3 NONMONETARY FEDERAL AWARDS – DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 represent surplus food consumed by the District during the 2019-2020 fiscal year. The District has food commodities totaling \$331,528 in inventory as of June 30, 2020.

NOTE 4 INDIRECT COST RATES

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

NOTE 5 BASIS OF ACCOUNTING

All expenditures included in the schedule of expenditures of federal and certain state awards are presented on the basis that expenditures are reported to the respective federal and state grantor agencies. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

**NORTH PENN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

I. Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes ___ no X
- Significant deficiencies identified that are not considered to be material weakness(es)?
Yes _____ none reported X

Noncompliance material to financial statements noted? Yes ___ No X

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes ___ no X
- Significant deficiencies identified that are not considered to be material weakness(es)?
Yes ___ none reported X

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 ___ no X

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
84.010	Title I – Grants to Local Education Agencies

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

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

**NORTH PENN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Section II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

None to be reported.

Section III. Findings and questioned costs for federal awards.

None to be reported.

**NORTH PENN SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

No findings were reported.