

**NEW ISSUE - BOOK ENTRY ONLY**

**RATINGS: S&P: "A+" (Negative Outlook) (Underlying)**  
**S&P: "AA" (Stable Outlook)(AG Insured)**  
(See "RATINGS" herein)

*In the opinion of Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel, assuming continuing compliance by the School District with certain covenants and agreements to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and all applicable regulations thereunder, interest on the Bonds is not includible in gross income under Section 103(a) of the Code, and interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations; however interest on the Bonds may be subject to the Federal alternative minimum tax on "applicable corporations" as defined in Section 59(k) of the Code for tax years beginning after December 31, 2022. See TAX MATTERS in this Official Statement. Other provisions of the Code may affect the purchasers and holders of the Bonds.*

*Under the laws of the Commonwealth of Pennsylvania, the Bonds and the interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds, or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania.*

**\$15,000,000\***  
**KUTZTOWN AREA SCHOOL DISTRICT**  
**(Berks County, Pennsylvania)**  
**General Obligation Bonds, Series of 2024**

**Bonds Dated:** Date of Delivery  
**Principal Due:** March 15, as shown on inside cover  
**Denomination:** Integral multiples of \$5,000

**Interest Payable:** March 15 and September 15  
**First Interest Payment:** March 15, 2025  
**Form:** DTC Book-Entry Only

**Legal Investment for Fiduciaries in Pennsylvania:** The Bonds are a legal investment for fiduciaries in the Commonwealth of Pennsylvania under the Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508 as amended and supplemented.

**General:** The General Obligation Bonds, Series of 2024 (the "Bonds" or "2024 Bonds") in the aggregate principal amount of \$15,000,000\* are being issued by the Kutztown Area School District (the "School District"), a public school district located in Berks County, Pennsylvania. The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of the Bonds can be made only under the book-entry system of DTC, and purchasers will not receive certificates representing their interests in the Bonds. While DTC, or its nominee Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as paying agent, directly to Cede & Co. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See "**BOOK-ENTRY ONLY SYSTEM**" herein. Interest on the Bonds is payable initially on March 15, 2025, and thereafter, semiannually on March 15 and September 15 of each year.

**Security:** The Bonds are payable from the tax and other general revenues of the School District. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service due on the Bonds for such year and will duly and punctually pay or cause to be paid from funds deposited by the School District in the respective sinking funds established under the Resolution adopted by the School District on August 5, 2024, authorizing and securing the Bonds, or from any other of its legally available revenue or funds, the principal of every Bond and the interest thereon at the dates and place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District has irrevocably pledged its full faith, credit and taxing power, which taxing power includes the power to levy *ad valorem* taxes on all taxable property in the School District, within limitations provided by law. (see "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**", APPENDIX A - "**TAXING POWERS AND LIMITS**" and "**PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS**" - "**Taxpayer Relief Act (Act 1)**" herein).

**Redemption:** The Bonds are subject to redemption prior to their stated maturity dates, as described herein.

**Purpose:** The proceeds of the Bonds will be used to undertake capital projects consisting of the design and construction of additions and renovations to the School District's existing facilities, and to pay the costs of issuing the Bonds.

**Bond Insurance:** The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY INC.**



The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter, subject to the receipt of the approving legal opinion to be issued by Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel. Certain additional matters will be passed upon for the School District by its Counsel, Mancuso Law Group LLC, Wyomissing, Pennsylvania, Solicitor to the School District, and for the Underwriter by its limited scope underwriter's counsel, McNees Wallace & Nurick LLC, Lancaster, Pennsylvania. It is expected that the Bonds will be available for delivery through the facilities of DTC, on or about November \_\_\_, 2024.

**RAYMOND JAMES®**

\*Preliminary, subject to change.

This Preliminary Official Statement and the information herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The School District deems this Preliminary Official Statement to be final for the purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1) except for certain information on the cover hereof and certain pages herein which have been omitted in accordance with such Rule and which will be supplied in the final Official Statement.

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**BOND MATURITY SCHEDULE**

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(March 15)	Principal	Interest			CUSIP
<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>Numbers</u> <sup>(1)</sup>

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<sup>(1)</sup>The CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Bondholders and Bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriter has agreed to, and there is no duty or obligation to, update this Preliminary Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

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<sup>\*</sup>Preliminary, subject to change.

No dealer, broker, salesman or other person has been authorized by the School District or the Underwriter to give any information or to make any representation, other than that given or made in this Official Statement, and if given or made, any such other information or representation may not be relied upon as having been authorized by the School District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement has been approved by the School District and, while the information set forth in this Official Statement has been furnished by the School District and other sources which are believed to be reliable, such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter or, as to information obtained from other sources, by the School District. The information and expressions of opinion set forth in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that the affairs of the School District have remained unchanged since the date of this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AND BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS AND BONDS ARE MADE ONLY BY THE MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT PURSUANT TO ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

Assured Guaranty Inc. (“AG”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE” and “Appendix G - Specimen Municipal Bond Insurance Policy”.

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**SUMMARY PAGE**

This Summary Statement is subject in all respects to more complete information in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without the entire Official Statement. A full review of the entire Official Statement should be made by potential Bond purchasers.

<b>Issuer</b> .....	Kutztown Area School District, Berks County, Pennsylvania (the "School District").
<b>Bonds</b> .....	<p>The General Obligation Bonds, Series of 2024 in the principal amount of \$15,000,000* (the "Bonds"), dated as of the date of delivery, maturing on March 15, ____ through March 15, ____.</p> <p>Interest on the Bonds shall be payable semiannually on March 15 and September 15. See "DESCRIPTION OF THE BONDS" herein.</p>
<b>Optional Redemption</b> .....	The Bonds stated to mature on or after March 15, 20__, are subject to redemption prior to maturity at the option of the School District in whole or, from time to time, in part, in any order of maturities as the School District shall select, on any date or dates on or after _____, 20__, at a price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for such optional redemption.
<b>Form</b> .....	Book-Entry Only.
<b>Application of Proceeds</b> .....	Proceeds of the Bonds will be used to undertake capital projects consisting of the design and construction of additions and renovations to the School District's existing facilities, and to pay the costs of issuing the Bonds.
<b>Security</b> .....	The Bonds are general obligations of the School District, for the payment of which the School District has pledged its full faith, credit and taxing power.
<b>Ratings</b> .....	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal Bond insured rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon issuance and delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Assured Guaranty Inc. Currently, AG's financial strength is rated "AA" stable outlook) by S&P. S&P has also assigned the School District an underlying rating of "A+" (negative outlook). (See "RATINGS" herein.)
<b>Continuing Disclosure Undertaking</b> .....	The School District has agreed to provide, or cause to be provided, in a timely manner, certain information in accordance with the requirements of Rule 15c2-12, as promulgated under the Securities Exchange Act of 1934, as amended and interpreted (the "Rule"). (See "CONTINUING DISCLOSURE UNDERTAKING" and "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE).

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\_\_\_\_\_  
\*Preliminary, subject to change.

**KUTZTOWN AREA SCHOOL DISTRICT**  
**(Berks County, Pennsylvania)**  
10 Deisher Lane  
Kutztown, Pennsylvania 19530

**BOARD OF SCHOOL DIRECTORS**

Jason B. Koch.....	President
Erin M. Engel.....	Vice- President
Michael J. Hess.....	Secretary
Caecilia M. Holt .....	Member
Jeremiah F. Light.....	Member
Laurel Ziegler .....	Member
Dennis Udicious .....	Member
Reba Hoffman .....	Member
Daniel Wismer.....	Member

**SCHOOL ADMINISTRATION**

Christian Temchatin.....	Superintendent of Schools
Beth Ann Siteman.....	Business Administrator/Board Secretary

**BOND COUNSEL**

Stevens & Lee, P.C.  
Reading, Pennsylvania

**SOLICITOR**

Mancuso Law Group LLC  
Wyomissing, Pennsylvania

**UNDERWRITER**

Raymond James & Associates, Inc.  
Lancaster, Pennsylvania

**LIMITED SCOPE UNDERWRITER'S COUNSEL**

McNees Wallace & Nurick LLC  
Lancaster, Pennsylvania

**PAYING AGENT**

The Bank of New York Mellon Trust Company, N.A.  
Philadelphia, Pennsylvania

OFFICIAL STATEMENT

\$15,000,000\*

KUTZTOWN AREA SCHOOL DISTRICT

(Berks County, Pennsylvania)

General Obligation Bonds, Series of 2024

INTRODUCTION

This Official Statement is furnished by the Kutztown Area School District (the "School District"), a public school district located in Berks County, Pennsylvania, in connection with the offering of its General Obligation Bonds, Series of 2024 (the "Bonds") in the aggregate principal amount of \$15,000,000\*, to be dated their date of delivery (the "Delivery Date") when the Bonds are issued and delivered to DTC (described below) or its agent. The Bonds are general obligations of the School District, which are secured by a parity pledge of its full faith, credit and taxing power to pay the principal of and interest due on the Bonds.

The Bonds are being issued pursuant to, and are secured by, a Resolution adopted by the Board of School Directors of the School District on August 5, 2024 (the "Resolution"), in accordance with the laws of the Commonwealth of Pennsylvania (the "Commonwealth" or "State"), including the Local Government Unit Debt Act, 53 Pa.C.S. Chs. 80-82 (the "Debt Act"). Copies of the Resolution may be obtained from the School District.

The Bonds shall be issued in fully registered form, without certificates or coupons, in the denomination of \$5,000 principal amount and integral multiples thereof. Interest on the Bonds is payable semiannually on March 15 and September 15 of each year, commencing March 15, 2025. Interest on any Bond is payable to the Beneficial Owner as of the applicable Record Date (defined below). The interest on and principal of the Bonds is payable by the School District to The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent"), serving as paying agent and sinking fund depository, for transfer to DTC. When issued, the Bonds will be registered in the name of Cede & Co., as nominee for the Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any Bond certificates, and beneficial ownership of the Bonds will be evidenced only by electronic book entries. See "BOOK-ENTRY ONLY SYSTEM" herein.

The information which follows contains summaries of the Resolution, the Bonds, the Debt Act, Act 1 (herein defined) and other laws, the School District's Budget and its Financial Statements. Such summaries do not purport to be complete, and reference is made to such documents and laws in their entirety, copies of which are on file and available for examination at the offices of the School District.

Neither the delivery of the Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create an implication that there have been no changes in the affairs of the School District, or in the communities or areas in or about the School District, since the date of the Official Statement of the earliest date as of which certain information contained herein is given.

PURPOSE OF THE ISSUE

The proceeds of the Bonds will be used to undertake capital projects consisting of the design and construction of additions and renovations to the School District's existing facilities, and to pay the costs of issuing the Bonds.

SOURCES AND USES OF FUNDS

<u>Sources of Funds</u>	<u>Total</u>
Proceeds of the Bonds .....	
Net Original Issue Premium [Discount].....	
<b>Total Sources of Funds</b> .....	
<u>Uses of Funds</u>	
Construction Fund Deposit.....	
Costs of Issuance <sup>(1)</sup> .....	
<b>Total Uses of Funds</b> .....	

<sup>(1)</sup> Includes legal fees, underwriter's discount, paying agent fees, municipal bond insurance premium, rating fee, CUSIP, printing and miscellaneous fees.

\*Preliminary, subject to change.

## DESCRIPTION OF THE BONDS

The Bonds will be issued in book-entry form, in denominations of \$5,000 principal amount and integral multiples thereof. The Bonds will bear interest from the Delivery Date at the rates and mature in the amounts and on the dates set forth on the inside front cover of this Official Statement. Interest on the Bonds will be payable initially on March 15, 2025, and thereafter, semiannually on March 15 and September 15 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for.

*When issued, the Bonds will be registered in the name of Cede & Co., as partnership nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any physical delivery of Bond certificates, and beneficial ownership of the Bonds will be evidenced only by book entries. See "BOOK-ENTRY ONLY SYSTEM" herein.*

### Payment of Principal and Interest

*So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal of and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the School District with respect to, and to the extent of, principal and interest so paid. If the use of the book-entry only system for the Bonds is discontinued for any reason, Bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal and interest on the Bonds shall be made as described in the following paragraphs.*

The principal of any certificated Bonds, when due upon maturity or any earlier mandatory or optional redemption, will be paid to the registered owners of such Bonds, or registered assigns, upon surrender of such Bonds to the Paying Agent at its designated corporate trust office (or to any successor paying agent at its designated office(s)).

Interest on any certificated Bonds will be payable to the registered owner of such a Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date, or (c) such Bond is registered and authenticated on or prior to the Record Date preceding, March 15, 2025, in which event such Bond shall bear interest from the Delivery Date, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest on a certificated Bond will be payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15<sup>th</sup>) day (whether or not a business day) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of such Bond subsequent to such Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of such Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names such certificated Bonds are registered at the close of business on the fifth (5<sup>th</sup>) day preceding the date of mailing.

If the date for payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

### Transfer, Exchange and Registration of Certificated Bonds

*Subject to the provisions herein under "BOOK-ENTRY ONLY SYSTEM", any certificated Bonds are transferable or exchangeable by the registered owners thereof upon surrender of such Bonds to the Paying Agent, accompanied by a written instrument or instruments in form, with instructions and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of such Bonds in the registration books and shall authenticate and deliver in the name of the transferee or transferees a new fully registered and certificated Bond or Bonds of authorized denominations of the same, maturity and interest rate for the aggregate principal amount that the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any certificated Bond as the absolute owner thereof (whether such Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.*

The School District and the Paying Agent shall not be required: (a) to register the transfer of or exchange any certificated Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15<sup>th</sup>) day next preceding any date of selection of such Bonds to be redeemed and ending at the close of business on the day of mailing of the applicable notice of redemption; or (b) to register the transfer of or exchange any portion of any certificated Bond selected for redemption until after the redemption date. Certificated Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same series, maturity, and interest rate.



## REDEMPTION OF BONDS

### Mandatory Sinking Fund Redemptions

In the manner and upon the terms and conditions provided in the Resolution, the following Bond maturities are subject to mandatory redemption in direct order of maturity, pursuant to operation of the Sinking Fund in the manner set forth in the Resolution at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest, on March 15<sup>th</sup> of the following years and in the following principal amounts:

<u>Year</u>	<u>Amount</u>
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In lieu of such mandatory redemption, the Paying Agent, on behalf of the School District, may purchase from money in the Sinking Fund, or the School District may tender to the Paying Agent, all or part of the Bonds subject to mandatory redemption in any such year.

If any maturity of the Bonds that is subject to mandatory sinking fund redemption shall be called for optional redemption in part, the School District shall be entitled to designate whether the principal amount redeemed is to be credited against the principal amount of the Bonds of such maturity required to be called for mandatory sinking fund redemption or in such order of maturity as shall be directed in writing by the School District, in each case in multiples of \$5,000 principal amount.

### Optional Redemption

The Bonds maturing on and after March 15, \_\_\_\_\_, are subject to redemption prior to maturity at the option of the School District, in whole or in part, in any order of maturities as the School District shall select, on any date on or after March 15, \_\_\_\_\_, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for such optional redemption. In the event that less than all Bonds of a particular maturity are to be redeemed, the Bonds of such maturity shall be drawn by lot by the Paying Agent.

### Notice of Redemption

*So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, the School District and the Paying Agent shall send redemption notices only to Cede & Co. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding conveyance of notices and Beneficial Owners.*

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not more than sixty (60) days and not less than thirty (30) days prior to the date fixed for redemption, addressed to each of the registered owners of any certificated Bonds to be redeemed, at the addresses shown on the registration books kept by the Paying Agent as of the date such Bonds are selected for redemption; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect thereto, except to receive payment of the principal to be redeemed and accrued interest thereon to the date fixed for redemption.

The notice of redemption may state that it is conditional, *i.e.*, that it is subject to the deposit of sufficient redemption money with the Paying Agent or other escrow agent on the redemption date in sufficient time to effectuate the redemption of Bonds. If, after issuing a notice of redemption, the School District is unable or otherwise fails to deposit with the Paying Agent (or other bank or depository acting as refunding escrow agent) money sufficient to redeem the Bonds called for redemption, such notice may be withdrawn or be of no effect until such money is so deposited.

### Manner of Redemption

*So long as Cede & Co., nominee of DTC, is the registered owner of the Bonds, however, payment of the redemption price shall be made by Cede & Co. in accordance with the existing arrangements by and among the School District, the Paying Agent and DTC and, if less than all of the Bonds in a particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner on such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding redemption of Bonds registered in the name of Cede & Co.*

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing the number of Bonds that is equal to the principal amount thereof divided by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a certificated Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for certificated Bonds of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

If any maturity of the Bonds which is subject to mandatory sinking fund redemption shall be called for optional redemption in part, the School District shall be entitled to designate whether the principal amount redeemed is to be credited against the principal amount of the Bonds of such maturity required to be called for mandatory sinking fund redemption on any particular future date or dates, or shall be credited against the principal amount of such Bonds to be due and payable at stated maturity, in each case in a whole multiple of \$5,000 principal amount.

### BOOK-ENTRY ONLY SYSTEM

***The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information, and such information is not to be construed as a representation of the School District or the Underwriter***

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each series of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The Ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

NEITHER THE SCHOOL DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

*The School District and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.*

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General Obligation Pledge**

The Bonds are general obligations of the School District, payable from its local taxes and other general revenues, including available state subsidies, on a parity basis with each other, and other existing or future general obligation debt of the School District. The taxing powers of the School District are described more fully in **APPENDIX A – TAXING POWERS AND LIMITS**. The School District has covenanted in the Resolution that it will include in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service due on the Bonds for such year and will duly and punctually pay, or cause to be paid, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power.

### **Actions in the Event of Default on the Bonds**

In the event of a failure by the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to remedies specified by the Debt Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Debt Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Debt Act also provides that upon a default of at least 30 days, holders of at least 25% of the Bonds may appoint a trustee to represent them. The Debt Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

## **Sinking Fund**

Under the Resolution, the School District has created a sinking fund (the “Sinking Fund”) as required by the Debt Act and segregated from all other funds of the School District. The School District shall deposit in the Sinking Fund, not later than the date when principal or interest is to become due on the Bonds, an amount sufficient to provide for the payment of interest and principal becoming due on the Bonds.

The Sinking Fund shall be held by the The Bank of New York Mellon Trust Company, N.A. (the “Sinking Fund Depository”) and invested by the Sinking Fund Depository in such securities as are authorized by the Debt Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District but subject to withdrawal or collection only by the Sinking Fund Depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Fund.

The Paying Agent is authorized and directed to pay from the Sinking Fund the principal of and interest on the respective Bonds when due and payable.

## **Commonwealth Enforcement of Debt Service Payments**

Section 633 of the Pennsylvania Public School Code of 1949, as amended by Act 150 of 1975, and as further amended and supplemented (the “Public School Code”), provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness on the date of maturity or date of mandatory redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or on any sinking fund deposit date, in accordance with the schedule under which the Bonds were issued, the Secretary of Education of the Pennsylvania Department of Education (“PDE”) shall notify such board of school directors of its obligation and shall withhold out of any Commonwealth appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, or sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such Bond issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers’ salaries. In addition, enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors’ rights generally. See “**Pennsylvania Budget Adoption**” herein.

## **Pennsylvania Budget Adoption Impasses**

The Commonwealth’s fiscal year begins on July 1. The budgets for the 2018-19 and the 2019-20 fiscal years were adopted timely. Due to the uncertainty of funding and expenditures caused by the COVID-19 pandemic, on May 29, 2020, the Governor approved a five-month stopgap budget for fiscal year 2020-21. This budget provided five months of flat funding for most state programs and a full twelve months of flat funding for public education. On November 20, 2020, the General Assembly passed Senate Bill 1350 and House Bill 2536, which included the 2020-21 Supplemental Budget to fund the Commonwealth through the remaining seven-months of fiscal year 2020-21. The legislation was sent to the Governor’s desk for approval and on November 23, 2020, the Governor approved the 2020-21 Supplemental Budget, which included mostly flat funding for public education similar to the stopgap budget adopted for the first five months of the 2020-21 fiscal year.

The Governor signed the state’s 2021-2022 fiscal year budget on June 30, 2021. The budget included an increase of \$300 million for basic education, with \$100 million of that targeted to the 100 historically underfunded school districts that included districts in both urban and rural areas of the Commonwealth. Special education received a \$50 million increase, boosting that budget line to \$1.24 billion, while preschool and Head Start programs received a \$30 million increase, to \$311.5 million. All told, funding for K-12 schools reached a record high of \$13.55 billion in the 2021-22 budget.

After a week’s delay and intense negotiations, the \$45.2 billion budget for Pennsylvania’s 2022-23 fiscal year was signed by Governor Tom Wolf on July 8, 2022. The 2022-23 enacted budget included \$7,625,124,000 for the basic education funding appropriation and \$225,000,000 to supplement those school districts with a higher at risk student population. The total amount allocated for education included a \$767,820,000 (10.83%) increase over the 2021-2022 fiscal year appropriation.

After over a month delay, a \$45.5 billion budget for the state’s 2023-24 fiscal year was signed by Governor Josh Shapiro on August 3, 2023, which included \$8.4 billion for the basic education funding appropriation. The total amount included a \$796.6 million (10.45%) increase over the 2022-23 fiscal year appropriation. The budget also provided \$50 million in additional aid to school districts for special education services for a total of \$1.3 billion. Certain funds authorized within the 2023-24 Budget required companion implementation language amending the Fiscal Code to be fully implemented. On December 13, 2023 multiple code bills were passed finalizing the 2023-24 Budget for education.

After a two week delay, a \$47.6 billion budget for the state’s 2024-25 fiscal year was signed by Governor Josh Shapiro on July 11, 2024, which included an increase of \$1.11 billion for K-12 education funding. The total basic education funding appropriation is \$8,157,444,000 which is a 3.62% increase over the 2023-24 enacted fiscal year appropriation. Also, the budget provides for \$100 million increase in additional aid to school districts for special education services.

