

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2014**

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### SUPPLEMENTARY INFORMATION

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## INDEPENDENT AUDITOR'S REPORT

Board of School Directors  
South Middleton Area School District  
Boiling Springs, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of June 30, 2014, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

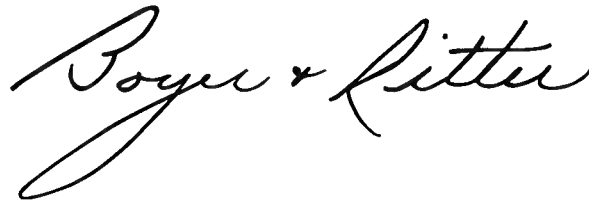
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Middleton School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 November 5, 2014, on our consideration of the South Middleton 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 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 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 South Middleton School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania  
November 5, 2014

**SOUTH MIDDLETON SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

The Management of the South Middleton School District presents the following discussion and analysis of the District's financial activities for the fiscal year ended June 30, 2014. Comparative financial information for fiscal year ended June 30, 2013, is also presented in this report to show changes in the financial position of the District from the prior to current year. The purpose of this discussion is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements.

**Financial Highlights**

For fiscal year 2013-2014, the School Board adopted a General Fund Budget with a real estate tax millage rate of 9.0081 mills which represented a .94% increase from the 2012-2013 year. In 2014-2015 the District approved a 1.63% tax increase which represents a real estate tax millage rate of 9.5149.

On June 9, 2014, the District passed its 2014-15 budget. The budget represented revenues over expenditures of \$99,903 when the \$500,000 unfunded budgetary reserve is considered.

**Overview of the Financial Statements**

These financial statements consist of three sections: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The first two statements of the basic financial statements are government-wide financial statements. These statements consist of the Statement of Net Position and the Statement of Activities. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status.

The remaining basic financial statements consist of fund financial statements. These statements focus on the individual funds of the District and provide a more detailed presentation of the District's operations. The governmental fund statements present how general District services are financed in the short-term as well as what remains for future spending. Following the governmental funds statements, are the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. Reconciliation Statements provide explanations to the financial statements and budgetary comparisons. The Proprietary Fund statements present both short-term and long-term information about the activities that the District operates similar to a business. The only Proprietary Fund that the District has is the Food Service Operation. The Fiduciary Fund statements present information on Student Activity and Trust Funds held by the District as Trustee or agent for other organizations.

Notes to the basic financial statements provide a more detailed explanation of the District's financial statements.

## **Government-wide Statements Report the District as a Whole**

The government-wide statements report financial information about the District as a whole using accounting methods similar to the accounting methods used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities utilizing the full accrual basis of accounting. The Statement of Activities accounts are for all of the District's revenues and expenses regardless of when cash is received or paid. These two government-wide statements report the District's net position and changes in them. The District's net position represents the difference between the District's assets and liabilities. The District's net position is one way to measure the District's financial position, or financial health, over time. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating respectively.

To assess the overall health of the District, non-financial factors must also be considered, such as changes in the District's property tax base and county-wide employment. The government-wide financial statements of the District are divided into two categories:

**Governmental activities** - All of the District's basic services are included here, such as instruction, administration and community services. Real estate and earned income taxes, state and federal subsidies, and grants finance most of these activities.

**Business-type activities** - The District has hired Aramark Corp., to manage the District wide food service operation. Students, staff, and visitors are charged fees to help cover the costs of the food service operation. The District receives these revenues as well as any expenditure, including an Aramark management fee, related to the operation of the food service department.

## **Fund Financial Statements**

The District's fund financial statements provide detailed information about the most significant funds, or major funds - not the District as a whole. Some funds are required to be reported as major funds.

**Governmental funds** - Most of the District's activities are reported in governmental funds, and focus on changes in financial resources, rather than upon net income determination. These funds are reported using the modified accrual basis of accounting, which measures cash and all financial assets that can be readily converted to cash. The governmental funds statements provide a detailed, short-term view of the District's operations and the services it provides.

**Proprietary funds** - These funds are used to account for the District activities that are similar to business operations in the private sector. When the District charges customers for services it provides, these services are generally reported in proprietary funds. The Food Service Fund is the District's only proprietary fund.

**Fiduciary funds** - The District is the Trustee or agent for individuals, private organizations, and/or governmental units.



## FINANCIAL ANALYSIS OF THE DISTRICT

### Net Position and Statement of Activities

The District's total net position was \$14,835,119 on June 30, 2014, which includes \$14,717,372 in Governmental Activities and \$117,747, in Business Type Activities (cafeteria). In preparation for the renovation of Iron Forge Educational Center, the District issued a bond in the amount of \$9,995,000 on April 9, 2014. As a result of this bond issuance and the defeasance of the Series of 2009 bonds, the District's long-term liabilities increased by \$6,155,360. This transaction contributed to a decrease in total net position for governmental funds of \$776,962.

#### Statement of Net Position

	Governmental Activities		Business Type Activities		Total Activities	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Current assets	\$ 17,272,957	\$ 10,503,054	\$ 87,471	\$ 228,010	\$ 17,360,428	\$ 10,731,064
Capital assets	27,715,701	28,207,760	25,043	20,014	27,740,744	28,227,774
<b>Total assets</b>	<b>\$ 44,988,658</b>	<b>\$ 38,710,814</b>	<b>\$ 112,514</b>	<b>\$ 248,024</b>	<b>\$ 45,101,172</b>	<b>\$ 38,958,838</b>
<b>Deferred outflows of resources</b>	<b>\$ 112,607</b>	<b>\$ 157,991</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 112,607</b>	<b>\$ 157,991</b>
Current liabilities	\$ 3,713,125	\$ 2,859,063	\$ (5,233)	\$ (7,336)	\$ 3,707,892	\$ 2,851,727
Long-term liabilities (originally stated)	26,670,768	20,515,408	-	-	26,670,768	20,515,408
<b>Total liabilities</b>	<b>\$ 30,383,893</b>	<b>\$ 23,374,471</b>	<b>\$ (5,233)</b>	<b>\$ (7,336)</b>	<b>\$ 30,378,660</b>	<b>\$ 23,367,135</b>
Net investment in capital assets	\$ 2,261,273	\$ 8,628,054	\$ 25,043	\$ 20,014	\$ 2,286,316	\$ 8,648,068
Unrestricted	12,456,099	6,866,280	92,704	235,346	12,548,803	7,101,626
<b>Total net position</b>	<b>\$ 14,717,372</b>	<b>\$ 15,494,334</b>	<b>\$ 117,747</b>	<b>\$ 255,360</b>	<b>\$ 14,835,119</b>	<b>\$ 15,749,694</b>

## Statement of Activities

	Governmental Activities		Business Type Activities		Total Activities	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
<b>Program Revenues</b>						
Charges for services	\$ 512,517	\$ 598,042	\$ 476,551	\$ 409,893	\$ 989,068	\$ 1,007,935
Operating grants and contributions	4,986,603	4,259,581	240,818	250,308	5,227,421	4,509,889
<b>Total program revenues</b>	<b>5,499,120</b>	<b>4,857,623</b>	<b>717,369</b>	<b>660,201</b>	<b>6,216,489</b>	<b>5,517,824</b>
<b>General Revenues</b>						
Taxes	20,527,267	20,810,291	-	-	20,527,267	20,810,291
General subsidies	4,098,326	4,003,362	-	-	4,098,326	4,003,362
Investment earnings	57,629	43,317	289	380	57,918	43,697
Other local revenue	7,112	369,891	-	-	7,112	369,891
<b>Total general revenues</b>	<b>24,690,334</b>	<b>25,226,861</b>	<b>289</b>	<b>380</b>	<b>24,690,623</b>	<b>25,227,241</b>
<b>Total revenues</b>	<b>30,189,454</b>	<b>30,084,484</b>	<b>717,658</b>	<b>660,581</b>	<b>30,907,112</b>	<b>30,745,065</b>
<b>Total Expenses</b>	<b>30,966,416</b>	<b>29,028,857</b>	<b>855,271</b>	<b>896,262</b>	<b>31,821,687</b>	<b>29,925,119</b>
<b>Excess (deficiency) before transfers</b>	<b>(776,962)</b>	<b>1,055,627</b>	<b>(137,613)</b>	<b>(235,681)</b>	<b>(914,575)</b>	<b>819,946</b>
Transfers between activities	-	(132,469)	-	132,469	-	-
Changes in net position operations	(776,962)	923,158	(137,613)	(103,212)	(914,575)	819,946
Net position - beginning	15,494,334	14,854,475	255,360	358,572	15,749,694	15,213,047
Prior period adjustment	-	(283,299)	-	-	-	(283,299)
Net position - beginning as restated	15,494,334	14,571,176	255,360	358,572	15,749,694	14,929,748
Net position - ending	<b>\$ 14,717,372</b>	<b>\$ 15,494,334</b>	<b>\$ 117,747</b>	<b>\$ 255,360</b>	<b>\$ 14,835,119</b>	<b>\$ 15,749,694</b>