**During a state budget impasse, school districts in the Commonwealth cannot be certain that state subsidies and revenues owed them from the Commonwealth will become available. This includes many of the major state subsidies, and overall revenues, that a**

**Pennsylvania school district receives including basic education funding, special education funding, PlanCon reimbursements, and certain block grants, among many others. Future budget impasses may affect the timeliness or amount of payments by the Commonwealth under the withholding provisions of Section 633 of the Public School Code. Act 85 of 2016 was adopted to address the timeliness of the withholding provisions of Section 633 of the Public School Code during any future budget impasses. See “Act 85 of 2016” below.**

#### **Act 85 of 2016 (State Subsidy Intercept During a Budget Impasse)**

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) ("Act 85 of 2016"), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code ("Fiscal Code"). Act 85 of 2016 adds to the Fiscal Code Article XVII-E.4, entitled "School District Intercepts for the Payment of Debt Service During Budget Impasse", which provides for intercept of subsidy payments by PDE otherwise due a school district that is subject to an intercept statute or an intercept agreement, in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of "intercept statutes" Sections 633 of the Public School Code. The School District's general obligation debt, including the Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement "shall be appropriated" to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

- (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;
- (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and
- (3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

The total of all intercept payments under Article XVII-E.4 of Act 85 of 2016 for a school district may not exceed 50% of the total nonfederal general fund subsidy payments made to that school district in the prior fiscal year.

Act 85 of 2016 requires that each school district subject to an intercept statute or intercept agreement must deliver to PDE, in the format PDE directs, information pertaining to each eligible borrowing within thirty (30) days of receipt of the proceeds of the obligations. The School District intends to submit this information to PDE within the prescribed timeframe following the issuance of the Bonds. Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

*The provisions of Act 85 of 2016 are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation.*

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. ("AG") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

*The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.*

### **Assured Guaranty Inc.**

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL" and together with its subsidiaries, "Assured Guaranty"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through

ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.*

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG (“AGM”), merged with and into AG, with AG as the surviving company (such transaction, the “Merger”). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

*Current Financial Strength Ratings*

On July 10, 2024, Moody’s, following Assured Guaranty’s announcement of the Merger, announced that it had affirmed AG’s insurance financial strength rating of “A1” (stable outlook).

On May 28, 2024, S&P announced it had affirmed AG’s financial strength rating of “AA” (stable outlook). On August 1, 2024, S&P stated that following the Merger, there is no change in AG’s financial strength rating of “AA” (stable outlook).

On October 20, 2023, KBRA announced it had affirmed AG’s insurance financial strength rating of “AA+” (stable outlook). On August 1, 2024, KBRA commented that, following the closing of the Merger, AG’s insurance financial strength rating of “AA+” (stable outlook) remains unchanged.

AG can give no assurance as to any further ratings action that S&P, Moody’s and/or KBRA may take. For more information regarding AG’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

*Capitalization of AG, AGM and Pro Forma Combined AG*

**As of June 30, 2024**  
(dollars in millions)

	<b>AG</b> <b>(Actual)</b>	<b>AGM</b> <b>(Actual)</b>	<b>AG</b> <b>(Pro Forma Combined)</b>
Policyholders’ surplus	\$1,649	\$2,599	\$3,960 <sup>(1)</sup>
Contingency reserve	\$421	\$910	\$1,331
Net unearned premium reserves and net deferred ceding commission income	\$355	\$2,078 <sup>(2)</sup>	\$2,433 <sup>(2)</sup>

<sup>(1)</sup>Net of intercompany eliminations.

<sup>(2)</sup>Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited (“AGUK”) and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA (“AGE”).

The policyholders’ surplus, contingency reserves, and net unearned premium reserves and net deferred ceding commission income of AG, AGM, and the pro forma combined AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AG and AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024 (filed by AGL with the SEC on August 8, 2024).

All information relating to AG and AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG and AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Inc.” or included in a document incorporated by reference herein (collectively, the “AG Information”) shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE”.

### **BONDHOLDER CONSIDERATIONS**

*The Bonds, like all investment securities, carry a risk of loss of the investment, in whole or in part. This Official Statement does not purport to describe all of the risks of an investment in the Bonds; both the School District and the Underwriter disclaim any responsibility to advise prospective investors of such risks either as they may exist at the date of dissemination of this Official Statement or as they may appear or change from time to time in the future. Prospective purchasers of the Bonds should consult their own legal and tax advisors as to the risks associated with an investment in the Bonds, their ability to bear a loss from an investment in the Bonds and the suitability of investing in the Bonds, in light of their particular, individual circumstances. Prospective purchasers should carefully consider the matters described below, as well as all the information contained within this entire official Statement inclusive of its Appendices.*

### **Bond Insurance Risk Factors**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the School District which is recovered by the School District from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the School District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer’s consent may be required in connection with amendments to the applicable agreements.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the applicable agreements. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description under "RATINGS" herein.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the School District or Underwriter has made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

### **Cybersecurity**

The School District, like other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other electronic sensitive information, the School District may be the subject of cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized remote access to the School District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage, or demanding ransom for restored access to files or information. The School District has never had a material cyber breach or a cyber breach that resulted in a financial loss. No assurance can be given that the School District's current efforts to manage cyber threats and security will, in all cases, be successful. The School District cannot predict what future cyber security events may occur and what impact said events could have on its operations or finances. In addition to the various processes in place to safeguard against cyber security attacks, the School District also maintains a comprehensive insurance policy which includes privacy liability, cyber incident response, data breach, network security, internet media and network extortion coverages.

The School District relies on other entities and service providers in the course of operating the School District, including its accountants, attorneys, the trustee, and banks, as well as vendors with respect to outsourced critical digital network operations and functions. No assurance can be given that future cyber threats and attacks against other third party entities or service providers will not impact the School District including the possibility of impacting the timely payments of debt service on the Bonds or timely filings pursuant to the Continuing Disclosure Certificate.

### **Climate Change**

Numerous scientific studies have detailed changing global weather patterns and the potential for increasing extreme weather events across the world. The School District cannot predict the timing, extent, or severity of climate change and its impact on its operations and finances. The School District has not experienced increases in extreme weather events, but has established reserves to address severe weather disasters and maintains a comprehensive insurance policy.

### **Coronavirus Pandemic**

Certain external events beyond the control of the School District, such as pandemics, could potentially disrupt the School District's ability to conduct its operations. Since early 2020, the School District, along with the rest of the world, has been dealing with the effects of COVID-19 pandemic. The COVID-19 pandemic and the governmental response has had a profound impact on the operations of educational institutions at all levels, including the School District. As the result of the COVID-19 pandemic, the School District has been awarded federal grant funding assistance totaling approximately \$3,312,452, all of which has been expended as of June 30, 2024. The School District has addressed and continues to address challenges due to COVID-19. The future severity of the economic challenges and duration of this and other public health crisis cannot be fully known at this time.

### **Risk of Audit by Internal Revenue Service**

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the School District as the taxpayer and Bond purchasers may have no right to participate in such procedure. None of the School District, the Underwriter or Bond Counsel is obligated to defend the tax-exempt status of the Bonds on behalf of the Bond purchasers, nor to pay or reimburse the cost of any Bond purchaser with respect to any audit or litigation relating to the Bonds. See "TAX MATTERS" herein.



## CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirement of Rule 15-c2-12 (the “Rule”) of the United States Securities and Exchange Commission (the “SEC”), the School District (being an “obligated person” with respect to the Bonds, within the meaning of the Rule), will agree to provide certain financial information and operating data to the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format as prescribed by the MSRB, either directly, or indirectly through a designated agent, as set forth in its Continuing Disclosure Certificate substantially in the form attached hereto as Appendix D.

With respect to the filing of annual financial information and operating data, the School District reserves the right to modify from time to time the specific types of information and data provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the School District or its operations or financial reporting, but the School District will agree that any such modification will be done in a manner consistent with the Rule.

The School District is required to give notice of certain events as set forth in the Continuing Disclosure Certificate (not all of which will be relevant to the School District). The School District may from time to time choose to file notice of other events in addition to those specified in the Continuing Disclosure Certificate.

The School District acknowledges that its undertaking pursuant to the Rule described herein and in the Continuing Disclosure Certificate is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holder and beneficial owner of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the School District’s continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the School District to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The School District’s obligations with respect to continuing disclosure described herein shall terminate upon the prior defeasance, redemption or payment in full of all of the Bonds or if and when the School District is no longer an “obligated person” with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other defined “obligated persons”) with respect to municipal securities issues) are made available through the MSRB’s Electronic Municipal Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>.

The School District has previously entered into Continuing Disclosure Agreements with respect to each one of its previously issued bond issues that are currently outstanding. The School District’s filing history of its annual financial and operating information during the past five (5) years is outlined in the following table.

<b>Fiscal Year</b>	<b>Filing Due Date</b>	<b>Filing Dates:</b>		
		<b>Audit</b>	<b>Operating Data</b>	<b>Budget</b>
6/30/2023	3/26/2024	1/20/2024	1/20/2024 <sup>(1)</sup>	10/10/2024 <sup>(2)</sup>
6/30/2022	3/27/2023	2/04/2023	12/26/2022	6/27/2022
6/30/2021	3/27/2022	11/22/2021 <sup>(3)</sup>	12/26/2022 <sup>(4)</sup>	10/10/2024 <sup>(2)</sup>
6/30/2020	12/27/2020	12/10/2020 <sup>(5)</sup>	5/06/2021 <sup>(6)</sup>	10/28/2020
6/30/2019	12/27/2019	1/02/2020	5/06/2021 <sup>(6)</sup>	4/20/2021 <sup>(7)</sup>

<sup>(1)</sup>A portion of the operating data was missing in the initial filing, the "The Real Property Tax Collection", but the submission was modified to include the missing information, to EMMA on 7/3/2024 and a "Failure to Timely File Notice" to EMMA on 10/15/2024.

<sup>(2)</sup>The School District did not timely file, but subsequently filed on this date, along with a "Failure to Timely File Notice" to EMMA on 10/15/2024.

<sup>(3)</sup>The School District filed its PDE-2057 AFR on this date and subsequently filed its audit to EMMA on 10/10/2024, along with a "Failure to Timely File Notice" on 10/15/2024.

<sup>(4)</sup>The School District did not timely file, but subsequently filed on this date. A portion of the operating data was missing in the initial filing, including the "Taxes and Millage Rates" and "Ten Largest Taxpayers" and "Total Assessed Value of Real Estate". The missing information can be cross referenced pursuant to a "Failure to Timely File Notice" that includes a "Notice of Cross Reference to Other Documents" which was filed to EMMA on 10/15/2024.

<sup>(5)</sup>The School District filed its PDE-2057 AFR on this date and subsequently filed its audit on 4/14/2021 and a "Failure to Timely File Notice" on 5/6/2021 to EMMA.

<sup>(6)</sup>The School District did not timely file, but subsequently filed to EMMA, along with a "Failure to Timely File Notice" on 5/6/2021. Portions of the operating data were missing in the 5/6/2021 filing, including the "DEBT STATEMENT AND BORROWING CAPACITY" and the "Financial Factors of the School District - Ratios". The missing information is now available on EMMA and/or can be cross referenced on EMMA pursuant to a "Failure to Timely File Notice" that includes a "Notice of Cross Reference to Other Documents" which was filed to EMMA on 10/15/2024.

<sup>(7)</sup>The School District did not timely file, but subsequently filed on this date, along with a "Failure to Timely File Notice" to EMMA on 5/6/2021.

On August 1, 2024, Assured Guaranty Municipal Corp. (“AGM”) merged with and into Assured Guaranty Inc. (“AG”), with AG as the surviving company (such transaction, the “Merger”). Although not timely, the Authority subsequently filed an event notice to EMMA on 8/9/2024, regarding the substitution of credit facility.

The School District has reasonable procedures in place designed to ensure ongoing timely filings of its material continuing disclosure requirements.

### **NO LITIGATION**

As a condition to the settlement for the Bonds, the School District will deliver a certificate, and the School District’s Solicitor’s opinion will include a paragraph, stating that there is no pending litigation challenging or pertaining to the Bonds.

### **TAX MATTERS**

#### **Federal Tax Laws**

Numerous provisions of the Code affect the issuers of state and local government bonds, such as the School District, and impair or restrict the ability of the School District to finance projects on a tax-exempt basis. Failure on the part of the School District to comply with any one or more of such provisions of the Code, or any regulations under the Code, could render amounts treated as interest on the Bonds includable in gross income of the owner thereof for purposes of federal income tax retroactively to the date of issuance of the Bonds. Among these provisions are rules relating to: (a) investment of funds treated as proceeds of the Bonds; (b) the advance refunding of tax-exempt bonds; and (c) the use of proceeds of the Bonds to benefit private activities. In addition, under the Code, the School District is required to file an information return with respect to the Bonds and to rebate to the federal government certain arbitrage profits on an ongoing basis throughout the term of the Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Other provisions of the Code affect the purchasers and holders of certain state and local government bonds such as the Bonds. Prospective purchasers of the Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on debt incurred or continued to purchase or carry state or local government bonds such as the Bonds, or in the case of a financial institution, that portion of a financial institution’s interest expense allocated to interest on certain state or local government bonds such as the Bonds, unless the issuer of the state or local government bonds designates each of the Bonds as a qualified tax-exempt obligation for the purpose and effect contemplated by Section 265(b)(3)(B) of the Code (the School District has not designated the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Code, as such phrase is defined in the Code); (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 825(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest and amounts treated as such on certain state or local government bonds, such as the Bonds; (iii) interest on certain state or local government bonds, such as the Bonds, earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (iv) if a Subchapter S corporation has passive investment income (which passive investment income will include interest on state or local government bonds, such as the Bonds) which exceeds 25% of such Subchapter S corporation’s gross receipts and if such Subchapter S corporation has Subchapter C earnings and profits, then interest income derived from state or local government bonds, such as the Bonds, may be subject to federal income tax under the Code; and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on certain state or local government bonds, such as the Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. Various legislative proposals have been submitted to Congress during the last several years, which if enacted, would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax exempt interest. If enacted into law, such proposals may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Bonds.

No prediction is made whether these provisions will be enacted as proposed or concerning other future legislation which if passed might have the effect on the tax treatment of interest on the Bonds. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation. Bond Counsel will render its opinion as of the issue date, and will assume no obligation to update its opinions after the issue date to reflect any future facts or circumstances, or any future changes in law or interpretation, or otherwise. Moreover, the opinion of Bond Counsel is only an opinion and not a warranty or guaranty of the matters discussed. Bond Counsel has no obligation to provide updated information concerning pending or future legislation. The School District does not have any obligation to provide updated information concerning pending or future legislation. Each purchaser of the Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION, AS TO WHICH BOND COUNSEL EXPRESSES NO OPINION.

Bond Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds.

## **Tax Exemption**

In the opinion of Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel, assuming continuing compliance by the School District with certain covenants and agreements relating to the use of Bond proceeds and covenants to comply with the provisions of the Code and any applicable regulations thereunder, now or hereafter enacted, interest on the Bonds is not includable in gross income for federal tax purposes under Section 103(a) of the Code, and interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations; however, for tax years beginning after December 31, 2022, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code will affect certain purchasers and holders of the Bonds. See Tax Matters above.

In the opinion of Bond Counsel under the laws of the Commonwealth, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth, but this exemption shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to State and local taxation within the Commonwealth of Pennsylvania.

The School District will issue its certifications regarding the facts, estimates and circumstances in existence on the date of delivery of the Bonds and regarding the anticipated use of the proceeds of the Bonds. In addition, the School District will certify that, on the basis of the facts, estimates and circumstances in existence on the date of issuance of the Bonds, the School District does not reasonably expect to use the proceeds of the Bonds in a manner that would cause the Bonds to be or become arbitrage bonds, as defined in Section 148 of the Code.

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

## **Regulations, Future Legislation**

Under the provisions of the Code, the Treasury Department is authorized and empowered to promulgate regulations implementing the intent of Congress under the Code which could affect the tax exemption and/or tax consequences of holding tax-exempt obligations, such as the Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to tax-exempt bonds of a state or local government unit, such as the School District or the taxability of interest in general.

No representation is made or can be made by the School District or any other party associated with the issuance of the Bonds as to whether or not any other legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to federal income taxes or so as to otherwise affect the marketability or market value of the Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS.

## **LEGAL OPINIONS**

The issuance of the Bonds is subject to the approving legal opinion of Stevens & Lee, P.C., Reading, Pennsylvania, as Bond Counsel to the School District, substantially in the form of Appendix C. Certain additional matters will be passed upon for the School District by its Counsel, Mancuso Law Group LLC, in Wyomissing, Pennsylvania, Solicitor to the School District, and for the Underwriter by its limited scope underwriter's counsel, McNeese Wallace & Nurick LLC, Lancaster, Pennsylvania.

## **RATINGS**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal Bond insured rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon issuance and delivery of the Bonds, a municipal Bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Assured Guaranty Inc. Currently, AG's financial strength is rated "AA" (stable outlook) by S&P. S&P has also assigned the School District an underlying rating of "A+" (negative outlook).

The above rating are not recommendations to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

Raymond James & Associates, Inc., Lancaster, Pennsylvania (the "Underwriter") subject to certain conditions, has purchased the Bonds from the School District at a purchase price of \$ \_\_\_\_\_ (representing the par amount of the Bonds of \$ \_\_\_\_\_, [plus/less] an original issue [premium/discount] of \$ \_\_\_\_\_ less an underwriting discount of \$ \_\_\_\_\_). The Underwriter's obligations are subject to certain conditions precedent; however, the Underwriter will be obligated to purchase all such Bonds on the Delivery Date if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the School District. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the School District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

## **PAYING AGENT**

Pursuant to the provisions of the Resolution, as paying agent and sinking fund depository, the Paying Agent has the limited duty of receiving payments from the School District, depositing such payments in a sinking fund and making payments to the owners of the Bonds of the principal of, interest on, and premium, if any, on the Bonds when due, but only to the extent such moneys have been received. As registrar and transfer agent, the Paying Agent has the limited duty of handling the registration and transfer of the Bonds. Accordingly, the Paying Agent performs ministerial duties not involving the exercise of discretion and assumes no fiduciary relationship with respect to the owners of the Bonds.

The Paying Agent may now or in the future have banking relationships with the School District which involve making loans to the School District; these loans may have a security feature which is different from that of the security feature associated with the Bonds. The Paying Agent may also serve as trustee or paying agent and sinking fund depository on other obligations issued by or on behalf of the School District.

## **CERTAIN OTHER MATTERS**

All references to sections or language of the Debt Act, Act 1, the Bonds and the Resolution set forth in this Official Statement are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and this Official Statement does not purport to be complete statements of any or all such provisions.

All information, estimates and assumptions herein have been obtained from officials of the School District, other governmental bodies, trade and statistical services, and other sources, which we believe to be reliable; but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended as such and not representations of fact.

The School District has authorized the distribution of this Official Statement.

**KUTZTOWN AREA SCHOOL DISTRICT**  
**Berks County, Pennsylvania**

By: \_\_\_\_\_  
President, Board of School Directors

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**APPENDIX A**

**SUMMARIES OF OPERATING DATA REGARDING THE SCHOOL DISTRICT**

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**DESCRIPTION OF THE SCHOOL DISTRICT**

**Introduction**

The Kutztown Area School District (the “School District”) is comprised of the Townships of Albany, Greenwich and Maxatawny and the Boroughs of Kutztown, Lenhartsville and Lyons (collectively, the “Component Municipalities”). The Component Municipalities comprise approximately 100 square miles and are located in the northeastern part of Berks County (the “County”), approximately 16 miles from Reading, Pennsylvania, the County seat.

The governing body of the School District is governed by a nine member Board of School Directors (the “School Board”) who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools. The Business Administrator is responsible for budget and financial operations. The School Board selects both officials.

**School Facilities**

<u>School</u>	<u>Year Constructed</u>	<u>Additions/ Alterations</u>	<u>Grades</u>	<u>Rated Pupil Capacity</u>	<u>2024-25 Enrollment</u>
<b><u>Elementary</u></b>					
Greenwich-Lenhartsville.....	1955	2000	K-5	393	231
Kutztown .....	1955	2000	K-5	655	377
<b><u>Secondary</u></b>					
Middle School .....	1979	2000	6-8	863	312
High School.....	1959	2017	9-12	864	425

Source: School District Officials.

**Pupil Enrollment**

The past, current and projected enrollments within the School District are shown below:

<u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2020-21.....	679	665	1,344
2021-22.....	621	747	1,368
2022-23.....	619	728	1,347
2023-24.....	601	732	1,333
2024-25 (Current).....	608	737	1,345
2025-26 (Projected).....	604	773	1,377

Source: School District Officials.



## SCHOOL DISTRICT FINANCES

### Financial Reporting

The School District keeps its books and prepares its financial reports according to a modified accrual basis. Major accrual items are payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units.

The School District's financial statements are audited annually by a firm of independent certified public accountants, as required by State law. The firm of Herbein & Company, Inc. of Reading, Pennsylvania currently serves as the School District's auditor. The School District's auditor has not been engaged to perform and has not performed since the date of its report, any procedures on the financial statements addressed in that report. Such auditor also has not performed any procedures relating to this Official Statement.

### Budgeting Process in accordance with the Public School Code and Act 1 of 2006 (Taxpayer Relief Act)

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education ("PDE"). An annual operating budget is prepared by school district administrative officials on a uniform form furnished by PDE and submitted to the board of school directors for approval prior to the beginning of the school districts' fiscal year beginning on July 1.

Procedures for Adoption of the Annual Budget. Unless the Simplified Procedures described below are utilized, under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (together, the "Taxpayer Relief Act" or "Act 1") all school districts of the first class A, second class, third class and fourth class must adopt a preliminary budget (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election preceding the next fiscal year. This preliminary budget must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days prior public notice of its intent to adopt the preliminary budget prior to its adoption. The board of school directors shall print the final budget and make it available for public inspection at least 20 days prior to its adoption and shall give public notice of its intent to adopt the final budget at least 10 days prior to adoption, and may hold a public hearing prior to adoption. Guidance from PDE suggest that the preliminary budget be converted to a proposed budget adopted by the board of school directors at least 30 days prior to the adoption of the final budget as required by the Public School Code. The School District follows the requirements of Act 1 and the guidance of PDE pursuant to the requirements of the Public School Code.

If the adopted preliminary budget includes an increase in the rate of any tax levied, the school district must submit information on the increase to PDE on a uniform form furnished by PDE. Such information must be submitted no later than 85 days prior to the date of the election immediately preceding the school district's next fiscal year. PDE compares the proposed percentage increase in the rate of any tax with an index established annually (see "**The Taxpayer Relief Act (Act 1)**" herein) and within 10 days of the receipt of the information but not later than 75 days prior to the date of the election immediately preceding the beginning of the school district's next fiscal year, PDE informs the school district whether the proposed tax rate increase is less than or equal to the index. If PDE determines that the proposed percentage increase in the rate of the tax exceeds the index, PDE notifies the school district that: (1) the proposed tax increase must be reduced to an amount less than or equal to the index; or (2) the proposed tax increase must be approved by the electorate at the election immediately preceding the beginning of the school district's next fiscal year; or (3) the School District seek approval to utilize one or more of the referendum exceptions authorized under the Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (see "**The Taxpayer Relief Act (Act 1)**" herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the applicable Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires that the school district comply with the procedures in Section 687 of the School Code for the adoption of its proposed and final budgets. Section 687 of the School Code requires that the school district adopt a proposed budget at least thirty (30) days prior to the adoption of the annual budget; that the proposed budget be made available for public inspection at least twenty (20) days prior to the date set for the adoption of the annual budget; and that action shall not be taken on the annual budget until after ten (10) days public notice. No referendum exceptions are available to a school district adoption such resolution.

**Summary and Discussion of Financial Results**

The below table presents a summary of the School District’s General Fund Financial Condition for Fiscal Years ending June 30, 2020 through June 30, 2023, estimated 2024 and budgeted 2025. For more complete information, the financial statements of the School District may be reviewed at the School District’s Business Office.

**KUTZTOWN AREA SCHOOL DISTRICT  
General Fund Revenues, Expenditures and Fund Balances  
(Fiscal Years Ending June 30)**

	ACTUAL				Estimated 2024	Budgeted 2025
	2020	2021	2022	2023		
<b>Revenues</b>						
Local Sources .....	\$23,235,942	\$24,003,780	\$24,335,393	\$24,462,348	\$24,804,659	\$25,054,227
State Sources .....	9,411,289	9,344,927	9,191,466	10,202,521	10,817,310	11,006,608
Federal Sources .....	<u>290,349</u>	<u>826,416</u>	<u>1,298,896</u>	<u>1,794,849</u>	<u>1,371,393</u>	<u>566,462</u>
<b>Total Revenues</b> .....	<b>\$32,937,580</b>	<b>\$34,175,123</b>	<b>\$34,825,755</b>	<b>\$36,459,718</b>	<b>\$36,993,363</b>	<b>\$36,627,297</b>
<b>Expenditures</b>						
Instructional Services .....	\$18,523,437	\$19,444,502	\$20,495,137	\$21,126,180	\$21,749,002	\$21,664,091
Support Services.....	10,056,406	10,724,432	11,291,276	12,460,718	12,392,557	12,374,601
Noninstructional Services.....	775,500	825,208	865,160	975,368	1,036,833	976,911
Capital Outlay .....	574,224	105,480	0	66,468	99,023	140,168
Debt Service – Principal.....	2,201,267	2,127,480	1,820,987	1,827,747	1,814,471	2,387,574
Debt Service – Interest .....	556,011	562,641	694,831	646,337	621,896	0
Budgetary Reserve .....	0	0	0	0	0	63,877
Refund of prior year revenues .....	<u>0</u>	<u>0</u>	<u>3,414</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b> .....	<b>\$32,686,845</b>	<b>\$33,789,743</b>	<b>\$35,170,805</b>	<b>\$37,102,818</b>	<b>\$37,713,782</b>	<b>\$37,607,222</b>
<b>Other Financing Sources (Uses)</b>						
Interfund Transfers in (out).....	(\$124,016)	(\$331,889)	(\$231,991)	(\$340,928)	(\$311,295)	\$37,500
Issuance of leases and other right-to-use assets.	574,224	105,480	0	45,176	0	0
Issuance of financed purchase obligation.....	0	0	118,665	118,048	0	0
Proceeds from refunding bonds.....	7,835,000	6,830,000	9,315,000	0	0	0
Payment to refunded debt escrow.....	(7,726,773)	(6,600,000)	(9,145,000)	0	0	0
Sale of capital assets.....	<u>18,584</u>	<u>9,530</u>	<u>23,343</u>	<u>15,255</u>	<u>18,619</u>	<u>15,000</u>
<b>Total Other Financing Sources (Uses)</b> .....	<b><u>\$577,019</u></b>	<b><u>\$13,121</u></b>	<b><u>\$80,017</u></b>	<b><u>(\$162,449)</u></b>	<b><u>(\$292,676)</u></b>	<b><u>\$52,500</u></b>
<b>Excess Expenditures Over (Under) Revenues</b>	<b>\$827,754</b>	<b>\$398,501</b>	<b>(\$265,033)</b>	<b>(\$805,549)</b>	<b>(\$1,013,095)</b>	<b>(\$927,425)</b>
<b>Beginning Fund Balance</b> .....	<b><u>\$5,751,332</u></b>	<b><u>\$6,579,086</u></b>	<b><u>\$6,977,587</u></b>	<b><u>\$6,712,554</u></b>	<b><u>\$5,907,005</u></b>	<b><u>\$4,893,910</u></b>
<b>Fund Balance June 30</b> .....	<b><u>\$6,579,086</u></b>	<b><u>\$6,977,587</u></b>	<b><u>\$6,712,554</u></b>	<b><u>\$5,907,005</u></b>	<b><u>\$4,893,910</u></b>	<b><u>\$3,966,485</u></b>

Source: School District Officials Audits and Budget.

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## TAXING POWERS AND LIMITS

### In General

*Subject to certain limitations imposed by the Act 1 (more specifically described below),* the School District is empowered by the School Code and other statutes to levy the following taxes:

1. An annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
  - a) for minimum salaries and increments of the teaching and supervisory staff;
  - b) to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c) *to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the School District; and*
  - d) to pay for the amortization of a bond or Bond issue which provided a school building prior to the first Monday of July 1959.
3. An annual per capita tax on each resident over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (“The Local Tax Enabling Act”). These taxes, which may include, among others, a per capita tax, an earned income and net profits tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth (“STEB”)/Tax Equalization Division (“TED”)) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

### PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

#### Taxpayer Relief Act (Act 1)

**The information set forth below is a partial summary of relevant sections of Act 1 and their impact. This summary is not intended to be an exhaustive discussion of the provisions of Act 1 nor intended to provide a legal interpretation of any provision of Act 1. A prospective purchaser of the Bonds should review the full text of Act 1 as a part of any decision to purchase the Bonds.**

Under the Taxpayer Relief Act (Act 1), a school district may not levy any tax for the support of the public schools which was not levied in the previous fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act, or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one or more of the exceptions summarized below is applicable and the use of such exception is approved by PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004 (“Act 72”), or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 (as in the case of the School District); (a) to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and (b) to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances;
3. To make payments into the State Public School Employees’ Retirement System when the increase in the estimated payments between the current year and the upcoming year is great than the Index (as determined by PDE in accordance with the provisions of Act 1), subject to the limitation that the salary base used for calculating estimated payments is capped at the 2011-12 salary base level, per PDE Referendum Exception Guidelines.”

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

"Index" is defined in Act 1 as follows:

INDEX

1. Except as set forth in paragraph (2), the average of the percentage increase in the Statewide Average Weekly Wage and the Employment Cost Index.
2. For a school district with a market value/income aid ratio great than 0.400 for the school fiscal year prior to the school fiscal year for which the Index is calculated, the value under paragraph (1) multiplied by the sum of:
  - (i) 0.75; and
  - (ii) the school district's market value/income aid ratio for the school fiscal year prior to the school fiscal year for which the Index is calculated.

"Statewide Average Weekly Wage" is defined in Act 1 as follows:

STATEWIDE AVERAGE WEEKLY WAGE

That amount determined by the Department of Labor and Industry in the same manner that it determines the average weekly wage under section 404(e)(2) of the Act of December 5, 1936 (2<sup>nd</sup> Sp. Sess., 1937 P.L. 2897, No. 1), known as the Unemployment Compensation Law, except that it shall be calculated for the preceding calendar year.

The Act 1 Index applicable to the School District for the current fiscal year and prior four fiscal years is as follows:

<u>Fiscal Year</u>	<u>Index %</u>
2024-25	5.3
2023-24	4.1
2022-23	3.4
2021-22	3.0
2020-21	2.6

Source: Pennsylvania Department of Education website.

In accordance with Act 1, the School District put a referendum on the ballot at the March 15, 2007, primary election seeking voter approval to levy (or increase the rate of) an earned income and net profits tax ("EIT") or a personal income tax ("PIT") and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. A board of school directors may submit, but is not required to submit, a referendum question to the voters in any future municipal election seeking approval to levy or increase the rate of an earned income tax ("EIT") or impose a personal income tax ("PIT") for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law. The referendum was not approved by a majority of the voters at the primary election.

**Status of the Bonds Under the Taxpayer Relief Act (Act 1)**

The debt service payable on the Bonds described in this Official Statement was not authorized before the effective date of Act 1; therefore, is not eligible for a specific exception to the Index limits of Act 1.

**Limitations on School District Fund Balance**

**Set forth below is a summary of relevant sections of Act 48. This summary is not intended to be an exhaustive discussion of the provisions of Act 48 nor intended to provide a legal interpretation of any provisions of Act 48. A prospective purchaser of the Bonds should review the full text of Act 48 as a part of any decision to purchase the Bonds.**

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes unless the school district has adopted a budget for such school fiscal year that includes an estimated ending unreserved and undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

**Total Budgeted Expenditures:**

Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%*

**Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures<sup>(1)</sup>:**

“Estimated ending unreserved, undesignated fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriate for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

\*Applicable to the School District

<sup>(1)</sup> Effective June 30, 2011, Governmental Accounting Standards Statement #54 adopted the term “Unassigned” to refer to general fund balances that would fall within the definition of “Unreserved and Undesignated Fund Balance” in the statute known as Act 48 of 2003.

**TAX REVENUES OF THE SCHOOL DISTRICT**

**Tax Levies**

**2024-25 Real Estate and Non-Real Estate Tax Rates**

<u>Municipality</u>	<u>Real Estate (Mills)</u>							
	<u>School District</u>		<u>Municipal</u>		<u>Earned Income</u>		<u>Per Capita</u>	
Albany Township .....	31.0027		0.60				7.657	
Greenwich Township .....	31.0027		1.00				7.657	
Kutztown Borough .....	31.0027		5.50				7.657	
Lenhartsville Borough.....	31.0027		1.50				7.657	
Lyons Borough.....	31.0027		1.85				7.657	
Maxatawny Township.....	31.0027		3.00				7.657	

<u>Municipality</u>	<u>Local Services</u>		<u>Real Estate Transfer</u>		<u>Earned Income</u>		<u>Per Capita</u>	
	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>
Albany Township .....	\$ 47.00	\$ 5.00	0.5%	0.5%	0.5%	0.5%	\$ 5.00	\$ 5.00
Greenwich Township .....	\$ 5.00	\$ 5.00	0.5%	0.5%	0.5%	0.5%	\$ 5.00	\$ 5.00
Kutztown Borough.....	\$ 47.00	\$ 5.00	0.5%	0.5%	0.5%	0.5%	\$ 5.00	\$ 5.00
Lenhartsville Borough.....	\$ 0.00	\$10.00	0.5%	0.5%	0.5%	0.5%	\$ 0.00	\$ 5.00
Lyons Borough.....	\$ 42.00	\$10.00	0.5%	0.5%	0.5%	0.5%	\$ 5.00	\$ 5.00
Maxatawny Township.....	\$ 47.00	\$ 5.00	0.5%	0.5%	0.5%	0.5%	\$ 5.00	\$ 5.00

Source: School District Officials

**Real Estate Tax Collection Record**

The School District's realty tax collection record for the current and previous four fiscal years ending June 30<sup>th</sup>, of the years shown below, is as follows:

<u>Fiscal Year</u>	<u>Adjusted Total Lev</u>	<u>Current Collections</u>	<u>Current Percent Collected</u>	<u>Total Collections<sup>(1)</sup></u>	<u>Total Percent Collected</u>
2018-19	\$20,432,650	\$19,513,958	95.50%	\$20,189,868	98.81%
2019-20	20,633,158	19,710,158	95.53%	20,522,132	99.46%
2020-21	21,019,625	20,202,857	96.11%	21,190,510	100.81%
2021-22	21,112,376	20,359,643	96.43%	21,074,065	99.82%
2022-23	21,068,332	20,276,651	96.24%	20,780,986	98.64%

<sup>(1)</sup>Includes delinquent real estate collection.

Source: School District Officials.

**Trends in Market and Assessed Valuations**

The trend in market and assessed valuations of real estate in the School District is shown below:

<u>Fiscal Year</u>	<u>Market Value</u>	<u>Assessed Value</u>	<u>Ratio</u>
2019-2020	\$1,028,013,695	\$706,521,400	68.73%
2020-2021	1,100,284,466	720,909,100	65.52%
2021-2022	1,103,344,439	722,585,000	65.49%
2022-2023	1,194,309,030	726,888,300	60.86%
2023-2024	1,205,496,564	732,614,100	60.77%

Source: Pennsylvania State Tax Equalization Board (STEB). Valuations are certified in June of following year.

**Ten Most Valuable Taxable Parcels in the School District**

The following table represents the ten real estate parcels having the highest assessed values in the School District. These taxpayers represent approximately 9.78% of the School District’s total most recent assessed value.

<u>Taxpayer</u>	<u>Taxable Assessed Valuation</u>
East Penn Manufacturing Co.	\$17,187,500
Dream Kutztown LLC	10,252,500
Regent-Kutztown LLC	6,037,800
Advantage Point LP	6,005,300
120 Trexler Ave LLC & Penn Hlw Propco LL	4,587,100
Golden Bear Ventures Inc.	4,190,300
Kutztown University Foundation	3,759,000
Fanelli Group Properties LLC	3,743,500
503 Briar LLC	3,450,000
Weis Plaza LP % Nassimi Realty LLC	<u>3,309,000</u>
<b>Totals</b>	<b><u>\$62,522,000</u></b>

Source: County Assessment Office

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## COMMONWEALTH AID TO SCHOOL DISTRICTS

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

Basic education funding is allocated to all school districts in an amount equal to: (1) a fixed sum equal to the school district's Fiscal Year 2014-15 basic educational funding; plus (2) an additional increment determined annually pursuant to statutory formula which adjusts a school district's average daily membership by a number of factors specific to the composition of the student population as well as the school district's median household income, local tax effort and capacity to generate local revenue. The additional increment as calculated above for any individual school district may be zero.

Information concerning the calculation of the School District's basic education funding can be found on the Pennsylvania Department of Education's website at <https://www.education.pa.gov>.

School districts also receive subsidies for special education, pupil transportation, career and technical education and health services, among other things.

### **Lack of Commonwealth Appropriations for Debt Service Reimbursement**

Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of the debt service on some or all of the School District's outstanding bonds after said bonds have received final approval from the Department of Education (see **"DEBT STATEMENT AND DEBT LIMITS"** herein). Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Aid Ratio or CARF, whichever is higher. The School District's CARF is currently higher at 40.2%. The Reimbursable Percentage is determined through a process known as the "Planning and Construction Workbook" or "PlanCon". In future years, this percentage may change as the School District's MVAR changes, or as a result of future legislation regarding changes to, or even elimination of, the PlanCon program.

In May of 2016, the Commonwealth enacted appropriation legislation known as Act 25 ("Act 25"), which contains authorization for the Commonwealth Finance Authority ("CFA") to issue up to \$2.5 billion of debt to fund PlanCon reimbursements to school districts. Act 25 also instituted a moratorium on new projects entering the PlanCon process while an advisory committee established under Act 25 considers amendments to the PlanCon reimbursement program. This moratorium went into effect on March 15, 2016 and most recently became indefinite with the adoption of Act No. 33 of 2023 on December 13, 2023.

To date, the CFA has issued \$1,903,065,000, to provide for PlanCon reimbursements owed to school districts, consisting of the issuance of its Revenue Bonds, Series A of 2016 (Federally Taxable) in the principal amount of \$758,185,000 issued on October 31, 2016, its Revenue Bonds, Series of 2019 (Federally Taxable) in the total amount of \$412,520,000 issued on January 18, 2019, its Revenue Bonds (Federally Taxable), Series A of 2019 in the total amount of \$388,975,000 issued on May 9, 2019, and its Revenue Bonds (Federally Taxable), Series A of 2021 in the total amount of \$343,385,000 issued on June 23, 2021. It is expected that proceeds of these issues will be used to provide PlanCon reimbursement to the School District for the current and future fiscal years. However, the School District cannot be certain that any future PlanCon reimbursement will be received by PDE as the ability for CFA to issue additional bonds in the future to fund future PlanCon reimbursements owed to school districts may impact the availability of PlanCon reimbursements payable to the School District. Any failure by the Commonwealth to adopt a timely budget and enact necessary spending authorizations could have a material adverse effect upon the School District's anticipated receipt of PlanCon reimbursements.

Act 70 of 2019 was adopted by the State legislature and has modified the PlanCon process. The Act states that on July 1, 2020, a new PlanCon system will go online. However, the legislation does not include any funding nor does it state when the Commonwealth would start to allow applicants to enter into the new program. There is a moratorium for the new PlanCon program, which still remains in place.

There can be no assurances that the School District will be able to successfully apply for, be awarded, and receive sufficient PlanCon reimbursement for the costs of any current or future projects of the School District. A failure by the School District to receive such reimbursement could force the School District to apply other available funds, if any, toward the completion costs of the Project and may have a material adverse effect on the financial resources of the School District to fund other obligations, including payment of debt service on the Bonds.

**DEBT STATEMENT AND DEBT LIMITS**

Residents of the School District are responsible for the following debt within the School District, the municipalities within the School District and the County following the settlement of the Bonds. The School District has never defaulted on the payment of debt service.

<b><u>DIRECT DEBT</u></b>	<b>Gross</b>	<b>Reimbursable</b>	<b>Effective</b>	<b>State</b>	<b>Local</b>
<b><u>NONELECTORAL DEBT</u></b>	<b><u>Outstanding</u></b>	<b><u>Percent (%)</u></b>	<b><u>Reimbursement<sup>(1)</sup></u></b>	<b><u>Share</u></b>	<b><u>Share</u></b>
General Obligation Bonds, Series of 2024.....	\$15,000,000	30.69%	12.34%	\$1,850,607	\$13,149,393
General Obligation Notes, Series C of 2021 .....	5,690,000	0.00%	0.00%	0	5,690,000
General Obligation Notes, Series A of 2021 .....	5,785,000	0.00%	0.00%	0	5,785,000
General Obligation Notes, Series of 2021.....	6,485,000	0.00%	0.00%	0	6,485,000
General Obligation Bonds, Series of 2019.....	6,635,000	0.00%	0.00%	0	6,635,000
<b>Total Principal of Nonelectoral Debt.....</b>	<b>\$39,595,000</b>			<b>\$1,850,607</b>	<b>\$37,744,393</b>
<b><u>LEASE RENTAL DEBT</u></b>					
<b>Total Principal of Lease Rental Debt .....</b>	<b>\$0</b>				
<b>TOTAL DIRECT DEBT .....</b>	<b>\$0</b>				
<b><u>OVERLAPPING DEBT</u></b>					
Component Municipalities Debt.....	\$24,119,238				
Berks County <sup>(2)</sup> .....	4,127,799				
<b>Total Principal of Overlapping Debt.....</b>	<b>\$28,247,037</b>				
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b>\$67,842,037</b>				
<b><u>DEBT RATIOS OF DIRECT DEBT</u></b>					
Market Valuation of Real Estate.....	3.28%				
Assessed Valuation of Real Estate.....	5.40%				
Per Capita (2020 Population).....	\$2,322				
<b><u>DEBT RATIOS OF DIRECT DEBT AND OVERLAPPING DEBT</u></b>					
Market Valuation of Real Estate.....	5.63%				
Assessed Valuation of Real Estate.....	9.26%				
Per Capita (2020 Population).....	3,979				
<b><u>FINANCIAL FACTORS OF THE SCHOOL DISTRICT</u></b>					
Market Value .....	\$1,205,496,564				
Assessed Value .....	\$732,614,100				
Population (2020) .....	17,050				

<sup>(1)</sup>Gives effect to current appropriations for payment of debt service and expected future State Reimbursement of School District sinking fund payments based on current Aid Ratio. See “Commonwealth Aid to School Districts” herein.

<sup>(2)</sup>School District’s pro rata 3.33% share of the County’s \$123,949,000 principal amount outstanding.

Source: Department of Community and Economic Development (“DCED”) website.

**FUTURE FINANCING**

The School District does anticipate issuing approximately \$5 - \$10 million of additional long-term debt to fund its capital improvement plan.