## Fund Balances

The District's General Fund Balance decreased by \$2,960,940 in the 2013-14 year, \$1,932,009 of this decrease was due to a planned decrease in fund balance, which was the result of the defeasance of the 2009 series of general obligation bonds. Although the defeasance of the 2009 Series of General Obligation Bonds decreased fund balance in the 2013-1014 fiscal year, this pre-paid debt payment will save the District \$67,081 in interest payments that would have been due between October 2014 and April 2017. The District also reported additional mandated special education expenditures in 2013-2014 that were not anticipated at budget time in the amount of \$493,000 as well as a decrease of \$699,570 in earned income tax collections as compared to the 2012-13 year.

Revenues are shown to be under budget by (\$51,386). The District showed a decrease of \$699,570 in earned income tax collections compared to 2012-13, where the District showed an increase compared to 2011-12 in the amount of \$490,392. Some of this fluctuation in revenue may be attributable to the changes enacted with Act 32. However, the District did show increases over the 2012-2013 year in other areas of local revenue such as \$35,103 increase in occupational privilege tax, \$180,214 increase in real estate transfer tax and \$27,664 increase in tuition from other local educational agencies.

It is important to note that debt service payments were budgeted as a transfer, however it was determined that they would be reported as expenditures. This change in procedure gives the appearance that expenditures were under budgeted while transfers were over budgeted.

The Cafeteria Fund experienced a change in net position of (\$137,613) in 2013-14 year. In 2012-2013 the cafeteria fund experienced a change in net position of (\$235,681) when the \$132,469 contribution from the General Fund is taken into account. This is the first year that the District contracted with ARAMARK Corp., to operate the cafeteria program. The District made a one-time investment into start-up costs for items such as equipment, small tools and uniforms in the amount of \$54,746 at the beginning of the 2013-2014 year. The cafeteria program continues to increase student participation which will continue to reduce these deficits eventually reporting gains to net assets.

The Capital Projects Fund closed the year with a restricted fund balance of \$8,966,635 which is an increase of \$8,990,338. This increase is a reflection of a \$9,995,000 bond issuance in 2013-14. These funds are earmarked for the Iron Forge Renovation Project. Construction is scheduled to begin on this project in 2014-15.

**Governmental Fund Balances**

	6/30/2014	6/30/2013	Change	% Change
General Fund, including Athletics	\$ 4,371,683	\$ 7,332,623	\$ (2,960,940)	-40.38%
Capital Projects Fund	8,966,635	(23,703)	8,990,338	-37929.11%
<b>Total Governmental Fund Balances</b>	<b>\$ 13,338,318</b>	<b>\$ 7,308,920</b>	<b>\$ 6,029,398</b>	<b>82.49%</b>

**2013-14 General Fund Balances**

	Budget	Actual	Difference
Total Revenues	\$ 30,305,006	\$ 30,253,620	\$ (51,386)
Total Expenditures excluding transfer	27,743,375	32,807,487	(5,064,112)
Change in Fund Balances excluding Capital Projects transfer	2,561,631	(2,553,867)	(5,115,498)
Transfers (Capital Projects and Bond Refinancing)	(3,379,233)	(407,073)	2,972,160
<b>Net Changes in Fund Balances</b>	<b>\$ (817,602)</b>	<b>(2,960,940)</b>	<b>\$(2,143,338)</b>
<b>General Fund Balance - June 30, 2013</b>		<u>7,332,623</u>	
<b>General Fund Balance - June 30, 2014</b>		<u>\$ 4,371,683</u>	

## Capital Assets

On June 30, 2014, the District recorded \$27,740,744 in Total Capital Assets, which represents a decrease of \$487,030 or 1.7% from the previous fiscal year. This decrease is based on the depreciation of capital assets during the year.