**BORROWING CAPACITY**  
**(Under Local Government Unit Debt Act)**

The legal borrowing capacity of the School District is calculated in accordance with the Debt Act, which describes the applicable debt limits for local government units (entities with taxing powers), including school districts and municipalities. Under the Debt Act, the School District may incur electoral debt, which is debt that is approved by a majority of the School District's voters at either a general or special election, in an unlimited amount. Net nonelectoral debt, or debt not approved by the School District's electorate, net of state aid, may not exceed 225% of the School District's "Borrowing Base", as defined in the Debt Act. The Bonds constitute nonelectoral debt under the Debt Act. The Borrowing Base is calculated as the annual arithmetic average of Total Revenues (as defined in the Debt Act), for the three full fiscal years next preceding the date of incurring debt. Combined net nonelectoral debt and net lease rental debt (debt represented by capital leases and similar agreements relating to debt payments), net of approved state aid, incurred on behalf of the School District may not exceed 225% of the School District's Borrowing Base. The Borrowing Base and borrowing capacity of the School District are as follows:

	<u>2021-22</u>	<u>2022-23</u>	<u>Estimated</u> <u>2023-24</u>
<b>Total General Fund Revenues</b> .....	\$34,826,391	\$36,459,718	\$37,047,686
<b>Less: Required Deductions</b>			
a. Rental and Sinking Fund Reimbursement.....	8,008	10,867	10,858
b. Revenues for Self-Liquidating Debt.....	0	0	0
c. Interest Earned on Sinking Funds.....	0	0	0
d. Grant and Gifts for Capital Projects.....	0	0	0
e. Sale of Equipment and Non-Recurring Items (i.e., insurance recoveries)	0	0	18,619
<b>Total Deductions</b> .....	<u>8,008</u>	<u>10,867</u>	<u>29,477</u>
<b>Total Net General Fund Revenues</b> .....	\$34,818,383	\$36,448,851	\$37,018,209
<b>Total Net Revenues for Three Years</b> .....		\$108,246,846	
<b>Borrowing Base - Average Net Revenues for Three-Year Period</b> .....		\$36,082,282	
<b>Computation of Borrowing Capacity</b>			
Debt Limitation - 225% of Borrowing Base.....		\$81,185,134	
Less: Net Non-Electoral and Lease Rental Debt.....		<u>39,595,000</u>	
Current Non-Electoral and Lease Rental Borrowing Capacity.....		<u>\$41,590,134</u>	

**LABOR RELATIONS**

**Employees and Labor Contracts**

There are presently 219 employees of the School District, including teachers, administrators, and support personnel including secretaries, maintenance staff, cafeteria workers and aides.

Professional/instructional employees of the School District are represented for purposes of collective bargaining by the Kutztown Area Education Association, which is affiliated with the Pennsylvania State Education Association ("PSEA"). The expiration date of the current collective bargaining which is in place between the School District and the PSEA is June 30, 2025.

**Pension Program**

Currently, all Pennsylvania school districts and intermediate units participate in a pension program administrated by the Commonwealth. The program is formally known as the Public School Employees' Retirement System ("PSERS"), and a percentage of each eligible employee's salary is contributed by the employee, the School District and the Commonwealth. All full-time employees, part-time employees salaried over eighty days per year and hourly employees who render at least 500 hours of service in the school year can participate in the program.

Contributions are required by active members, School Districts, and the Commonwealth of Pennsylvania as established by the Public School Employees' Retirement Code. Members who enrolled prior to January 1, 2002, range from 5.28% to 7.5% of compensation, depending upon the date of commencement of employment and elections made by each employee member. Members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5% of compensation. The contribution rate for PSERS members who enrolled on or after July 1, 2011 is 7.5% or 10.3%, depending upon elections made by each employee member. For the fiscal year ended June 30, 2022, the PSERS Board certified employer rate, to be paid by the School District, is 33.99%. According to Act 120 of 2010 the employer contribution rate is suppressed for future years by using rate caps to keep the rate from rising too high, too fast.

The Commonwealth will reimburse the School District at the rate of 50% of its total contributions with respect to all employees who were hired prior to July 1, 1994. With respect to employees hired after July 1, 1994, and who were not previously employed by another public school system in the Commonwealth, the School District will be reimbursed by the Commonwealth at the rate of the higher of 50% of contributions made by the School District or the current Market Value/Personal Income Aid Ratio. The School District is reimbursed on a quarterly basis.

Under Act 5 of 2017 (“Act 5”) PSERS transitioned from a traditional defined benefit system and begin to offer defined contribution plans as well. Beginning July 1, 2019, in addition to other transaction rules and options based on members’ classifications, certain classes of active members may choose to switch from the current defined benefit plan to one of three new retirement benefit plan options which will be available. Additionally, all active members newly hired on or after July 1, 2019, will be required to select one of those three new retirement benefit plan options and will not be eligible to participate in the current defined benefit plan. The three new plans consist of two hybrid plans, with defined benefit and defined contribution components, along with a stand-alone defined contribution plan.

In addition to its comprehensive change in available plans for active members, Act 5 also made certain changes to the PSERS Board of Trustees and administrative protocols and created the Public Pension Management and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and strategies.

According to the Independent Fiscal Office, Act 5 is not expected to reduce school district and state contributions to PSERS over the first fifteen years. However, beginning in fiscal 2034-35 through fiscal 2049-50, employer contribution rates are expected to begin to decline due to the lower long-term employer costs of the new benefit plans and will be lower, in the aggregate, over the study period. Both the School District and the Commonwealth are responsible for paying a portion of the employer’s share. School entities are responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. The School District contributions are made on a quarterly basis and employee contributions are deducted bi-weekly for each paycheck and remitted monthly. Recent School District payments, net of reimbursement, have been as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019-20	\$2,179,600
2020-21	2,298,193
2021-22	2,411,239
2022-23	2,535,311
2023-24	2,486,211
(estimated)	

On June 30, 2023, the School District reported a liability of \$44,281,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS' total pension liability as of June 30, 2021 to June 30, 2022. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the PSERS' one-year reported contributions. This method was changed beginning with the System’s fiscal year ended June 30, 2020. In prior years, the proportion of the PSERS net pension liability was calculated utilizing the School District’s one-year reported covered payroll as it related to PSERS’ total one-year report covered payroll. On June 30, 2023 (measurement date), the School District's proportion was 0.0996%, which was an increase of 0.0009% from its proportion measured as of June 30, 2022.

As of June 30, 2023, the PSERS plan was 61.6% funded, with an unfunded actuarial accrued liability of approximately \$44.0 billion. PSERS’ rate of return for fiscal year ended June 30, 2023, was 3.54%. The Fund had plan net assets of \$72.8 billion on June 30, 2023. For more information, visit the PSERS website at [www.psers.pa.gov](http://www.psers.pa.gov), which is not incorporated by specific reference into this Official Statement.

Source: School District Audit and PSERS

**Other Post-Employment Benefits (“OPEB”)**

The School District implemented Governmental Accounting Standards Board Statement No. 45, “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions,” for certain post-employment healthcare benefits and life insurance benefits provided by the School District. This statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year.

Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition. Single-Employer Defined Benefit OPEB Plan The School District’s other post-employment benefits ("OPEB") include a single-employer defined benefit plan that provides medical and life insurance benefits to eligible retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

The School District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

For a full description of the pension and OPEB plans, please refer to Appendix E – Financial Statements.

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**APPENDIX B**

**LOCAL DEMOGRAPHIC AND STATISTICAL; AND ECONOMIC INFORMATION**

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**DEMOGRAPHIC AND STATISTICAL INFORMATION**

The following tables provide population trends, age, family income and housing indices for the School District, the County and the Commonwealth of Pennsylvania.

**Population**

	<u>2010</u>	<u>2020</u>
School District .....	19,010	17,050
Berks County .....	411,442	428,849
Pennsylvania.....	12,702,379	13,002,700

Source: U.S. Bureau of Census.

**Age Composition  
(2010)**

	<u>Percent Under 18</u>	<u>Percent 65 and Over</u>
School District .....	13.9%	12.0%
Berks County .....	21.8	18.2
Pennsylvania.....	20.2	19.6

Source: U.S. Bureau of Census.

**Family Income  
(2010)**

<u>Municipalities in the School District</u>	<u>Median Household</u>	<u>Individuals in Poverty</u>
Albany Township	71,875	1.5
Greenwich Township	75,754	7.6
Kutztown Borough	65,694	5.5
Lenhartsville Borough	57,000	15.2
Lyons Borough	57,426	14.8
Maxatawny Township	69,688	6.7
Berks County	63,724	9.0
Pennsylvania	63,364	8.5

\*Population under 5,000, information unavailable.

Source: U.S. Bureau of Census.

**Housing Characteristics  
(2020)**

	<u>Housing Units</u>	<u>Households</u>	<u>Persons Per Household</u>
Berks County .....	171,712	160,065	2.59
Pennsylvania.....	5,815,392	5,147,783	2.44

Source: U.S. Bureau of Census.

## **Educational Institutions**

A variety of institutions of higher learning are located near the School District and Berks County. Included are four degree-granting institutions and a number of business schools. The larger educational institutions in the area are Penn State Berks-Lehigh Valley College, Albright College, Alvernia University and Kutztown University of Pennsylvania, which offers master's degrees in business administration, education, library education and various fields of the arts and sciences. The County of Berks is the sponsoring government for the Reading Area Community College and appoints members to the Board of Trustees. Tower Health and Drexel University reached an agreement to build a Medical College Campus near Reading Hospital.

## **Transportation**

The School District's economic position has been bolstered by a fine network of Federal and State highways and rail transportation. This transportation network affords residents and industry accessibility to all urban areas and major market centers. U.S. Route 422 located just south of the School District connects the area with Philadelphia to the southeast and Lebanon to the west. U.S. Route 222 traverses the School District and connects the area with Reading, Lancaster and the Pennsylvania Turnpike to the south and Allentown, Bethlehem and Easton to the north. The School District is also served by State Route 61.

The Laureldale Municipal Authority and Muhlenberg Township Authority provide sewer service to the developed portions of the School District and the Muhlenberg Township Authority supplies water service to the majority of the School District residents.

The municipalities all maintain police departments and support local volunteer fire companies to protect the health and welfare of their citizens.

## **Medical Facilities**

The School District and County are served by five (5) medical centers, three (3) medical and dental laboratories, two (2) general hospitals and five (5) specialized institutions which deal with geriatric patients, mental and tuberculosis patients, as well as the physically handicapped.

## **Commerce**

The County continues to be a leader in specialty manufacturing with one of the highest concentration in the Commonwealth of Pennsylvania. Companies have expanded including East Penn Manufacturing and EnerSys Batteries. The County has experienced significant growth in box distribution centers along its Route 78 and Route 61 corridors, attracting wholesale distribution and retail order fulfillment companies in support of their east coast business. The County is also experiencing growth in the City of Reading and its suburbs with commercial, medical, education institutions and residential development. Most recent, The Tower Health joint venture with Drexel University completed the regional medical campus near Reading hospital and Penn National's Hollywood Casino Morgantown is up and running.

## **ECONOMIC INFORMATION**

### **Ten Largest Employers in Berks County 1st Quarter, 2023**

East Penn Manufacturing Company  
Reading Hospital  
Carpenter Technology Corporation  
Penske Truck Leasing Co. LP  
Amazon.com Services Inc.  
Wal-Mart Associates Inc.  
County of Berks  
Reading School District  
Redner's Tiger Markets Inc.  
State Government

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Source: Pennsylvania Department of Labor & Industry – Center for Workforce Information and Analysis.

**READING METROPOLITAN STATISTICAL AREA**

(Berks County)

TOTAL CIVILIAN LABOR FORCE, EMPLOYMENT, UNEMPLOYMENT, AND  
UNEMPLOYMENT RATE BY PLACE OF RESIDENCE

TIME PERIOD	CIVILIAN LABOR FORCE	EMPLOY- MENT <sup>2</sup>	UNEMPLOY- MENT	RATE (%)	SEASONALLY ADJUSTED <sup>4</sup>			
					LABOR FORCE	EMPLOY- MENT	UNEMPLOY- MENT	RATE (%)
August 2023	216,800	207,100	9,700	4.5	214,100	206,000	8,000	3.8
July	215,700	207,400	8,300	3.8	213,500	205,700	7,800	3.6
June	215,800	207,200	8,600	4.0	213,500	205,600	7,900	3.7
August 2022	212,200	201,900	10,300	4.8	214,300	204,900	9,400	4.4

**August 2023  
NONFARM JOBS - NOT SEASONALLY ADJUSTED**

ESTABLISHMENT DATA	Industry Employment				Net Change From:	
	Aug 2023	Jul 2023	Jun 2023	Aug 2022	Jul 2023	Aug 2022
<b>TOTAL NONFARM</b>	<b>179,000</b>	179,200	180,000	176,300	-200	2,700
<b>TOTAL PRIVATE</b>	<b>161,500</b>	161,800	161,200	158,900	-300	2,600
<b>GOODS-PRODUCING</b>	<b>39,300</b>	39,600	39,500	39,700	-300	-400
<b>Mining, Logging, and Construction</b>	<b>8,200</b>	8,400	8,300	8,400	-200	-200
<b>Manufacturing</b>	<b>31,100</b>	31,200	31,200	31,300	-100	-200
Durable Goods	<b>21,700</b>	21,800	21,700	21,500	-100	200
Non-Durable Goods	<b>9,400</b>	9,400	9,500	9,800	0	-400
<b>SERVICE-PROVIDING</b>	<b>139,700</b>	139,600	140,500	136,600	100	3,100
<b>PRIVATE SERVICE-PROVIDING</b>	<b>122,200</b>	122,200	121,700	119,200	0	3,000
<b>Trade, Transportation, and Utilities</b>	<b>35,200</b>	35,300	35,200	34,600	-100	600
Wholesale Trade	<b>6,500</b>	6,500	6,400	6,300	0	200
Retail Trade	<b>19,100</b>	19,100	19,000	18,600	0	500
Grocery and convenience retailers	<b>3,700</b>	3,700	3,700	3,600	0	100
Transportation, Warehousing, and Utilities	<b>9,600</b>	9,700	9,800	9,700	-100	-100
<b>Information</b>	<b>1,000</b>	1,000	1,000	1,000	0	0
<b>Financial Activities</b>	<b>6,900</b>	6,900	7,000	7,000	0	-100
Credit Intermediation and Related Activities including Mone	<b>2,400</b>	2,400	2,400	2,400	0	0
<b>Professional and Business Services</b>	<b>23,300</b>	23,200	23,000	22,600	100	700
<b>Education and Health Services</b>	<b>31,900</b>	31,800	31,700	30,800	100	1,100
Health care and social assistance	<b>29,100</b>	28,900	28,900	28,200	200	900
<b>Leisure and Hospitality</b>	<b>15,600</b>	15,700	15,600	15,300	-100	300
<b>Other Services</b>	<b>8,300</b>	8,300	8,200	7,900	0	400
<b>Government</b>	<b>17,500</b>	17,400	18,800	17,400	100	100
Federal Government	<b>800</b>	800	800	800	0	0
State Government	<b>3,000</b>	2,800	2,800	2,900	200	100
Local Government	<b>13,700</b>	13,800	15,200	13,700	-100	0
Data benchmarked to March 2022	***Data changes of 100 may be due to rounding***					

Source: Pennsylvania Department of Labor & Industry.



**APPENDIX C**  
**FORM OF OPINION OF BOND COUNSEL**

# Stevens & Lee

111 N. Sixth Street  
P.O. Box 679  
Reading, PA 19603  
(610) 478-2000  
www.stevenslee.com

\_\_\_\_\_, 2024

Re: Kutztown Area School District, Berks County, Pennsylvania  
\$ \_\_\_\_\_ General Obligation Bonds, Series of 2024

TO: THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS

We have served as Bond Counsel in connection with the issuance by the Kutztown Area School District, Berks County, Pennsylvania (the “School District”), of its \$ \_\_\_\_\_ aggregate principal amount General Obligation Bonds, Series of 2024 (the “Bonds”), dated as of and bearing interest from \_\_\_\_\_, 2024. The Bonds are being issued, without the assent of the electors, in fully registered form, without coupons, in denominations of \$5,000 each or multiples thereof, pursuant to the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as reenacted and amended (the “Act”). The Bonds are being issued pursuant to the provisions of a resolution adopted by the Board of School Directors of the School District on August 5, 2024 (the “Resolution”).

The Bonds are being issued to provide funds for (1) the design, acquisition, construction and installation of new classroom buildings and a new administration building and various capital improvements to the School District’s facilities, buildings and systems, including, but not limited to, various upgrades to the School District’s Elementary School and Middle School; and (2) the payment of the costs and expenses of issuance of the Bonds, as described more completely in the Resolution.

The School District has covenanted in the Resolution that it will make no use of the proceeds of the Bonds and it has neither done nor suffered and will neither do nor suffer any other action which, if such use or action had been reasonably expected on the date of issue of the Bonds, would cause the Bonds to be “arbitrage bonds” or “private activity bonds,” as those terms are defined in the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations thereunder. The School District has further covenanted that it will comply with the requirements of Section 148 and Section 141 of the Code and with the applicable regulations thereunder throughout the term of the Bonds.

In the Resolution, the School District has covenanted that (1) it will include in its budget in each fiscal year the amount required to pay debt service on the Bonds for such year, (2) it will appropriate from its general revenues in each such fiscal year the amount required to pay debt service on the Bonds for such year, and (3) it will duly and punctually pay or cause to be paid when due, from its sinking fund or any other of its revenues or funds, the principal of and interest on every Bond at the dates and place and in the manner stated therein, according to the true intent and meaning thereof. For such budgeting, appropriation and payment, the School District

# Stevens & Lee

\_\_\_\_\_, 2024

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has irrevocably pledged its full faith, credit and taxing power, subject to such limitations provided by law. In addition, the School District has established with The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania (the “Paying Agent”), as paying agent and sinking fund depository, a sinking fund, and has covenanted to deposit into such sinking fund amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due and payable.

In our capacity as Bond Counsel, we have reviewed: (a) a certified copy of the Resolution; (b) the sworn debt statement and borrowing base certificate of the School District filed with the Department of Community and Economic Development of the Commonwealth of Pennsylvania (the “Department”) in accordance with the provisions of the Act; (c) the proceedings of the School District and the various proofs of publication in connection with the advertisement of the Resolution, all of which were filed with the Department as required by the provisions of the Act; (d) the approval of the Department; (e) a specimen copy of one of the Bonds; (f) the Nonarbitrage Certificate of the School District executed and delivered pursuant to the provisions of the Code and the regulations applicable thereto; (g) the General Certificate signed by officials of the School District; (h) a completed and executed Form 8038-G to be filed with the Internal Revenue Service; (i) the opinion of Mancuso Law Group LLC, Solicitor to the School District (the “Solicitor’s Opinion”); (j) the Certificate dated the date hereof of Raymond James & Associates, Inc. (the “Purchaser”); and (k) the other documents, certificates and opinions executed and delivered at or in connection with the closing held this day.

Based and in reliance upon our review of the foregoing, our attendance at the closing held this day and subject to the qualifications set forth herein, it is our opinion that, as of the date hereof, under existing law:

1. The School District is empowered under provisions of the Constitution and laws of the Commonwealth of Pennsylvania to issue the Bonds.
2. The Resolution was duly adopted by the Board of School Directors of the School District and continues to be in full force and effect as of the date hereof.
3. The Bonds have been duly authorized and executed and constitute valid and binding obligations of the School District, enforceable in accordance with their terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (a) applicable bankruptcy, insolvency or other laws or equitable principles now or hereafter affecting the enforcement of creditors’ rights generally or (b) general principles of equity.
4. Interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.

# Stevens & Lee

\_\_\_\_\_, 2024  
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5. Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds, are subject to State and local taxation within the Commonwealth of Pennsylvania.

6. Under the Code, interest on the Bonds does not constitute an item of tax preference under Section 57 of the Code and thus is not subject to alternative minimum tax on individuals and corporations; however, for tax years beginning after December 31, 2022, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations.

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In connection with providing the foregoing opinions, we call to your attention the following:

A. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other documents, agreements, instruments, reports and certificates furnished to us at or in connection with the issuance of the Bonds (including, without limitation, certificates and agreements by the School District as to the expected use of proceeds of the Bonds, and as to its continuing compliance with Sections 148 and 141 of the Code to assure that the Bonds do not become “arbitrage bonds” or “private activity bonds”) without undertaking to verify the same by independent investigation. We have also relied upon the accuracy of the representations and warranties and the performance of the covenants and agreements of the School District set forth in the Resolution and the various certificates and other agreements delivered at or in connection with the closing held this day.

B. In providing the opinions set forth in paragraphs 2 and 3 above, we have relied, without independent investigation, on the Solicitor’s Opinion.

C. In providing the opinion set forth in paragraph 4 above, we have assumed continuing compliance by the School District with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

# Stevens & Lee

\_\_\_\_\_, 2024

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D. In providing the opinions set forth in paragraph 6 above, we have assumed continuing compliance by the School District with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Notes in order that the interest thereon not constitute an item of tax preference under Section 57 of the Code. Failure to comply with such requirements could cause the interest on the Bonds to constitute an item of tax preference under Section 57 of the Code retroactive to the date of issuance of the Bonds.

E. Except as specifically set forth above, we express no opinion regarding other federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of gain or loss, if any, upon the sale, redemption, or other disposition of the Bonds prior to maturity of the Bonds subject to original issue discount or premium and the effect, if any, of certain other provisions of the Code which could result in collateral federal income tax consequences to certain investors as a result of adjustments in the computation of tax liability dependent on tax-exempt interest.

F. We have not been engaged to verify, nor have we independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement October \_\_, 2024 (the “Preliminary Official Statement”), or the Official Statement, dated October \_\_, 2024 (the “Official Statement”), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by School District officials. We express no opinion with respect to whether the School District, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made not misleading.

G. We have not verified, and express no opinion as to the accuracy of, any “CUSIP” identification number which may be printed on any Bond. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at closing.

H. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement as Bond Counsel has concluded with the issuance of the Bonds and we disclaim any obligation to update this letter.

STEVENS & LEE, P.C.