	6/30/2014	6/30/2013	Change
<b>Governmental Activities</b>			
Construction-in-progress	\$ 954,206	\$ -	\$ 954,206
Land and site improvements	2,187,645	2,381,097	(193,452)
Buildings and improvements	23,667,574	24,587,529	(919,955)
Furniture and equipment	906,276	1,239,134	(332,858)
<b>Total Governmental Capital Assets</b>	<b>27,715,701</b>	<b>28,207,760</b>	<b>(492,059)</b>
<b>Business Type Activities</b>			
<b>Total Business Capital Assets</b>	<b>25,043</b>	<b>20,014</b>	<b>5,029</b>
<b>Total Capital Assets</b>	<b>\$ 27,740,744</b>	<b>\$ 28,227,774</b>	<b>\$ (487,030)</b>

## Long-Term Liabilities

Bonds payable at June 30, 2014, were \$25,505,000 compared with \$19,350,000 at June 30, 2013, a 31.8% increase. A total of \$3,840,000 of existing bonds was repaid during the 2013-14 fiscal year. The District issued new bonds in the amount of \$9,995,000. The proceeds from this bond issuance will be used to assist in the financing of a renovation project at the Iron Forge Educational Center. A scheduled amount of \$1,210,000 will be repaid in 2014-15.

Reserve for compensated absences is reported under long-term liabilities. Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts/agreements and varies by employee classification. In addition, under the Pennsylvania School Code, employees are granted sick days annually, with unused sick days accumulating in subsequent years. Upon retirement from the District, employees are reimbursed based on their accumulated sick days, or a portion thereof, multiplied by an amount pre-established per the employment contracts/agreements. The total liability for accrued vacation and sick leave at June 30, 2014, is reflected in the Statement of Net Position and totals \$718,508. This represents a decrease of \$50,572 from June 30, 2013.

## **Factors Expected to Have an Effect on Future Operations**

Pennsylvania's Act 1 of 2006 places limitations on the ability of the District to raise taxes without voter approval. While this has not been a binding constraint to date, it may have long-term effects as the index is linked to a national salary index and a state salary index, both of which have had minimal increases in recent years. Prior to June 30, 2012, the District had ten (10) Pennsylvania Department of Education approved, limited exceptions to increasing its tax rate beyond the index. On June 30, 2011, the Governor of Pennsylvania signed into law legislation eliminating seven of the ten exceptions, further restricting the three remaining exceptions. The Act 1 Index will limit the District, without state approved exceptions, to raise taxes a maximum of 1.9% for the 2015-16 fiscal year. The District raised taxes for the 2014-15 year by 1.63%.

The District extended an agreement with the bargaining unit (South Middleton Education Association) for District teaching professionals on June 9, 2014. This agreement includes an extension of a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The current agreement began July 1, 2012 through June 30, 2015, and the extended agreement began July 1, 2014 through June 30, 2017.

To date, the District approved and submitted to the Pennsylvania Department of Education (PDE) "PlanCon parts A-E" for renovations and additions to the Iron Forge Educational Center, the District's current grade 4 and 5 school building. Subsequently the project has been approved by PDE. These renovations propose revitalizing the building as well as adding the District's 3rd grade to the building. On October 7, 2013, the District entered into a contract with Crabtree, Rohrbaugh and Associates Architectural firm for renovations and construction of Iron Forge Elementary School. The district intends to construct the project by wrapping the debt around existing debt structure and by using portions of fund balance to offset future tax increases. It is the district's hope that the construction of the project will have minimum, if any effects on the districts tax rate. Bid documents have been distributed and the bids will be open on November 18, 2014. On October 21, 2014, the Pennsylvania Department of Community and Economic Development (DCED) under the Commonwealth Financing Authority (CFA) awarded the district with a \$2,000,000 Alternative and Clean Energy Grant to help fund approximately 10% of the project. Tentative completion of the project is scheduled for August of 2016.

## **Contacting the District's Financial Management**

The District's Financial Report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the funds it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office of the South Middleton School District, at 4 Forge Road, Boiling Springs, PA 17007.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 646,099	\$ 57,548	\$ 703,647
Investments	14,056,251	-	14,056,251
Receivables	2,548,089	6,796	2,554,885
Inventories	22,518	23,127	45,645
Capital assets			
Construction-in-progress	954,206	-	954,206
Other capital assets, net of depreciation	26,761,495	25,043	26,786,538
Total capital assets	27,715,701	25,043	27,740,744
<b>Total assets</b>	<b>\$ 44,988,658</b>	<b>\$ 112,514</b>	<b>\$ 45,101,172</b>
<b>Deferred Outflows of Resources</b>			
Deferred amounts on refunding debt	\$ 112,607	\$ -	\$ 112,607
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 3,650,828	\$ -	\$ 3,650,828
Internal balances	26,762	(26,762)	-
Unearned revenues	35,535	21,529	57,064
Long-term liabilities			
Due within one year	1,210,000	-	1,210,000
Due in more than 1 year	25,460,768	-	25,460,768
Total long-term liabilities	26,670,768	-	26,670,768
<b>Total liabilities</b>	<b>\$ 30,383,893</b>	<b>\$ (5,233)</b>	<b>\$ 30,378,660</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 2,261,273	\$ 25,043	\$ 2,286,316
Unrestricted	12,456,099	92,704	12,548,803
<b>Total net position</b>	<b>\$ 14,717,372</b>	<b>\$ 117,747</b>	<b>\$ 14,835,119</b>

See Notes Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2014**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Capital		Governmental Activities	Business-Type Activities	Total
			Operating Grants and Contributions	Grants and Contributions			
Governmental Activities:							
Instruction	\$ 19,238,055	\$ 442,499	\$ 3,512,900	\$ -	\$ (15,282,656)	\$ -	\$ (15,282,656)
Instructional student support	2,664,982	-	279,020	-	(2,385,962)	-	(2,385,962)
Administration and financial support	3,597,228	-	293,817	-	(3,303,411)	-	(3,303,411)
Operation and maintenance of plant services	2,677,297	10,229	142,134	-	(2,524,934)	-	(2,524,934)
Pupil transportation	1,471,888	-	553,321	-	(918,567)	-	(918,567)
Student activities	657,873	59,789	66,362	-	(531,722)	-	(531,722)
Community services	2,660	-	-	-	(2,660)	-	(2,660)
Interest on long-term debt	656,433	-	139,049	-	(517,384)	-	(517,384)
<b>Total governmental activities</b>	<b>30,966,416</b>	<b>512,517</b>	<b>4,986,603</b>	<b>-</b>	<b>(25,467,296)</b>	<b>-</b>	<b>(25,467,296)</b>
<b>Business-type activities:</b>							
Food service	855,271	476,551	240,818	-	-	(137,902)	(137,902)
<b>Total School District</b>	<b>\$ 31,821,687</b>	<b>\$ 989,068</b>	<b>\$ 5,227,421</b>	<b>\$ -</b>	<b>\$ (25,467,296)</b>	<b>\$ (137,902)</b>	<b>\$ (25,605,198)</b>

**General Revenues:**

Property taxes levied for general purposes, net	\$ 16,093,079	\$ -	\$ 16,093,079
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net	4,434,188	-	4,434,188
Grants, subsidies and contributions not restricted	4,098,326	-	4,098,326
Investment earnings	57,629	289	57,918
Miscellaneous income	7,112	-	7,112
<b>Total general revenues and transfers</b>	<b>24,690,334</b>	<b>289</b>	<b>24,690,623</b>
<b>Changes in net position</b>	<b>(776,962)</b>	<b>(137,613)</b>	<b>(914,575)</b>
<b>Net position - July 1, 2013</b>	<b>15,494,334</b>	<b>255,360</b>	<b>15,749,694</b>
<b>Net position - June 30, 2014</b>	<b>\$ 14,717,372</b>	<b>\$ 117,747</b>	<b>\$ 14,835,119</b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 478,473	\$ 167,626	\$ 646,099
Investments	4,938,779	9,117,472	14,056,251
Receivables			
Taxes - net	1,178,313	-	1,178,313
Federal subsidies	390,124	-	390,124
State subsidies	913,589	-	913,589
Other	16,734	-	16,734
Due from other governments	49,329	-	49,329
Inventories	22,518	-	22,518
<b>Total assets</b>	<b>\$ 7,987,859</b>	<b>\$ 9,285,098</b>	<b>\$ 17,272,957</b>
<b>Liabilities</b>			
Accounts payable	\$ 144,698	\$ 318,463	\$ 463,161
Due to other funds	26,762	-	26,762
Due to other governments	431,138	-	431,138
Accrued salaries and benefits	2,544,501	-	2,544,501
Accrued payroll withholdings	54,168	-	54,168
Unearned revenues	35,535	-	35,535
<b>Total liabilities</b>	<b>3,236,802</b>	<b>318,463</b>	<b>3,555,265</b>
<b>Deferred Inflows of Resources</b>			
Delinquent property taxes	379,374	-	379,374
<b>Fund Balances</b>			
Non-spendable fund balance for:			
Inventories	22,518	-	22,518
Restricted for:			
Capital projects	-	8,966,635	8,966,635
Committed fund balance for:			
Future retirement, insurance increases, future capital projects, and for instructional resources	3,436,085	-	3,436,085
Unassigned	913,080	-	913,080
<b>Total fund balances</b>	<b>4,371,683</b>	<b>8,966,635</b>	<b>13,338,318</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 7,987,859</b>	<b>\$ 9,285,098</b>	<b>\$ 17,272,957</b>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2014**