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

KUTZTOWN AREA SCHOOL DISTRICT  
BERKS COUNTY, PENNSYLVANIA  
GENERAL OBLIGATION BONDS, SERIES OF 2024

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Kutztown Area School District, Berks County, Pennsylvania (the “School District”), in connection with the issuance of its \$ \_\_\_\_\_ aggregate principal amount General Obligation Bonds, Series of 2024 (the “Bonds”). The Bonds are being issued pursuant to a Resolution of the School District, dated August 5, 2024 (the “Resolution”). The School District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the School District for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the School District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Bondholders” or “Holders” shall mean the registered owners of the Bonds and, if registered in the name of Cede & Co., through The Depository Trust Company, New York, New York (“DTC”), any Beneficial Owners (as such term is used by DTC to define holders other than nominees) of the Bonds, unless the Rule, or an authoritative interpretation thereof by the Securities and Exchange Commission (the “Commission”) or its staff, does not require this Disclosure Certificate to be for the benefit of such Beneficial Owners.

“Business Day” shall mean a day other than (a) a Saturday, Sunday or legal holiday, (b) a day on which banks located in any city in which the principal office or designated payment office of the paying agent or the Dissemination Agent is located are required or authorized by law to remain closed, or (c) a day on which the Securities Depository or the New York Stock Exchange is closed.

“Commission” shall mean the Securities and Exchange Commission.

“Dissemination Agent” shall mean any person or entity designated from time to time in writing by the School District and which has filed with the School District a written acceptance of such designation and of the duties of the Dissemination Agent under this Disclosure Certificate.

“EMMA” shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule as further described in Section 13 hereof.

“Filing” shall mean, as applicable, any Annual Report or Listed Event filing or any other notice or report made public under this Disclosure Certificate made with each NRMSIR or the MSRB and the SID, if any, together with a completed copy of a cover sheet in such form acceptable to each NRMSIR, the MSRB or SID, if applicable, describing the event by checking the box in said form when filing pursuant to the pertinent sections of this Disclosure Certificate.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of the Rule.

“NRMSIR” shall mean any Nationally Recognized Municipal Securities Information Repository recognized for purposes of the Rule and the MSRB, as reflected on the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). **As of the date of this Disclosure Certificate, the sole NRMSIR shall be the MSRB, through the operation of EMMA, as provided in Section 13 hereof.**

“Official Statement” shall mean the School District’s Official Statement dated \_\_\_\_\_, 2024 related to the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each NRMSIR and the SID, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SID” shall mean any public or private state information depository or entity designated by the Commonwealth of Pennsylvania as a state information depository for the purpose of the Rule, if any. As of the date of this Disclosure Certificate, no SID has been designated.

### SECTION 3. Provision of Annual Reports.

(a) The School District shall not later than 270 days after the end of each fiscal year of the School District, commencing with the fiscal year ending June 30, 2024, provide directly or through the Dissemination Agent to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In connection therewith, not later than fifteen (15) Business Days prior to said date, the School District shall



provide the Annual Report to the Dissemination Agent (if one has been designated by the School District under this Disclosure Certificate). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the School District may be submitted separately from the remainder of the Annual Report when such audited financial statements are available. If the audited financial statements are not submitted as part of the Annual Filing to each Repository pursuant to this Section 3(a), the School District shall provide to each Repository such audited financial statements when they are available to the School District.

(b) If the School District is unable to provide an Annual Report by the date required in subsection (a), the School District shall send or cause the Dissemination Agent to send, in a timely manner, a notice to each NRMSIR and the SID, if any, in substantially the form attached as Exhibit A.

(c) The School District or the Dissemination Agent, if applicable, shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each NRMSIR and the SID, if any; and

(ii) if a Dissemination Agent has been designated hereunder, file a report with the School District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing each Repository to which it was provided.

(iii) The School District shall promptly file a notice of any change in its fiscal year and the new annual filing date with each NRMSIR and the SID, if any.

(d) If the Dissemination Agent does not receive the Annual Report from the School District by the fifteenth Business Day specified in Section 3(a) above, the Dissemination Agent shall provide a written reminder notice to the School District with respect to the School District's obligations under Section 3(a) above no later than five (5) Business Days after such fifteenth Business Day.

SECTION 4. Content of Annual Reports. The School District's Annual Report shall contain or incorporate by reference the following:

(a) a copy of the School District's annual financial statements prepared in accordance with generally accepted accounting principles for local government units; and

(b) a summary of the budget for the current fiscal year;

(c) the assessed value and aggregate market value of all taxable real estate for the most recent fiscal year;

(d) the taxes and millage rates imposed for the most recent fiscal year;

(e) the real property tax collections results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year's levy and as an aggregate dollar amount); and

(f) a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the most recent fiscal year.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the School District or related public entities, which have been submitted to each Repository or the Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The School District shall clearly identify each such other document so incorporated by reference. The School District reserves the right to modify from time to time specific types of information provided hereunder or the format of the presentation of such information, to the extent necessary or appropriate; provided, however, that any such modification will be done in a manner consistent with the Rule.

#### SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to a particular series of the Bonds constitutes a "Listed Event" only with respect to such series of the Bonds. This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;

- (vii) Modifications to rights of securities holders, if material;
- (viii) Bond calls, if material, and tender offers for the Bonds;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the School District;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or paying agent or the change of name of a trustee or paying agent, if material;
- (xv) Incurrence of a Financial Obligation of the School District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the School District, any of which affect security holders, if material; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the School District, any of which reflect financial difficulties.

(b) Whenever the School District obtains knowledge of the occurrence of a Listed Event, the School District shall as soon as possible (with respect to those Listed Events where a determination of materiality by the School District is applicable) determine if such event would constitute material information for Holders of Bonds under applicable federal securities laws.

(c) If (i) a Determination of materiality by the School District is not relevant to the obligation to give notice of a Listed Event or (ii) the School District determines (with respect to those Listed Events where a determination of materiality by the School District is applicable) that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the School District shall promptly file in a timely manner, not in excess of ten (10) Business Days after the occurrence of the Listed Event, or cause the Dissemination Agent to so file (if a Dissemination Agent has been designated hereunder) a notice of such occurrence with each NRMSIR and the SID, if any, with a copy to the Paying Agent.

(d) For purposes of the Listed Events in Section 5(a)(xii), the School District and the Dissemination Agent acknowledge the following interpretive note which the Commission has set forth in the Rule: *“Note: for the purposes of the event identified in subparagraph (b)(5)(i)(C)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;”*

SECTION 6. Termination of Reporting Obligation. The School District’s obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

In the event that any person or entity subsequent to the execution hereof becomes an “obligated person,” as such term is defined in the Rule, with respect to the Bonds, the School District covenants to use its best effort to cause such obligated person to enter into a written undertaking to comply with the provisions of the Rule or to cause this Disclosure Certificate to be amended and to cause such obligated person to join in the execution of such amendment.

SECTION 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The School District shall cause the Dissemination Agent appointed hereunder and any successors to execute and deliver an acknowledgment of acceptance of the designation and duties of Dissemination Agent under this Disclosure Statement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the School District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, as well as any change in circumstances.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the School District chooses to include any information in any Annual Report or notice of occurrence

of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the School District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the School District to comply with any provision of this Disclosure Certificate, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bonds or the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the School District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent, if other than the School District. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the School District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the School District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Undertaking with Respect to Certain Procedures and Policies. The School District agrees to begin the process of establishing internal policies and procedures for the purpose of continuing disclosure compliance. Without intending to preclude the adoption of other necessary or useful policies and procedures, a single School District official will be designated with ultimate responsibility for continuing disclosure compliance and will oversee the process of informing and training appropriate deputies and other School District employees with respect to the School District's continuing disclosure undertakings.

SECTION 13. EMMA. Filings shall be made to the continuing disclosure service portal provided through EMMA as provided at <http://www.emma.msrb.org>, or any similar system that is acceptable to the Commission.

SECTION 14. Alternative Filing. Notwithstanding the other provisions of this Disclosure Certificate, any filing under this Disclosure Certificate, and any additional supplements hereto, may be made with such depositories and using such electronic filing systems as may be approved by the United States Securities and Exchange Commission (in lieu of the procedures currently in this Disclosure Certificate).

SECTION 15. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the School District, the Paying Agent, the Dissemination Agent (if any), the Participating Underwriter and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

KUTZTOWN AREA SCHOOL DISTRICT  
Berks County, Pennsylvania

(SEAL)

By: \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Date: \_\_\_\_\_, 2024

EXHIBIT A<sup>1</sup>

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Kutztown Area School District  
Berks County, Pennsylvania

Name of Bond Issue: Kutztown Area School District  
Berks County, Pennsylvania  
\$\_\_\_\_\_ aggregate principal amount  
General Obligation Bonds,  
Series of 2024 (the “Bonds”)

Date of Issuance: \_\_\_\_\_, 2024

NOTICE IS HEREBY GIVEN that the Kutztown Area School District, Berks County, Pennsylvania (the “School District”), has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated \_\_\_\_\_, 2024, executed by the School District. The School District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

KUTZTOWN AREA SCHOOL DISTRICT,  
BERKS COUNTY, PENNSYLVANIA, [OR  
DISSEMINATION AGENT ON BEHALF OF  
THE KUTZTOWN AREA SCHOOL DISTRICT,  
BERKS COUNTY, PENNSYLVANIA]

cc: Paying Agent

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<sup>1</sup> The substantive content of this notice shall be provided in any applicable notice filing. Appropriate modifications may be made to accommodate the electronic submission format requirements of the EMMA system or other successor electronic filing system.

**APPENDIX E**  
**AUDITED FINANCIAL STATEMENTS**





***KUTZTOWN AREA SCHOOL DISTRICT***

**FINANCIAL AND COMPLIANCE REPORT**

**Year Ended June 30, 2023**

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors  
Kutztown Area School District  
Kutztown, Pennsylvania**

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

#### **Opinions**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kutztown Area School District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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

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

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

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

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

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

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

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

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

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

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 82 through 86 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023, on our consideration of Kutztown Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kutztown Area School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kutztown Area School District's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

**Reading, Pennsylvania**

**December 18, 2023**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

The discussion and analysis of Kutztown Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2023. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

### **FINANCIAL HIGHLIGHTS**

Effective July 1, 2022, the District adopted new accounting standard guidance GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). As a result of this standard implementation, right-to-use subscription assets were increased \$54,672 with an offsetting subscription liability of the same amount at July 1, 2022. There was no change in beginning net position.

The Governmental activities net position (deficit) increased, from \$(22,716,690) to \$(20,935,062). Business-type activities net position (deficit) increased from \$(56,652) to \$16,670.

Governmental fund revenues increased over 2022 by \$1,815,585 which was attributable to higher revenues from Earned Income Tax, Basic Education, Transportation, & Retirement Subsidies, and recognition of additional COVID-19 (ESSER) grant funding.

Total governmental fund expenditures were lower than the previous year by \$2,614,574. This was mostly due to less capital expenditures, which were down \$4,981,876, while the District had increases in instructional and support services primarily related to salaries and benefits.

## USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of **two** distinct series of financial statements: the district-wide and the fund financials. The **District-wide** reports are designed to show the District as a sum of its significant fund activities. The **fund financial** statements provide the next level of detail. They focus on the individual parts of the District's operations in more detail than the district-wide statements.

### Reporting the School District as a Whole (District-wide Financials)

#### *Statement of Net Position and Statement of Activities*

The view of the School District looks at all financial transactions and asks the question, "How did we do financially during fiscal year?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into consideration all the current year's revenues and expenses regardless of when cash was received or paid.

These two statements provide information for a long-term view of the School District's finances. They report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished for the School District as a whole. The cause of this change may be the result of many factors, some financial, some not.

In the *Statement of Net Position* and the *Statement of Activities*, the School District is divided into two distinct activities:

**Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities. In the case of the Kutztown Area School District, the major funds included under governmental activities are the **General Fund**, and the **Capital Projects Fund**.

**Business-Type Activity** - This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The **Food Service** enterprise fund is the only fund reported as a business activity for Kutztown Area School District.



## Reporting the School District's Most Significant Funds

### Fund Financial Statements

Fund Financial reports provide detailed information about the School District's major funds. The School District uses several funds to account for a multitude of financial transactions.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The same funds (Kutztown Area School District's General Fund, Capital Projects Fund, and Student Activities Fund) are included in the Governmental Funds as are included in Governmental Activities. *The relationship, or differences, between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds is reconciled in the financial statements.*

**Proprietary Funds** - Proprietary Funds (in Kutztown Area School District's case this is only the food service fund) have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the School District as a whole.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of Statement of Net Position as of June 30, 2023 compared to June 30, 2022.

**Table 1**  
**Fiscal Year Ended June 30, 2023 and 2022**  
**Net Position**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current & Other Assets	\$ 10,387,172	\$ 11,537,290	\$ 478,971	\$ 471,001	\$ 10,866,143	\$ 12,008,291
Net Capital Assets	43,614,465	44,807,402	167,145	178,614	43,781,610	44,986,016
<b>Total Assets</b>	<b>54,001,637</b>	<b>56,344,692</b>	<b>646,116</b>	<b>649,615</b>	<b>54,647,753</b>	<b>56,994,307</b>
<b>Deferred Outflows of Resources</b>	<b>9,254,079</b>	<b>10,116,446</b>	<b>189,638</b>	<b>138,443</b>	<b>9,443,717</b>	<b>10,254,889</b>
Current & Other Liabilities	5,545,434	5,692,224	3,510	15,831	5,548,944	5,708,055
Long-Term Liabilities	73,505,877	72,485,740	717,358	567,458	74,223,235	73,053,198
<b>Total Liabilities</b>	<b>79,051,311</b>	<b>78,177,964</b>	<b>720,868</b>	<b>583,289</b>	<b>79,772,179</b>	<b>78,761,253</b>
<b>Deferred Inflows of Resources</b>	<b>5,139,467</b>	<b>10,999,864</b>	<b>98,216</b>	<b>261,421</b>	<b>5,237,683</b>	<b>11,261,285</b>
Net Investment in Capital Assets	16,207,933	15,885,177	167,145	178,614	16,375,078	16,063,791
Net Position-Restricted	479,688	635,401			479,688	635,401
Net Position-Unrestricted	(37,622,683)	(39,237,268)	(150,475)	(235,266)	(37,773,158)	(39,472,534)
<b>Total Net Position (Deficit)</b>	<b>\$ (20,935,062)</b>	<b>\$ (22,716,690)</b>	<b>\$ 16,670</b>	<b>\$ (56,652)</b>	<b>\$ (20,918,392)</b>	<b>\$ (22,773,342)</b>

Most of the District's net position is invested in capital assets (building, land, and equipment).

The results of this year’s operations are reported in the *Statement of Activities*. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District’s activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table 2 takes the information from that Statement, rearranges it slightly, so you can see the total revenues for the year.

**Table 2**  
**Fiscal Year Ended June 30, 2023 and 2022**  
**Changes in Net Position**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>	
<b>Revenues</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<i>Program Revenues :</i>						
Charges for Services	\$ 103,933	\$ 83,266	\$ 292,162	\$ 63,765	\$ 396,095	\$ 147,031
Operating Grants & Contributions	7,908,902	6,640,224	608,567	967,573	8,517,469	7,607,797
Capital Grants & Contributions	10,867	8,008	-	-	10,867	8,008
<i>General Revenues :</i>						
Property Taxes	20,932,197	21,022,502	-	-	20,932,197	21,022,502
Other Taxes	2,578,732	2,650,190	-	-	2,578,732	2,650,190
Grants, Subsidies & Contributions	4,876,669	4,355,681	-	-	4,876,669	4,355,681
Investment Earnings	379,027	15,333	13,278	748	392,305	16,081
Miscellaneous Income	68,017	84,648	1,517	-	69,534	84,648
Transfers	31,857	30,798	(31,857)	(30,798)	-	-
<b>Total Revenues</b>	<b>36,890,201</b>	<b>34,890,650</b>	<b>883,667</b>	<b>1,001,288</b>	<b>37,773,868</b>	<b>35,891,938</b>
<b>Expenses</b>						
Instruction	19,700,183	18,768,948	-	-	19,700,183	18,768,948
Instructional Student Support	4,036,638	3,624,456	-	-	4,036,638	3,624,456
Admin. & Fin'l Support Services	2,720,522	2,593,634	-	-	2,720,522	2,593,634
Oper. & Maint. Of Plant Svcs.	5,250,229	4,747,858	-	-	5,250,229	4,747,858
Pupil Transportation	1,544,740	1,527,226	-	-	1,544,740	1,527,226
Student Activities	1,181,526	730,353	-	-	1,181,526	730,353
Community Services	26,185	18,491	-	-	26,185	18,491
Scholarships and awards	20,641	-	-	-	20,641	-
Interest on Long-Term Debt	627,909	785,864	-	-	627,909	785,864
Food Services	-	-	810,345	677,350	810,345	677,350
<b>Total Expenses</b>	<b>35,108,573</b>	<b>32,796,830</b>	<b>810,345</b>	<b>677,350</b>	<b>35,918,918</b>	<b>33,474,180</b>
<b>Change in Net Position</b>	<b>1,781,628</b>	<b>2,093,820</b>	<b>73,322</b>	<b>323,938</b>	<b>1,854,950</b>	<b>2,417,758</b>
<b>Net Position (Deficit) - Beginning</b>	<b>(22,716,690)</b>	<b>(24,810,510)</b>	<b>(56,652)</b>	<b>(380,590)</b>	<b>(22,773,342)</b>	<b>(25,191,100)</b>
<b>Net Position (Deficit) - Ending</b>	<b>\$ (20,935,062)</b>	<b>\$ (22,716,690)</b>	<b>\$ 16,670</b>	<b>\$ (56,652)</b>	<b>\$ (20,918,392)</b>	<b>\$ (22,773,342)</b>

## Governmental Activities

The *Statement of Activities* reflects the cost of program services and the revenues (charges for services and sales, grants, and contributions) offsetting those services. Table 3, for government activities, indicates the **total cost** of services and the **net cost** of services. The net cost represents the cost of these services that is supported by tax revenues and unrestricted state entitlements.

**Table 3**  
**Fiscal Year Ended June 30, 2023 and 2022**  
**Governmental Activities**

<u>Functions/Programs</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2023	2022	2023	2022
Instruction	\$19,700,183	\$18,768,948	\$14,883,367	\$14,184,445
Instructional Student Support	4,036,638	3,624,456	2,725,397	3,087,812
Administrative	2,720,522	2,593,634	2,410,734	2,290,782
Operation and Maintenance	5,250,229	4,747,858	4,974,305	4,411,139
Pupil Transportation	1,544,740	1,527,226	683,713	835,752
Student Activities	1,181,526	730,353	746,790	459,498
Community Services	26,185	18,491	22,882	18,048
Scholarships and awards	20,641	-	20,641	-
Interest on Long-Term Debt	627,909	785,864	617,042	777,856
<b>Total Governmental Activities</b>	<b>\$35,108,573</b>	<b>\$32,796,830</b>	<b>\$27,084,871</b>	<b>\$26,065,332</b>
Less:				
Unrestricted Grants & Subsidies			4,876,669	4,355,681
<b>Total Needs from Local Taxes and Other Revenues</b>			<b>\$22,208,202</b>	<b>\$21,709,651</b>

The dependence upon tax revenues for governmental activities is apparent. In fiscal year 2022-2023, the costs of instruction and instructional student support activities were equal to 80 percent of total needs from taxes and other general revenues. The community as a whole, is the primary support for Kutztown Area School District students.

**Business-Type Activities**

Table 4 reflects the activities of the Food Service Program, the only business-type activity of the District. The Statement of Revenues, Expenses and Changes in Fund Net Assets for the proprietary fund will further detail the actual results of operations.

**Table 4**  
**Fiscal Year Ended June 30, 2023 and 2022**  
**Business-Type Activities**

<u>Functions/Programs</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2023	2022	2023	2022
Food Services	\$ 810,345	\$ 677,350	\$ (90,384)	\$ (353,988)

Operating Revenues increased by \$228,397 and Operating Expenses increased by \$132,995 while nonoperating revenues decreased \$344,959 due to the National School Lunch Program supporting free lunch program during 2021-2022 and returning to paid lunch in 2022-2023. The General Fund charged the Food Service Fund \$33,598 for utility use, which is included as an interfund transfer.

**THE SCHOOL DISTRICT’S FUNDS**

The School District’s governmental funds are accounted for using the *modified accrual* basis of accounting. Total governmental funds had revenues of \$36,784,128 and expenditures of \$38,023,191 with other financing sources and uses of \$210,336. This decreased the total fund balance by \$1,028,727.

**General Fund:**

The negative net change in fund balance of (\$805,549) represents the expenditures exceeding revenues of Kutztown Area School Districts General Fund for the fiscal year ended June 30, 2023. The budgeted fund balance use was (\$418,600). Fund Balance at year end was \$5,907,005. Fund balance has been committed for capital projects and to offset rising pension costs. Actual revenues were \$437,702 (1.2%) over budget. This is due primarily to an increase in Earned Income and Interest Income increasing above expectations. Actual expenditures were \$1,041,480 (2.9%) over budget much of which is attributed to rising costs in salaries, professional services, and increasing costs of maintenance procedures.

**Capital Projects Fund:**

The fund balance for the Capital Projects Fund decreased by (\$215,964), relating to the finalization of the McClure energy savings project, updating IT infrastructure and multiple other capital improvements.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2023 fiscal year, the District had invested over \$43 million in land, buildings, furniture and equipment, and vehicles. The value of the land is not the fair market, but rather the acquisition cost. Table 5 shows the breakdown of net capital assets.

**Table 5**  
**Capital Assets at June 30, 2023 and 2022 (Net of Depreciation)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activity</u>			
	2023	2022 (restated)	2023	2022 (restated)	2023	2022 (restated)
Land	\$ 41,090	\$ 41,090	\$ -	\$ -	\$ 41,090	\$ 41,090
Construction in Progress	-	1,671,374	-	-	-	1,671,374
Site Improvements	3,145,034	3,316,632	-	-	3,145,034	3,316,632
Bldg & Bldg Improvements	38,733,079	37,943,553	-	-	38,733,079	37,943,553
Furniture & Equipment	1,615,840	1,834,753	167,145	178,614	1,782,985	2,013,367
Leased Equipment	44,423	-	-	-	44,423	-
Subscriptions	34,999	54,672	-	-	34,999	54,672
<b>Totals</b>	<b>\$ 43,614,465</b>	<b>\$ 44,862,074</b>	<b>\$ 167,145</b>	<b>\$ 178,614</b>	<b>\$ 43,781,610</b>	<b>\$ 45,040,688</b>

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

Instruction	\$ 239,040
Instructional student support	38,410
Administrative and financial support services	2,057
Operation and maintenance of plant services	2,041,120
Student activities	12,591
<b>TOTAL DEPRECIATION/AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,333,218</b>

More detailed information about our capital assets is included in the Notes to the Financial Statements.

## Debt

As of July 1, 2022, the District had outstanding bonds and notes of \$27,810,000 accrued. During the year the District paid \$1,600,000 of principal on outstanding bonds and notes. As of June 30, 2023, outstanding bonds and notes payable totaled \$26,210,000. Table 6 shows the breakdown of these numbers.

**Table 6**  
**Outstanding Debt**

	<b>Beginning Balance July 1, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2023</b>
GOB Series 2019	\$6,745,000	-	55,000	6,690,000
GON Series 2021	6,495,000	-	5,000	6,490,000
GON Series 2021A	5,795,000	-	5,000	5,790,000
GON Series 2021C	8,775,000	-	1,535,000	7,240,000
<b>Total</b>	<b>\$ 27,810,000</b>	<b>\$ -</b>	<b>\$ 1,600,000</b>	<b>\$ 26,210,000</b>

Other obligations include financed purchase obligations, leases payable, subscription liabilities, pension and other postemployment benefits, accrued vacation, sick and severance pay for specific employees of the District. More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

## **CURRENT ISSUES**

1. Act 1 of 2006 - Tax Relief Act continues to have a significant impact on the operation of the School District. The Act restricts annual increase of real estate property tax to an inflation index and imposes an earlier more stringent and strenuous budget timeline for the school district.
2. Special Education - Special Education costs continue to increase significantly. They are more than \$4.8 million and they remain a source of concern as more services become required for this segment of the school population. The government mandates which require and regulate these programs are largely unfunded.
3. Charter Schools - Charter School costs continue to drain large amounts of money out of public schools annually. They increased significantly, from \$44,237 in 2003-2004 to \$2,068,733 in the 2022-2023 school year with no relief in sight. In response to this significant increase, the District has launched its own cyber charter school program to give students another option. This program allows students to participate in all on-campus courses as well as access to all extracurricular activities. The cost per student is significantly less than tuition at an outside entity.
4. Retirement Rates - PSERS retirement contribution rates have increased from 1.15% in 2002-03 to an actual rate of 34% in 2023-24. This, in conjunction with increasing salary costs, has caused retirement costs to increase at significant rates. In 2024-25, these rates are anticipated to slightly increase to 34.73%.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact Elizabeth A. Siteman, Business Administrator and Board Treasurer, at Kutztown Area School District, 251 Long Lane, Kutztown, PA 19530.



KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 7,019,120	\$ 659,446	\$ 7,678,566
Taxes receivable, net	830,828	-	830,828
Internal balances	202,579	(202,579)	-
Intergovernmental receivables	2,169,696	-	2,169,696
Other receivables	158,994	-	158,994
Inventories	-	22,104	22,104
Prepaid expenses	5,955	-	5,955
Capital assets:			
Capital assets not being depreciated	41,090	-	41,090
Capital assets, net of accumulated depreciation	43,493,953	167,145	43,661,098
Right-to-use assets, net of accumulated depreciation	79,422	-	79,422
<b>TOTAL ASSETS</b>	<b>54,001,637</b>	<b>646,116</b>	<b>54,647,753</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on bond/note refunding	305,965	-	305,965
Deferred outflows of resources for pension	7,438,838	167,673	7,606,511
Deferred outflows of resources for other postemployment benefits	1,509,276	21,965	1,531,241
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>9,254,079</b>	<b>189,638</b>	<b>9,443,717</b>
<b>LIABILITIES</b>			
Intergovernmental payables	46,776	-	46,776
Accounts payable	291,645	-	291,645
Accrued interest	185,226	-	185,226
Payroll accruals and withholdings	3,049,276	-	3,049,276
Unearned revenues	27,514	3,510	31,024
Other current liabilities	4,153	-	4,153
Noncurrent liabilities, due within one year	1,940,844	-	1,940,844
Noncurrent liabilities:			
Bonds and notes payable, net	25,606,583	-	25,606,583
Financed purchase obligations	173,722	-	173,722
Leases payable	27,173	-	27,173
Subscription liability	11,722	-	11,722
Long-term portion of compensated absences	625,912	-	625,912
Net pension liability	43,603,501	677,499	44,281,000
Net other postemployment benefit liabilities	3,457,264	39,859	3,497,123
<b>TOTAL LIABILITIES</b>	<b>79,051,311</b>	<b>720,868</b>	<b>79,772,179</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources for pension	1,696,461	25,934	1,722,395
Deferred inflows of resources for other postemployment benefits	3,443,006	72,282	3,515,288
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>5,139,467</b>	<b>98,216</b>	<b>5,237,683</b>
<b>NET POSITION</b>			
Net investment in capital assets	16,207,933	167,145	16,375,078
Restricted for capital projects	402,308	-	402,308
Restricted for other purposes	77,380	-	77,380
Unrestricted (deficit)	(37,622,683)	(150,475)	(37,773,158)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (20,935,062)</b>	<b>\$ 16,670</b>	<b>\$ (20,918,392)</b>

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 19,700,183	\$ 25,567	\$ 4,791,249	\$ -	\$ (14,883,367)	\$ -	\$ (14,883,367)
Instructional student support	4,036,638	-	1,311,241	-	(2,725,397)	-	(2,725,397)
Administrative and financial support services	2,720,522	-	309,788	-	(2,410,734)	-	(2,410,734)
Operation and maintenance of plant services	5,250,229	44,989	230,935	-	(4,974,305)	-	(4,974,305)
Pupil transportation	1,544,740	-	861,027	-	(683,713)	-	(683,713)
Student activities	1,181,526	33,377	401,359	-	(746,790)	-	(746,790)
Community services	26,185	-	3,303	-	(22,882)	-	(22,882)
Scholarships and awards	20,641	-	-	-	(20,641)	-	(20,641)
Interest on long-term debt	627,909	-	-	10,867	(617,042)	-	(617,042)
<b>Total Governmental Activities</b>	<b>35,108,573</b>	<b>103,933</b>	<b>7,908,902</b>	<b>10,867</b>	<b>(27,084,871)</b>	<b>-</b>	<b>(27,084,871)</b>
<b>Business-Type Activities:</b>							
Food services	810,345	292,162	608,567	-	-	90,384	90,384
<b>Total Primary Government</b>	<b>\$ 35,918,918</b>	<b>\$ 396,095</b>	<b>\$ 8,517,469</b>	<b>\$ 10,867</b>	<b>(27,084,871)</b>	<b>90,384</b>	<b>(26,994,487)</b>
<b>General Revenues</b>							
Taxes:							
Property taxes					20,932,197	-	20,932,197
Public utility realty, earned income and mercantile taxes					2,578,732	-	2,578,732
Grants, subsidies, and contributions not restricted for specific programs					4,876,669	-	4,876,669
Investment earnings					379,027	13,278	392,305
Miscellaneous income					68,017	1,517	69,534
<b>Transfers</b>					<b>31,857</b>	<b>(31,857)</b>	<b>-</b>
<b>Total General Revenues and Transfers</b>					<b>28,866,499</b>	<b>(17,062)</b>	<b>28,849,437</b>
<b>Change in Net Position</b>					<b>1,781,628</b>	<b>73,322</b>	<b>1,854,950</b>
<b>Net Position (Deficit) - Beginning of Year</b>					<b>(22,716,690)</b>	<b>(56,652)</b>	<b>(22,773,342)</b>
<b>Net Position (Deficit) - End of Year</b>					<b>\$ (20,935,062)</b>	<b>\$ 16,670</b>	<b>\$ (20,918,392)</b>

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**June 30, 2023**

	General	Capital Projects	Nonmajor Governmental Fund - Special Revenue - Student Activities	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 6,640,702	\$ 301,038	\$ 77,380	\$ 7,019,120
Interfund receivable	62,294	140,285	-	202,579
Taxes receivable	840,921	-	-	840,921
Intergovernmental receivables	2,169,696	-	-	2,169,696
Other accounts receivable	158,994	-	-	158,994
Prepaid expenditures	5,955	-	-	5,955
<b>TOTAL ASSETS</b>	<b>\$ 9,878,562</b>	<b>\$ 441,323</b>	<b>\$ 77,380</b>	<b>\$ 10,397,265</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Intergovernmental payables	\$ 46,776	\$ -	\$ -	\$ 46,776
Accounts payable	252,630	39,015	-	291,645
Compensated absences payable	86,562	-	-	86,562
Payroll accruals and withholdings	3,049,276	-	-	3,049,276
Unearned revenues	27,514	-	-	27,514
Other current liabilities	4,153	-	-	4,153
<b>TOTAL LIABILITIES</b>	<b>3,466,911</b>	<b>39,015</b>	<b>-</b>	<b>3,505,926</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	504,646	-	-	504,646
<b>FUND BALANCES</b>				
Nonspendable	5,955	-	-	5,955
Restricted	-	402,308	77,380	479,688
Committed for:				
Capital projects	3,011,928	-	-	3,011,928
Retirement	350,000	-	-	350,000
Assigned	201,814	-	-	201,814
Unassigned	2,337,308	-	-	2,337,308
<b>TOTAL FUND BALANCES</b>	<b>5,907,005</b>	<b>402,308</b>	<b>77,380</b>	<b>6,386,693</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 9,878,562</b>	<b>\$ 441,323</b>	<b>\$ 77,380</b>	<b>\$ 10,397,265</b>

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**

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

**June 30, 2023**

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

<b>TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS</b>		<b>\$ 6,386,693</b>
Capital and right-to-use assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$73,639,462 and the accumulated depreciation/amortization is \$30,024,997.		43,614,465
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		494,553
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and notes payable	\$ (26,210,000)	
Financed purchase obligations	(383,682)	
Leases payable	(35,364)	
Subscription liability	(32,853)	
Accrued interest	(185,226)	
Unamortized bond and note premium	(1,047,416)	
Unamortized bond discount	35,833	
Deferred charge on bond and note refunding	305,965	
Long-term portion of compensated absences	<u>(625,912)</u>	(28,178,655)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(37,861,124)
The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		<u>(5,390,994)</u>
<b>TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES</b>		<b><u><u>\$ (20,935,062)</u></u></b>

**KUTZTOWN AREA SCHOOL DISTRICT**

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

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

	General	Capital Projects	Nonmajor Governmental Fund - Special Revenue - Student Activities	Total Governmental Funds
<b>REVENUES</b>				
Local sources	\$ 24,462,348	\$ 10,559	\$ 313,851	\$ 24,786,758
State sources	10,202,521	-	-	10,202,521
Federal sources	1,794,849	-	-	1,794,849
<b>TOTAL REVENUES</b>	<b>36,459,718</b>	<b>10,559</b>	<b>313,851</b>	<b>36,784,128</b>
<b>EXPENDITURES</b>				
Current:				
Instructional services	21,126,180	-	-	21,126,180
Support services	12,460,718	308,980	-	12,769,698
Operation of noninstructional services	975,368	-	321,065	1,296,433
Capital outlay	66,468	290,328	-	356,796
Debt service:				
Principal	1,827,747	-	-	1,827,747
Interest	646,337	-	-	646,337
<b>TOTAL EXPENDITURES</b>	<b>37,102,818</b>	<b>599,308</b>	<b>321,065</b>	<b>38,023,191</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(643,100)</b>	<b>(588,749)</b>	<b>(7,214)</b>	<b>(1,239,063)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of leases and other right-to-use assets	45,176	-	-	45,176
Issuance of financed purchase obligation	118,048	-	-	118,048
Transfers in	33,598	372,785	-	406,383
Sale of capital assets	15,255	-	-	15,255
Transfers out	(374,526)	-	-	(374,526)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(162,449)</b>	<b>372,785</b>	<b>-</b>	<b>210,336</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(805,549)</b>	<b>(215,964)</b>	<b>(7,214)</b>	<b>(1,028,727)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>6,712,554</b>	<b>618,272</b>	<b>84,594</b>	<b>7,415,420</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 5,907,005</b>	<b>\$ 402,308</b>	<b>\$ 77,380</b>	<b>\$ 6,386,693</b>

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**

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

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

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (1,028,727)

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

Capital outlays	\$ 1,085,609	
Less: depreciation and amortization expense	<u>(2,333,218)</u>	(1,247,609)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. 74,216

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

Repayment of bond and note principal	1,600,000	
Issuance of financed purchase obligation	(118,048)	
Issuance of leases	(45,176)	
Repayment of financed purchase obligations	196,116	
Repayment of lease principal	9,812	
Repayment of subscription liability	21,819	
Amortization of bond and note premium	82,395	
Amortization of bond discount	(7,611)	
Amortization of deferred charge on bond and note refunding	<u>(62,462)</u>	1,676,845

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 6,106

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

Compensated absences	13,259	
Net pension liability and related deferred outflows and inflows	2,186,159	
Net OPEB liability and related deferred outflows and inflows	<u>101,379</u>	<u>2,300,797</u>

**CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES** \$ 1,781,628

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND**

June 30, 2023

	Enterprise Fund Food Service
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 659,446
Inventories	22,104
<b>TOTAL CURRENT ASSETS</b>	681,550
<b>NONCURRENT ASSETS</b>	
Furniture and equipment, net	167,145
<b>TOTAL ASSETS</b>	848,695
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources for pension	167,673
Deferred outflows of resources for other postemployment benefits	21,965
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	189,638
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Interfund payable	202,579
Unearned revenues	3,510
<b>TOTAL CURRENT LIABILITIES</b>	206,089
<b>NONCURRENT LIABILITIES</b>	
Net pension liability	677,499
Net other postemployment benefit liabilities	39,859
<b>TOTAL LIABILITIES</b>	923,447
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources for pension	25,934
Deferred inflows of resources for other postemployment benefits	72,282
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	98,216
<b>NET POSITION</b>	
Investment in capital assets	167,145
Unrestricted (deficit)	(150,475)
<b>TOTAL NET POSITION</b>	\$ 16,670

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**

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

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

	Enterprise Fund Food Service
<b>OPERATING REVENUES</b>	
Food service revenue	\$ 292,162
<b>OPERATING EXPENSES</b>	
Salaries	269,289
Employee benefits	179,722
Pension and OPEB valuation adjustments	(64,500)
Purchased services	5,635
Supplies	385,359
Depreciation	20,503
Repairs and maintenance	14,337
	<b>TOTAL OPERATING EXPENSES</b>
	810,345
	<b>OPERATING LOSS</b>
	(518,183)
<b>NONOPERATING REVENUES</b>	
Earnings on investments	13,278
State sources	112,436
Federal sources	496,131
Gain on sale of capital assets	1,517
	<b>TOTAL NONOPERATING REVENUES</b>
	623,362
	<b>INCOME BEFORE TRANSFERS</b>
	105,179
<b>TRANSFERS IN</b>	1,741
<b>TRANSFERS OUT</b>	(33,598)
	<b>CHANGE IN NET POSITION</b>
	73,322
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	(56,652)
	<b>NET POSITION - END OF YEAR</b>
	\$ 16,670



KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

For the Year Ended June 30, 2023

	<u>Enterprise Fund Food Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from users	\$ 279,841
Payments to employees for services	(268,186)
Payments to suppliers for goods and services	<u>(337,287)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	(325,632)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State sources	112,466
Federal sources	435,448
Transfers in	1,741
Transfers out	<u>(33,598)</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	516,057
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of furniture and equipment	(9,624)
Proceeds from sale of capital assets	<u>2,107</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(7,517)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Earnings on investments	<u>13,278</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	196,186
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>463,260</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 659,446</u></u>

See accompanying notes.

**KUTZTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - CONTINUED**  
**PROPRIETARY FUND**

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

	Enterprise Fund Food Service
<b><u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u></b>	
Operating loss	\$ (518,183)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	20,503
Donated commodities used	61,462
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Inventories	6,582
Deferred outflows of resources for pension	(52,741)
Deferred outflows of resources for other postemployment benefits	1,546
Interfund payable	180,825
Unearned revenues	(12,321)
Net pension liability	162,857
Net other postemployment benefit liabilities	(12,957)
Deferred inflows of resources for pension	(168,490)
Deferred inflows of resources for other postemployment benefits	5,285
Total adjustments	192,551
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>\$ (325,632)</b>
<b>NONCASH NONCAPITAL FINANCING ACTIVITIES</b>	
During the year, the District used \$61,462 of commodities from the U.S. Department of Agriculture.	\$ 61,462

## KUTZTOWN AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

The Kutztown Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Boroughs of Kutztown, Lyons, and Lenhartsville, and the Townships of Maxatawny, Greenwich, and Albany. The District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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

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

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

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

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

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

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

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

**June 30, 2023**

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

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**A. Reporting Entity - continued**

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

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

**Joint Venture:** The District is a participating member of the Berks Career & Technology Center. See Note 11 for details of involvement and financial information of the joint venture.

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

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

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

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

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

**June 30, 2023**

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

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

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

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

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

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are reported by fund type. The District currently does not have any fiduciary funds.

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

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

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

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

**June 30, 2023**

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

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

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

***Special Revenue Fund:*** This fund was established to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District's special revenue fund is the following:

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

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

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

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

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

**June 30, 2023**

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

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**E. Budgetary Process**

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

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

**Accelerated Budget Process Option**

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

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

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

**Board Resolution Option**

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

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



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

**June 30, 2023**

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

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**F. Financial Position**

**1. Cash and Cash Equivalents**

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

**2. Investments**

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

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

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

**3. Interfund Transactions**

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

**4. Inventories and Prepaid Items**

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, utilize the purchase method: that is, they are charged to expenditures when purchased.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

---

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

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

Purchased food and supplies	\$ 6,340
Donated commodities	<u>15,764</u>
	<u>\$ 22,104</u>

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

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with costs of \$2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

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

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

6. Valuation of Long-Lived Assets

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

7. Unearned Revenues

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

8. Compensated Absences

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

**9. Long-Term Obligations**

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

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

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

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

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

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

**June 30, 2023**

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

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**F. Financial Position - continued**

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

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

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

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

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**F. Financial Position - continued**

**11. Pension**

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

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

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

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

PSERS OPEB Plan

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

District OPEB Plan

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

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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F. Financial Position - continued

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

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

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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F. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

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

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

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

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



**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**F. Financial Position - continued**

**14. Net Position and Flow Assumptions**

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

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

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

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

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

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

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**F. Financial Position - continued**

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

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

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than 5% of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

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

**G. Use of Estimates**

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

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

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

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**H. Adoption of Accounting Standards**

During the year ended June 30, 2023, the District adopted new accounting guidance GASB Statement No. 96 retroactive to July 1, 2022. GASB Statement No. 96 was issued to (1) define subscription-based information technology arrangements (SBITAs); (2) establish that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. As a result of this standard implementation, right-to-use assets were increased \$54,672 with an offsetting long-term liability of the same amount. There was no change to beginning net position.

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

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

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

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

For the year ended June 30, 2023, no individual funds had a deficit fund balance or net position.

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

For the year ended June 30, 2023, the General Fund has an excess of expenditures over appropriations of \$1,041,480. The excess expenditures were covered by excess revenues, other financing sources, budgetary reserve, and existing fund balance.

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 3 - CASH AND INVESTMENTS**

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

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

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

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

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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

Petty cash	\$	335
Deposits		1,540,952
Certificates of Deposit		708,000
Pooled cash and investments		5,429,279
	<b>\$</b>	<b>7,678,566</b>

**Deposits**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2023, the carrying amount of the District’s deposits was \$2,248,952 and the bank balance was \$2,453,161. Of the bank balance, \$958,198 was covered by federal depository insurance, and \$1,494,963 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly. Included in deposits are certificates of deposit (CDs) totaling \$708,000 that have original maturity dates of greater than three months. The CDs are considered deposits for the purposes of this disclosure and included as deposits in the custodial credit risk disclosure above.

**Pooled Cash and Investments**

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

	Maturities	Fair Value	Carrying Value	Level
<u>Pooled Cash and Investments</u>				
PA School District Liquid Asset Fund (PSDLAF):				
MAX Account Balance		\$ 298,395	\$ 298,395	N/A
Full Flex Pool	< 1 year	4,169,681	4,169,681	N/A
U.S. Treasury Securities	< 1 year	986,474	961,203	2
Total pooled cash and investments			\$ 5,429,279	

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**Pooled Cash and Investments - continued**

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$4,468,076 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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

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

The District's investment carrying value of \$961,203 for the year ended June 30, 2023 is assessed using Level 2 inputs based on significant other observable inputs.

As of June 30, 2023, the entire PSDLAF book balance of \$4,468,076 and the entire investment carrying balance of \$961,203 are considered to be cash equivalents for presentation on the government-wide and fund financial statements.

**Interest Rate Risk**

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

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

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**Credit Risk**

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2023, the District's investments were rated as:

<u>Investment</u>	<u>Standard &amp; Poor's</u>
PA School District Liquid Asset Fund	AAAm
U.S. Treasury Securities	AAA

**Concentration of Credit Risk**

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2023, the District did not have any investments subject to concentration of credit risk.

**Custodial Credit Risk**

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

**NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE**

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The District has six independently elected tax collectors. Property taxes are levied on July 1 on the assessed value listed as of that date for all taxable real property located in the District. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$729,130,700. In accordance with Act 1 of 2006, the District received \$769,744 in property tax reduction funds for the 2022/2023 fiscal year. The District's tax rate for the year ended June 30, 2023, was \$29.9543 per \$1,000 of assessed valuation. The schedule for real estate taxes levied for each fiscal year is as follows:

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

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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

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

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue</u>
Real estate property tax	\$ 580,361	\$ 10,093	\$ 570,268	\$ 75,715	\$ 504,646
Other taxes - earned income, real estate transfer	<u>260,560</u>	<u>-</u>	<u>260,560</u>	<u>260,560</u>	<u>-</u>
	<u>\$ 840,921</u>	<u>\$ 10,093</u>	<u>\$ 830,828</u>	<u>\$ 336,275</u>	<u>\$ 504,646</u>



**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES/PAYABLES**

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

<u>Name of Governmental Unit</u>	<u>General Fund</u>
Commonwealth of PA:	
Retirement - Pennsylvania Department of Education (PDE)	\$ 848,410
Social Security - PDE	181,029
Rental Subsidy - PDE	10,867
Transportation - PDE	6,932
Safety Grant Behavioral - Pennsylvania Commission on Crime and Delinquency (PCCD)	91,667
Safety Grant Physical - PCCD	64,460
Agriculture and Youth Grant - Pennsylvania Department of Agriculture	2,985
Federal Subsidies:	
Student Support and Academic Enrichment	5,932
COVID-19 - Education Stabilization Fund (ESSER II)	190,063
COVID-19 - Education Stabilization Fund (ESSER III)	403,692
COVID-19 - Education Stabilization Fund (Learning Loss)	17,538
COVID-19 - Education Stabilization Fund (Summer Programs)	12,608
Medical Assistance Program	195,595
BCIU - Special Education - Grants to States	128,653
FASD - English Language Acquisition State Grants	5,860
Other local education agencies	3,405
Total	\$ 2,169,696

The following amounts were intergovernmental payables as of June 30, 2023:

<u>Name of Governmental Unit</u>	<u>General Fund</u>
Berks County Intermediate Unit	\$ 32,425
Bucks County Intermediate Unit	1,623
Brandywine Heights Area School District	8,108
Pennsylvania Department of Education	4,620
Total	\$ 46,776

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

**June 30, 2023**

**NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

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

	Interfund Receivables	Interfund Payables
General Fund	\$ 62,294	\$ -
Capital Projects	140,285	-
Enterprise Fund - Food Service	-	202,579
	\$ 202,579	\$ 202,579

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

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	\$ 33,598	\$ 374,526
Capital Projects Fund	372,785	-
Enterprise Fund - Food Service	1,741	33,598
	\$ 408,124	\$ 408,124

Interfund transfers from the general fund to the capital projects fund are made to reserve for future capital needs. Interfund transfers from the general fund to the food service fund are made to cover negative student account balances. Interfund transfers from the food service fund to the general fund are to cover allocated utilities expense.

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 7 - CHANGES IN CAPITAL ASSETS**

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

	Beginning Balance (Restated)	Increase	(Reclass) Decrease	Ending Balance
<b>Governmental Activities</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 41,090	\$ -	\$ -	\$ 41,090
Construction in progress	1,671,374	-	(1,671,374)	-
<b>Total assets not being depreciated</b>	<b>1,712,464</b>	<b>-</b>	<b>(1,671,374)</b>	<b>41,090</b>
<b>Capital assets being depreciated:</b>				
Buildings and building improvements	60,091,537	214,827	3,100,137	63,406,501
Site improvements	4,909,904	22,534	6,273	4,938,711
Furniture and equipment	6,017,640	803,072	(1,667,400)	5,153,312
Total assets being depreciated	71,019,081	1,040,433	1,439,010	73,498,524
Less accumulated depreciation for:				
Buildings and building improvements	22,147,984	1,698,183	827,255	24,673,422
Site improvements	1,593,272	200,405	-	1,793,677
Furniture and equipment	4,182,887	414,204	(1,059,619)	3,537,472
Total accumulated depreciation	27,924,143	2,312,792	(232,364)	30,004,571
<b>Total capital assets being depreciated, net</b>	<b>43,094,938</b>	<b>(1,272,359)</b>	<b>1,671,374</b>	<b>43,493,953</b>
<b>Right-to-use assets being amortized:</b>				
Leased equipment	-	45,176	-	45,176
Subscriptions	54,672	-	-	54,672
Total right-to-use assets	54,672	45,176	-	99,848
Less accumulated amortization for:				
Leased equipment	-	753	-	753
Subscriptions	-	19,673	-	19,673
Total accumulated amortization	-	20,426	-	20,426
<b>Total right-to-use assets being amortized, net</b>	<b>54,672</b>	<b>24,750</b>	<b>-</b>	<b>79,422</b>
<b>GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET</b>	<b>\$ 44,862,074</b>	<b>\$ (1,247,609)</b>	<b>\$ -</b>	<b>\$ 43,614,465</b>

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

**NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED**

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
<b>Business-Type Activities</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 738,023	\$ 9,624	\$ (5,900)	\$ 741,747
Less accumulated depreciation for:				
Furniture and equipment	559,409	20,503	(5,310)	574,602
 <b>BUSINESS-TYPE ACTIVITIES</b>				
<b>CAPITAL ASSETS, NET</b>	<b>\$ 178,614</b>	<b>\$ (10,879)</b>	<b>\$ (590)</b>	<b>\$ 167,145</b>

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

Instruction	\$ 239,040
Instructional student support	38,410
Administrative and financial support services	2,057
Operation and maintenance of plant services	2,041,120
Student activities	12,591
<b>TOTAL DEPRECIATION/AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,333,218</b>

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 8 - LONG-TERM LIABILITIES**

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The District issues general obligation bonds, notes, and financed purchase obligations to provide resources for major capital improvements and equipment financed purchases. The bonds, notes, and financed purchase obligations are issued on a pledge of the full faith and credit of the District as well as their general taxing authority. The District's general obligation notes and financed purchase obligations are direct borrowings.

Bonds, notes, and financed purchases payable are as follows at June 30, 2023:

General Obligation Bonds - Series of 2019:

The District is liable for general obligation bonds dated December 19, 2019, in the original principal amount of \$7,835,000. Principal maturities occur on March 15 through the year 2033. Interest is payable semi-annually on March 15 and September 15. Interest rate is 2.67%. The proceeds of this Bond were used to advance refund the General Obligation Bonds - Series of 2018 and General Obligation Bonds - Series of 2017 and to pay debt issuance costs. The refunding resulted in a net annual cash flow savings of \$465,087 with a corresponding net present value of \$396,068.

\$ 6,690,000

General Obligation Notes - Series of 2021:

The District is liable for general obligation notes dated June 6, 2021, in the original principal amount of \$6,550,000. Principal maturities occur on March 15 through the year 2037. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 1.0% to 4.0%. The proceeds of this note were used for the funding of capital projects and to pay debt issuance cost.

6,490,000

General Obligation Notes - Series of 2021A:

The District is liable for general obligation notes dated June 7, 2021, in the original principal amount of \$5,795,000. Principal maturities occur starting March 15, 2023 through the year 2034. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.80%. The proceeds of this note were used to currently refund the outstanding General Obligation Bonds Series 2013 and Series 2016A and to pay debt issuance costs. No economic savings were realized.

5,790,000

General Obligation Notes - Series of 2021C:

The District is liable for general obligation notes dated December 15, 2021, in the original principal amount of \$9,315,000. Principal maturities occur on March 15 through the year 2028. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.15%. The proceeds of this note were used to currently refund the General Obligation Bonds - Series of 2016 and to pay debt issuance costs. The refunding resulted in a net cash flow savings of \$532,489 with a corresponding net present value savings of \$267,619.

7,240,000

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

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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<u>Financed Purchase:</u>	
Financed purchase obligation for computers, with annual payments of \$116,337, with final payment due in July 2023 and an effective rate of 1.90%.	123,891
<u>Financed Purchase:</u>	
Financed purchase obligation for computers, with annual payments of \$26,370, with final payment due in July 2024 and an effective rate of 0%.	52,744
<u>Financed Purchase:</u>	
Financed purchase obligation for computers, with annual payments of \$29,666, with final payment due in July 2025 and an effective rate of 0%.	88,999
<u>Financed Purchase:</u>	
Financed purchase obligation for computers, with annual payments of \$30,341, with final payment due in July 2026 and an effective rate of 1.70%.	118,048
	118,048
Total bonds, notes, and financed purchases payable	\$ 26,593,682

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

The future annual payments required to amortize all bonds, notes, and financed purchase obligations for the years ending June 30 are as follows:

	Direct Borrowings			
	Principal - Notes	Principal - Financed Purchases	Principal - Total	Interest
2024	\$ 1,560,000	\$ 209,960	\$ 1,769,960	\$ 445,856
2025	1,600,000	84,885	1,684,885	426,911
2026	1,610,000	59,002	1,669,002	407,996
2027	1,635,000	29,835	1,664,835	388,957
2028	1,760,000	-	1,760,000	369,573
2029-2033	3,000,000	-	3,000,000	1,603,580
2034-2037	8,355,000	-	8,355,000	789,820
	<u>\$ 19,520,000</u>	<u>\$ 383,682</u>	<u>\$ 19,903,682</u>	<u>\$ 4,432,693</u>
	General Obligation Bonds			
	Principal	Interest	Total	
	Principal	Interest	Principal	Interest
2024	\$ 55,000	\$ 178,624	\$ 1,824,960	\$ 645,561
2025	55,000	177,154	1,739,885	624,172
2026	55,000	175,686	1,724,002	602,569
2027	55,000	174,218	1,719,835	582,676
2028	60,000	172,750	1,820,000	562,668
2029-2033	6,410,000	533,731	9,410,000	2,346,935
2034-2037	-	-	8,355,000	1,122,519
	<u>\$ 6,690,000</u>	<u>\$ 1,412,163</u>	<u>\$ 26,593,682</u>	<u>\$ 6,487,100</u>

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

**June 30, 2023**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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**Event of Default**

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

The District’s financed purchase obligations contain a provision that in the event of default the title of the equipment reverts back to the financing company and they may declare due and payable any and all amounts then due plus any rent payments remaining through the end of the fiscal year.

**Leases**

The District has entered into a lease agreement for a line painting robot. The lease has a termination date of June 12, 2028. The lease includes annual payments of principal and interest at a rate of 5.00%.

Future lease maturities as of June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 8,191	\$ 1,809	\$ 10,000
2025	8,610	1,390	10,000
2026	9,050	950	10,000
2027	9,513	487	10,000
	<u>\$ 35,364</u>	<u>\$ 4,636</u>	<u>\$ 40,000</u>



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

**June 30, 2023**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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**Subscriptions**

The District has entered into various agreements for subscription-based information technology arrangements. The arrangements have various termination dates through June 2027. These subscriptions include annual payments of principal and interest at a rate of 4.00%.

Future subscription maturities as of June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 21,131	\$ 1,339	\$ 22,470
2025	5,744	478	6,222
2026	<u>5,978</u>	<u>244</u>	<u>6,222</u>
	<u>\$ 32,853</u>	<u>\$ 2,061</u>	<u>\$ 34,914</u>

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 6,745,000	\$ -	\$ 55,000	\$ 6,690,000	\$ 55,000
Bond discounts	(43,444)	-	(7,611)	(35,833)	-
Bond premiums	98,821	-	12,299	86,522	-
Bond payable, net	<u>6,800,377</u>	-	<u>59,688</u>	<u>6,740,689</u>	<u>55,000</u>
Notes payable	21,065,000	-	1,545,000	19,520,000	1,560,000
Note premiums	1,030,990	-	70,096	960,894	-
Notes payable, net	<u>22,095,990</u>	-	<u>1,615,096</u>	<u>20,480,894</u>	<u>1,560,000</u>
Total bonds and notes payable, net	28,896,367	-	1,674,784	27,221,583	1,615,000
Financed purchase obligations	461,750	118,048	196,116	383,682	209,960
Leases payable	-	45,176	9,812	35,364	8,191
Subscription liability	54,672	-	21,819	32,853	21,131
Compensated absences	764,083	73,303	124,912	712,474	86,562
Net pension liability	40,008,358	8,499,005	4,903,862	43,603,501	-
Net other postemployment benefit liabilities	<u>4,279,453</u>	-	<u>822,189</u>	<u>3,457,264</u>	-
Total governmental long-term liabilities	<u>\$ 74,464,683</u>	<u>\$ 8,735,532</u>	<u>\$ 7,753,494</u>	<u>\$ 75,446,721</u>	<u>\$ 1,940,844</u>
<b>Business-Type Activities</b>					
Net pension liability	\$ 514,642	\$ 238,893	\$ 76,036	\$ 677,499	\$ -
Net other postemployment benefit liabilities	<u>52,816</u>	-	<u>12,957</u>	<u>39,859</u>	-
Total business-type long-term liabilities	<u>\$ 567,458</u>	<u>\$ 238,893</u>	<u>\$ 88,993</u>	<u>\$ 717,358</u>	<u>\$ -</u>

Total interest paid during the year ended June 30, 2023, was \$646,337. Payments on bonds, notes and financed purchase obligations are made by the general fund. The lease and subscription liabilities will be liquidated by the general fund. The compensated absences liabilities will be liquidated by the general fund. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

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

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS**

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**Employee Defined Benefit Pension Plan**

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

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

**Benefits Provided - continued**

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

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

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

Contributions

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

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

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

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

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

Contributions - continued

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2023, was 34.31% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$5,215,038 for the year ended June 30, 2023. Contributions to the defined contribution plan from the District were \$30,400 for the year ended June 30, 2023.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was \$2,679,727.

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

At June 30, 2023, the District reported a liability of \$44,281,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2021 to June 30, 2022. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2023, the District's proportion was 0.0996%, which was an increase of 0.0009% from its proportion measured as of June 30, 2022.

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

For the year ended June 30, 2023, the District recognized pension expense of \$2,970,505. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,000	\$ 383,000
Changes of assumptions	1,322,000	-
Net difference between projected and actual investment earnings	-	751,000
Changes in proportion - plan level	985,000	561,000
Changes in proportion - internal	27,395	27,395
Difference between employer contributions and proportionate share of total contributions	37,078	-
Contributions made subsequent to the measurement date	5,215,038	-
	\$ 7,606,511	\$ 1,722,395

The \$5,215,038 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2024	\$ 51,049
2025	608,287
2026	(1,042,264)
2027	1,052,006
	\$ 669,078

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

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

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

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

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



**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

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**Employee Defined Benefit Pension Plan - continued**

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

Actuarial Assumptions - continued

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

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

Discount Rate

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

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

**June 30, 2023**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability	\$ 57,274,000	\$ 44,281,000	\$ 33,326,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2023, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,697,366. This amount represents the District’s contractually obligated contributions for wages earned in April 2023 through June 2023.

**403(b) Tax Shelter Plan**

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS**

**Employee Defined Benefit Other Postemployment Benefit Plans**

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

Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PSERS OPEB Plan	\$ 1,830,000	\$ 398,998	\$ 534,000
District OPEB Plan	1,667,123	1,132,243	2,981,288
Total	\$ 3,497,123	\$ 1,531,241	\$ 3,515,288

**PSERS OPEB Plan**

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

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2022, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age

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

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Premium Assistance Eligibility Criteria - continued

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

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

Pension Plan Description

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

Benefits Provided

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

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2023, was 0.75% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$113,998 for the year ended June 30, 2023.

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

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**PSERS OPEB Plan - continued**

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

Contributions - continued

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net PSERS OPEB Plan liability and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2023, for pension and OPEB benefits was \$2,679,727.

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

At June 30, 2023, the District reported a liability of \$1,830,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2021 to June 30, 2022. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2023, the District's proportion was 0.0994%, which was an increase of 0.0008% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2023, the District recognized OPEB expense of \$38,209. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,000	\$ 10,000
Changes of assumptions	203,000	432,000
Net difference between projected and actual investment earnings	5,000	-
Changes in proportion	60,000	92,000
Contributions made subsequent to the measurement date	113,998	-
	\$ 398,998	\$ 534,000

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

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

The \$113,998 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	\$ (62,000)
2025	(51,000)
2026	(43,000)
2027	(50,000)
2028	<u>(43,000)</u>
Total	<u>\$ (249,000)</u>

Actuarial Assumptions

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

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

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

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

June 30, 2023

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Actuarial Assumptions - continued

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2020, determined the employer contribution rate for fiscal year 2022.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: The actual data for retirees benefiting under the Plan as of June 30, 2021 was used in lieu of the 63% utilization assumption for eligible retirees.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

Discount Rate

The discount rate used to measure the total OPEB liability was 4.09%. Under the plan’s funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore, the plan is considered a “pay-as-you-go” plan. A discount rate of 4.09% which represents the S&P 20-year Municipal Bond Rate at June 30, 2022, was applied to all projected benefit payments to measure the total OPEB liability.

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

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

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 1,830,000	\$ 1,830,000	\$ 1,830,000



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

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**PSERS OPEB Plan - continued**

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

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

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

	1% Decrease 3.09%	Current Discount Rate 4.09%	1% Increase 5.09%
District's proportionate share of the net OPEB liability	\$ 2,069,000	\$ 1,830,000	\$ 1,629,000

OPEB Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2023, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,697,366. This amount represents the District’s contractually obligated contributions for wages earned in April 2023 through June 2023.

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

June 30, 2023

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan**

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

Plan Description

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

Benefits Provided

Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to retirees:

**All Employees**

Medical Coverage:

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
PSERS Retirement	<ul style="list-style-type: none"> <li>• Coverage: Medical, Prescription Drug, Dental and Vision.</li> <li>• Premium Sharing: The member and spouse may continue medical, prescription drug, dental and vision benefits by paying the full premiums plus an additional 2% for administrative fees, as determined for the purpose of COBRA.</li> <li>• Dependents: Spouse and Family included.</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage for member continues until member Medicare age.</li> <li>• Coverage for spouse continues until the earlier of spouse Medicare age or member Medicare age.</li> </ul>

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan**

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

Benefits Provided - continued

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

PSERS Retirement:

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

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

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

Employees Covered by Benefit Terms

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

Active participants	189
Retired participants	13
Total	202

***OPEB Liability***

Actuarial Assumptions and Other Inputs

The total OPEB liability as July 1, 2022, was determined by rolling forward the District’s total OPEB liability as of July 1, 2021 to July 1, 2022 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1.5% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 4.06% - based on the Standard & Poor’s Municipal Bond 20 Year High Grade Rate Index at July 1, 2022.
- Mortality rates - PubT-2010 headcount-weighted mortality table including rates for contingent survivors for teachers. PubG-2010 headcount-weighted mortality table including rates for contingent survivors for all other employees.
- Healthcare cost trend rates - 6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025. Rates gradually decrease from 5.4% in 2026 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 50% of employees are assumed to elect coverage. 80% of retirees are assumed to be married and 80% of married retirees are assumed to elect coverage for their spouses at retirement.

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

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

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

	Total OPEB Liability
Balance at July 1, 2022	\$ 1,994,269
Changes for the year:	
Service cost	137,917
Interest	47,906
Change of assumptions	(455,697)
Benefit payments	(57,272)
Net changes	(327,146)
Balance at June 30, 2023	\$ 1,667,123

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.28% to 4.09%, (2) healthcare cost trend assumption was updated and (3) assumptions for salary, mortality, withdrawal and retirement were based on PSERS assumptions.

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

**June 30, 2023**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

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**District OPEB Plan - continued**

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

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

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

	<u>1% Decrease</u> 3.06%	<u>Current Discount Rate</u> 4.06%	<u>1% Increase</u> 5.06%
OPEB Plan - Total OPEB Liability	\$ 1,779,297	\$ 1,667,123	\$ 1,559,771

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB Liability	\$ 1,497,299	\$ 1,677,713	\$ 1,862,971

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

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED**

**District OPEB Plan - continued**

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

For the year ended June 30, 2023, the District recognized OPEB expense of \$36,093. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,330,116
Changes of assumptions	1,064,434	651,172
Benefit payments made subsequent to the measurement date	67,809	-
	<b>\$ 1,132,243</b>	<b>\$ 2,981,288</b>

The \$67,809 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB obligation in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2024	\$ (149,730)
2025	(149,730)
2026	(149,730)
2027	(149,730)
2028	(149,730)
Thereafter	(1,168,204)
Total	<b>\$ (1,916,854)</b>

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 11 - JOINT VENTURE**

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The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2022/2023 year was \$633,319.

Summary financial information as of June 30, 2022 (the most recent information available), is as follows:

<u>Berks Career &amp; Technology Center (Governmental Activities)</u>	
Total assets and deferred outflows of resources	\$ 33,587,790
Total liabilities and deferred inflows of resources	<u>30,523,935</u>
Total net position	<u>\$ 3,063,855</u>

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

**NOTE 12 - RISK MANAGEMENT**

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

The District is a member of the School Districts Insurance Consortium (SDIC) for workers' compensation coverage. SDIC is comprised of approximately 100 member school districts which jointly self-assume their workers' compensation liabilities. Even though the member school districts contribute to SDIC's insurance fund, they remain individually liable for their own workers' compensation claims. The members of SDIC are required to participate in any deficiencies of SDIC and are subject to periodic assessments, as required. At June 30, 2023, there was no unfunded liability.



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

**June 30, 2023**

**NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS**

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The District is a defendant in various matters of litigation and claims. These matters result in the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

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

**NOTE 14 - FUND BALANCE**

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

**General Fund**

The general fund has a nonspendable fund balance of \$5,955, committed funds of \$3,011,928 for capital projects and \$350,000 for retirement rate increase, \$201,814 assigned to balance the 2023/2024 budget, and unassigned fund balance of \$2,337,308. The commitments were authorized by the board of school directors' motion to set aside resources for specific purposes.

**Capital Projects Fund**

The capital projects fund has restricted funds of \$402,308 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualified capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

**Nonmajor Funds**

The nonmajor funds have restricted funds of \$77,380 for student activities.

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2023**

**NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS**

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**KUTZTOWN AREA SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2023**

	Budgeted Amount		Actual (GAAP) Basis	Variance
	Original	Final		Final to Actual
	<b>REVENUES</b>			
Local sources	\$ 23,890,593	\$ 23,890,593	\$ 24,462,348	\$ 571,755
State sources	10,068,904	10,068,904	10,202,521	133,617
Federal sources	2,062,519	2,062,519	1,794,849	(267,670)
<b>TOTAL REVENUES</b>	<b>36,022,016</b>	<b>36,022,016</b>	<b>36,459,718</b>	<b>437,702</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTIONAL SERVICES:</b>				
Regular programs - elementary/secondary	15,043,969	15,043,969	15,129,351	(85,382)
Special programs - elementary/secondary	4,967,261	4,967,261	4,881,908	85,353
Vocational education	976,871	976,871	998,878	(22,007)
Other instructional programs - elementary/secondary	62,266	62,266	110,385	(48,119)
Nonpublic school programs	1,283	1,283	1,408	(125)
Adult education programs	4,600	4,600	4,250	350
<b>TOTAL INSTRUCTIONAL SERVICES</b>	<b>21,056,250</b>	<b>21,056,250</b>	<b>21,126,180</b>	<b>(69,930)</b>
<b>SUPPORT SERVICES:</b>				
Students	1,321,659	1,321,659	1,470,277	(148,618)
Instructional staff	2,425,406	2,425,406	2,637,118	(211,712)
Administration	2,211,735	2,211,735	2,270,441	(58,706)
Pupil health	615,938	615,938	654,691	(38,753)
Business	482,890	482,890	462,286	20,604
Operation and maintenance of plant	2,831,290	2,831,290	3,213,299	(382,009)
Student transportation	1,598,807	1,598,807	1,558,575	40,232
Central	120,503	120,503	166,963	(46,460)
Other	28,000	28,000	27,068	932
<b>TOTAL SUPPORT SERVICES</b>	<b>11,636,228</b>	<b>11,636,228</b>	<b>12,460,718</b>	<b>(824,490)</b>
<b>OPERATION OF NONINSTRUCTIONAL SERVICES:</b>				
Student activities	894,196	894,196	928,542	(34,346)
Community services	23,400	23,400	26,185	(2,785)
Scholarships and awards	-	-	20,641	(20,641)
<b>TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES</b>	<b>917,596</b>	<b>917,596</b>	<b>975,368</b>	<b>(57,772)</b>
<b>CAPITAL OUTLAY</b>	<b>-</b>	<b>-</b>	<b>66,468</b>	<b>(66,468)</b>
<b>DEBT SERVICE</b>	<b>2,451,264</b>	<b>2,451,264</b>	<b>2,474,084</b>	<b>(22,820)</b>
<b>TOTAL EXPENDITURES</b>	<b>36,061,338</b>	<b>36,061,338</b>	<b>37,102,818</b>	<b>(1,041,480)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(39,322)</b>	<b>(39,322)</b>	<b>(643,100)</b>	<b>(603,778)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of leases and other right-to-use assets	-	-	45,176	45,176
Issuance of financed purchase obligation	-	-	118,048	118,048
Transfers in	37,500	37,500	33,598	(3,902)
Sale of capital assets	15,000	15,000	15,255	255
Transfers out	(247,500)	(247,500)	(374,526)	(127,026)
Budgetary reserve	(184,278)	(184,278)	-	184,278
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(379,278)</b>	<b>(379,278)</b>	<b>(162,449)</b>	<b>216,829</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (418,600)</b>	<b>\$ (418,600)</b>	<b>(805,549)</b>	<b>\$ (386,949)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>6,712,554</b>	
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 5,907,005</b>	

See note to required supplementary information.

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2023**

**BUDGETARY DATA**

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

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

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

For the year ended June 30, 2023, the General Fund has an excess of expenditures over appropriations of \$1,041,480. The excess expenditures were covered by excess revenues, other financing sources, budgetary reserve, and existing fund balance.

**Budgetary Compliance**

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

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.0996%	0.0987%	0.0959%	0.1006%	0.1010%	0.1060%	0.1048%	0.1042%	0.1052%	0.1021%
District's proportionate share of the collective net pension liability	\$ 44,281,000	\$ 40,523,000	\$ 47,220,000	\$ 47,063,000	\$ 48,485,000	\$ 52,352,000	\$ 51,936,000	\$ 45,135,000	\$ 41,639,000	\$ 41,796,000
District's covered payroll	\$ 14,619,591	\$ 13,982,425	\$ 13,445,691	\$ 13,872,872	\$ 13,603,920	\$ 14,118,498	\$ 13,577,892	\$ 13,405,632	\$ 13,427,382	\$ 13,101,947
District's proportionate share of the net pension liability as a percentage of its covered payroll	302.89%	289.81%	351.19%	339.24%	356.40%	370.80%	382.50%	336.69%	310.11%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	61.34%	63.67%	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%	54.50%

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

**NOTES TO SCHEDULE**

***Changes of Benefit Terms***

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

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

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

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

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 5,215,038	\$ 4,979,898	\$ 4,714,833	\$ 4,494,476	\$ 4,533,804	\$ 4,323,931	\$ 4,026,138	\$ 3,396,355	\$ 2,770,875	\$ 2,149,875
Contributions in relation to the contractually required contribution	5,215,038	4,979,898	4,714,833	4,494,476	4,533,804	4,323,931	4,026,138	3,396,355	2,770,875	2,149,875
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 15,157,968	\$ 14,619,591	\$ 13,982,425	\$ 13,445,691	\$ 13,872,872	\$ 13,603,920	\$ 14,118,498	\$ 13,577,892	\$ 13,405,632	\$ 13,427,382
Contributions as a percentage of covered payroll	34.40%	34.06%	33.72%	33.43%	32.68%	31.78%	28.52%	25.01%	20.67%	16.01%

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017
District's proportion of the collective net PSERS OPEB liability	0.0994%	0.0986%	0.0958%	0.1006%	0.1010%	0.1060%	0.1048%
District's proportionate share of the collective net PSERS OPEB liability	\$ 1,830,000	\$ 2,338,000	\$ 2,070,000	\$ 2,140,000	\$ 2,106,000	\$ 2,160,000	\$ 2,257,000
District's covered payroll	\$ 14,619,591	\$ 13,982,425	\$ 13,445,691	\$ 13,872,872	\$ 13,603,920	\$ 14,118,498	\$ 13,577,892
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered payroll	12.52%	16.72%	15.40%	15.43%	15.48%	15.30%	16.62%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	6.86%	5.30%	5.69%	5.56%	5.56%	5.73%	5.47%

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

**NOTES TO SCHEDULE**

***Changes of Benefit Terms***

None.

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

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

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

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

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

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



KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 113,998	\$ 117,209	\$ 115,373	\$ 113,173	\$ 115,431	\$ 113,071	\$ 114,442	\$ 114,118	\$ 121,648	\$ 124,946
Contributions in relation to the contractually required contribution	113,998	117,209	115,373	113,173	115,431	113,071	114,442	114,118	121,648	124,946
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 15,157,968	\$ 14,619,591	\$ 13,982,425	\$ 13,445,691	\$ 13,872,872	\$ 13,603,920	\$ 14,118,498	\$ 13,577,892	\$ 13,405,632	\$ 13,427,382
Contributions as a percentage of covered payroll	0.75%	0.80%	0.83%	0.84%	0.83%	0.83%	0.81%	0.84%	0.91%	0.93%

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018
Total OPEB liability:						
Service cost	\$ 137,917	\$ 176,151	\$ 186,405	\$ 162,070	\$ 170,945	\$ 160,772
Interest	47,906	172,474	171,477	119,181	119,601	135,922
Differences between expected and actual experience	-	(2,610,366)	-	(206,733)	-	(154,135)
Changes of assumptions	(455,697)	(289,546)	-	1,143,358	-	829,740
Benefit payments	(57,272)	(339,462)	(309,067)	(297,763)	(302,472)	(314,190)
Other changes	-	(124,462)	-	-	-	-
	(327,146)	(3,015,211)	48,815	920,113	(11,926)	658,109
Total OPEB liability, beginning	1,994,269	5,009,480	4,960,665	4,040,552	4,052,478	3,394,369
	<u>\$ 1,667,123</u>	<u>\$ 1,994,269</u>	<u>\$ 5,009,480</u>	<u>\$ 4,960,665</u>	<u>\$ 4,040,552</u>	<u>\$ 4,052,478</u>
<b>Covered Employee Payroll</b>	<u>\$ 13,786,974</u>	<u>\$ 13,786,974</u>	<u>\$ 13,479,723</u>	<u>\$ 13,150,950</u>	<u>\$ 13,492,136</u>	<u>\$ 13,163,059</u>
<b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	12.09%	14.46%	37.16%	37.72%	29.95%	30.79%

NOTES TO SCHEDULE

*Changes of Benefit Terms*  
None.

*Changes of Assumptions*

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

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

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

- For the July 1, 2021 measurement date the healthcare cost trends assumptions were updated and assumptions for salary, mortality, withdrawal and retirement were updated based on PSERS assumptions. Wives are assumed to be two years younger than their husbands rather than the same age.
- For the July 1, 2019 measurement date and new mortality tables were used.
- For the July 1, 2017 measurement date rate of salary increases changed from 0% to 2.5% and assumptions for mortality improvement were updated.

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

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

**SUPPLEMENTARY INFORMATION**

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2022	Revenue Recognized/Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
<b>U.S. DEPARTMENT OF EDUCATION</b>									
Passed through the State Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-22-0215	\$ 281,246	07/01/21-09/30/22	\$ 91,596	\$ 88,883	\$ 2,713	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-23-0215	261,074	08/12/22-09/30/23	265,027	-	259,764	(5,263)
Subtotal - ALN 84.010						356,623	88,883	262,477	(5,263)
Supporting Effective Instruction State Grant	I	84.367	020-22-0215	48,719	07/01/21-09/30/22	12,712	(16,370)	29,082	-
Supporting Effective Instruction State Grant	I	84.367	020-23-0215	39,853	08/12/22-09/30/23	40,520	-	21,375	(19,145)
Subtotal - ALN 84.367						53,232	(16,370)	50,457	(19,145)
Student Support and Academic Enrichment	I	84.424	144-22-0215	18,493	07/01/21-09/30/22	3,707	2,974	733	-
Student Support and Academic Enrichment	I	84.424	144-23-0215	21,722	08/12/22-09/30/23	10,346	-	16,278	5,932
Subtotal - ALN 84.424						14,053	2,974	17,011	5,932
Passed through the Fleetwood School District:									
English Language Acquisition State Grants	I	84.365	N/A	8,300	08/23/22-09/30/23	-	-	5,860	5,860
<b>Education Stabilization Fund</b>									
Passed through the State Department of Education:									
COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II)	I	84.425D	200-21-0215	908,078	03/13/20-09/30/23	316,771	(56,349)	563,183	190,063
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (ESSER III)	I	84.425U	223-21-0215	1,836,778	03/13/20-09/30/24	267,168	55,173	615,687	403,692
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Learning Loss)	I	84.425U	225-21-0215	101,971	03/13/20-09/30/24	33,372	(5,562)	56,472	17,538
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Summer Programs)	I	84.425U	225-21-0215	20,394	03/13/20-09/30/24	6,674	(864)	20,146	12,608
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Plan (Afterschool Programs)	I	84.425U	225-21-0215	20,394	03/13/20-09/30/24	6,674	(1,112)	61	(7,725)
Passed through the Pennsylvania Commission on Crime and Delinquency:									
COVID-19 - Elementary Secondary School Emergency Relief Fund	I	84.425D	2020-ES-01-35485	40,457	03/13/20-09/30/22	40,457	40,457	-	-
Subtotal - ALN 84.425						671,116	31,743	1,255,549	616,176
<b>Special Education Cluster (IDEA)</b>									
Passed through the Berks County Intermediate Unit:									
Special Education - Preschool Grants	I	84.173	N/A	2,240	07/01/22-06/30/23	2,240	-	2,240	-
Special Education - Grants to States	I	84.027	N/A	257,572	07/01/21-09/30/22	50,552	50,552	-	-
Special Education - Grants to States	I	84.027	N/A	260,257	07/01/22-09/30/23	131,604	-	260,257	128,653
COVID-19 - Special Education - Grants to States	I	84.027X	N/A	60,121	07/01/21-09/30/22	60,121	60,121	-	-
Subtotal - ALN 84.027						242,277	110,673	260,257	128,653
Total Special Education Cluster (IDEA)						244,517	110,673	262,497	128,653
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>						1,339,541	217,903	1,853,851	732,213

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2022	Revenue Recognized/Expenditures	Accrued or (Unearned) Revenue at June 30, 2023
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>									
<b>Medicaid Cluster</b>									
Passed through the Pennsylvania Department of Human Services:									
Medical Assistance Program	I	93.778	N/A	N/A	07/01/22-06/30/23	7,901	-	7,901	-
<b>TOTAL MEDICAID CLUSTER AND U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						7,901	-	7,901	-
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>									
<b>Child Nutrition Cluster</b>									
Passed through the State Department of Education:									
School Breakfast Program	I	10.553	N/A	N/A	07/01/21-06/30/22	779	779	-	-
School Breakfast Program	I	10.553	N/A	N/A	07/01/22-06/30/23	59,714	-	59,714	-
Subtotal - ALN 10.553						60,493	779	59,714	-
National School Lunch Program	I	10.555	N/A	N/A	07/01/22-06/30/23	330,670	-	330,670	-
COVID-19 - National School Lunch Program (Supply Chain Assistance)	I	10.555	N/A	N/A	07/01/22-06/30/23	43,657	-	43,657	-
Passed through the PA Department of Agriculture:									
National School Lunch Program (Donated Commodities)	I	10.555	N/A	N/A	07/01/22-06/30/23	60,486	(16,740)	61,462	(15,764)
Subtotal - ALN 10.555						434,813	(16,740)	435,789	(15,764)
<b>TOTAL CHILD NUTRITION CLUSTER</b>						495,306	(15,961)	495,503	(15,764)
Passed through the State Department of Education:									
COVID-19 - State Pandemic Electronic Benefit Transfer Administrative Costs Grant	I	10.649	N/A	N/A	07/01/22-06/30/23	628	-	628	-
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>						495,934	(15,961)	496,131	(15,764)
<b>TOTAL FEDERAL AWARDS</b>						<u>\$ 1,843,376</u>	<u>\$ 201,942</u>	<u>\$ 2,357,883</u>	<u>\$ 716,449</u>

I = Indirect source of funding.

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

**KUTZTOWN AREA SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

**NOTE 1 - BASIS OF PRESENTATION**

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

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

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

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

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

**NOTE 4 - ACCESS PROGRAM**

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The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2023 was \$100,000.

**NOTE 5 - FOOD COMMODITIES**

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Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2023, the District has \$15,764 of food commodity inventory.

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

**To the Board of School Directors  
Kutztown Area School District  
Kutztown, 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 Kutztown Area School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Kutztown Area School District's basic financial statements, and have issued our report thereon dated December 18, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

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

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

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

### **Purpose of This Report**

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**December 18, 2023**



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

**To the Board of School Directors  
Kutztown Area School District  
Kutztown, Pennsylvania**

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

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

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

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

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

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

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

***Responsibilities of Management for Compliance***

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

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

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

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

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

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

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

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

## Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions costs as item 2023-001 to be a significant deficiency.

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

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

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**December 18, 2023**

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's Report Issued: Unmodified  
Internal Control Over Financial Reporting:  
Material weakness(es) identified?      yes   X   no  
Significant deficiency(ies) identified not considered to be  
material weaknesses?      yes   X   none reported  
Noncompliance material to financial statements noted?      yes   X   no

**Federal Awards**

Internal Control Over Major Programs:  
Material weakness(es) identified?      yes   X   no  
Significant deficiency(ies) identified not considered to be  
material weaknesses?   X   yes      none reported

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

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

**Identification of Major Program(s):**

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425	COVID-19 - Education Stabilization Fund

Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee?   X   yes      no

**KUTZTOWN AREA SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

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**Section II - Financial Statement Findings**

There were no financial statement findings reported.

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

**2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY**

Federal Program

Education Stabilization Fund

ALN 84.425D - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II), contract #200-210215

ALN 84.425U - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER III), contract #223-210215

Criteria

In accordance with Uniform Guidance Title 2 CFR 200.313, a non-Federal entity may not encumber equipment without prior approval of the Federal awarding agency.

Condition

The District charged costs for server and firewall purchases which met the definitions and thresholds requiring prior written approval, however, the District's grant applications did not include these purchases as part of the budget submitted and they did not obtain prior approval through other means.

Cause

The District revised their original plan for spending of the ESSER funds and there was oversight in completing a revised budget to reflect the changes which included purchases that required pre-approval. Information regarding the pre-approval requirement for equipment purchases was not properly communicated between federal program leadership and the business office. Controls in place over equipment and real property management did not detect the pre-approval requirement prior to encumbering the cost using federal funds.

Effect

Costs encumbered without required prior approval are unallowable. The District subsequently communicated with the Pennsylvania Department of Education (PDE), the passthrough agency, and submitted budget revisions including these costs which were approved by PDE and deemed allowable.

Questioned Costs

None.

Context

We examined all equipment purchases charged to the Education Stabilization Fund during the year. Two of the three invoices examined had purchases totaling \$110,986 which required pre-approval. Pre-approval was not obtained for either purchase; however, they were subsequently approved via interim budget revisions.

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

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

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

**2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY - CONTINUED**

Repeat Finding

No.

Recommendation

We recommend the District revisit procedures for reviewing program guidelines and requirements prior to approving and incurring costs for equipment and real property from federal funding sources.

Management Response

See corrective action plan included in this report package.



# Kutztown Area School District

251 Long Lane ■ Kutztown, PA 19530-9722 ■ Tel: 610-683-7361 ■ Fax: 610-683-7230

Beth Ann Siteman, Business Administrator

## STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

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### **Section II - Financial Statement Findings**

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

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

There were no federal awards findings or questioned costs reported for the year ended June 30, 2022.



# Kutztown Area School District

251 Long Lane | Kutztown, PA 19530-9722 | Tel: 610-683-7361 | Fax: 610-683-7230

## **CORRECTIVE ACTION PLAN**

December 18, 2023

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

### **Name and address of Independent Public Auditing Firm:**

Herbein & Company  
2763 Century Blvd.  
Reading, PA 19610

### **Audit Period:**

July 1, 2022 - June 30, 2023

The findings from the June 30, 2023 schedule of findings are discussed below.

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

### **2023-001 EQUIPMENT AND REAL PROPERTY MANAGEMENT - SIGNIFICANT DEFICIENCY**

#### **Federal Program**

Education Stabilization Fund

ALN 84.425D - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER II), contract #200-210215

ALN 84.425U - COVID-19 - Elementary Secondary School Emergency Relief Fund (ESSER III), contract #223-210215

#### **Criteria**

In accordance with Uniform Guidance Title 2 CFR 200.313, a non-Federal entity may not encumber equipment without prior approval of the Federal awarding agency.

#### **Condition**

The District charged costs for server and firewall purchases which met the definitions and thresholds requiring prior written approval, however, the District's grant applications did not include these purchases as part of the budget submitted and they did not obtain prior approval through other means.



### Cause

The District revised their original plan for spending of the ESSER funds and there was oversight in completing a revised budget to reflect the changes which included purchases that required pre-approval. Information regarding the pre-approval requirement for equipment purchases was not properly communicated between federal program leadership and the business office. Controls in place over equipment and real property management did not detect the pre-approval requirement prior to encumbering the cost using federal funds.

### Effect

Costs encumbered without required prior approval are unallowable. The District subsequently communicated with the Pennsylvania Department of Education (PDE), the passthrough agency, and submitted budget revisions including these costs which were approved by PDE and deemed allowable.

### Questioned Costs

None.

### Context

We examined all equipment purchases charged to the Education Stabilization Fund during the year. Two of the three invoices examined had purchases totaling \$110,986 which required pre-approval. Pre-approval was not obtained for either purchase; however, they were subsequently approved via interim budget revisions.

### Repeat Finding

No.

### Recommendation

We recommend the District revisit procedures for reviewing program guidelines and requirements prior to approving and incurring costs for equipment and real property from federal funding sources.

### Action Plan

The District had made revisions to the original ESSER budgets to utilize ESSER funds to include upgrades technology infrastructure. The magnitude of these expenditures created an unrecognized need for preapproval of capitalized equipment from the Federal award agency. While all other purchasing requirements were properly documented, the District recognized the need for the additional level of approval subsequent to the purchase of the equipment.

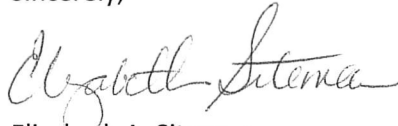
The necessary ESSER prior approval for the capital expenditures was applied for and awarded by the Federal awarding agency. Additionally, internal processes have been added to purchasing with grant funds. Any future changes to grant budgets will be requested prior to purchasing.

Anticipated Completion Date

Action plan fully implemented as of report date.

If the Department of Education has questions regarding this plan, please contact Elizabeth A. Siteman at 610-683-7361, extension 5526 or via email at [esiteman@kasd.org](mailto:esiteman@kasd.org).

Sincerely,

A handwritten signature in cursive script that reads "Elizabeth A. Siteman".

Elizabeth A. Siteman  
Business Administrator

**APPENDIX F**  
**BOND AMORTIZATION SCHEDULE**

**APPENDIX G –  
SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$        in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By \_\_\_\_\_  
Authorized Officer