<b>Total Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>13,338,318</b>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$53,309,323, and the accumulated depreciation is \$25,593,622.		27,715,701
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Property taxes receivable will be collected this year, but they are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflow of resources in the funds.		379,374
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The difference between the reacquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds.		112,607
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Long-term liabilities, including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable	(25,505,000)	
Accrued interest	(157,860)	
Bond-issuance premium	(62,035)	
Compensated absences	(718,508)	
Other post-employment benefit obligations	(385,225)	(26,828,628)

<b>Total net position - governmental activities</b>	<b>\$</b>	<b><u>14,717,372</u></b>
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See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2014**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 21,168,691	\$ 502	\$ 21,169,193
State sources	8,931,963	-	8,931,963
Federal sources	152,966	-	152,966
<b>Total revenues</b>	<u>30,253,620</u>	<u>502</u>	<u>30,254,122</u>
<b>Expenditures</b>			
Instructional	18,086,923	-	18,086,923
Support services	9,661,393	223,181	9,884,574
Noninstructional services	658,521	-	658,521
Capital outlay	-	1,189,056	1,189,056
Debt service			
Principal	3,840,000	-	3,840,000
Interest	555,823	-	555,823
<b>Total expenditures</b>	<u>32,802,660</u>	<u>1,412,237</u>	<u>34,214,897</u>
<b>Deficiency of revenues over expenditures</b>	(2,549,040)	(1,411,735)	(3,960,775)
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	4,827	411,900	416,727
Interfund transfers out	(411,900)	(4,827)	(416,727)
Proceeds from general long-term debt	-	9,995,000	9,995,000
Bond discount	(4,827)	-	(4,827)
<b>Total other financing sources (uses)</b>	<u>(411,900)</u>	<u>10,402,073</u>	<u>9,990,173</u>
<b>Net changes in fund balances</b>	(2,960,940)	8,990,338	6,029,398
Fund Balances (Deficit) - July 1, 2013	7,332,623	(23,703)	7,308,920
Fund Balances - June 30, 2014	<u>\$ 4,371,683</u>	<u>\$ 8,966,635</u>	<u>\$ 13,338,318</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**Year Ended June 30, 2014**

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<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>6,029,398</b>
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	1,146,327	
Less depreciation expense	<u>(1,638,386)</u>	(492,059)

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

(60,391)

Interest 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. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The change in interest costs in the Statement of Activities over the amount due is shown here.

(98,550)

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in the governmental funds.

(42,723)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(9,990,173)	
Repayment of long-term debt	3,840,000	
Amortization of premium on bonds	<u>37,536</u>	<u>(6,112,637)</u>

<b>Change in net position - governmental activities</b>	<b>\$</b>	<b><u>(776,962)</u></b>
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See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL FUND  
 Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 21,782,740	\$ 21,782,740	\$ 21,168,691	\$ (614,049)
State sources	8,356,462	8,356,462	8,931,963	575,501
Federal sources	165,804	165,804	152,966	(12,838)
<b>Total revenues</b>	<b>30,305,006</b>	<b>30,305,006</b>	<b>30,253,620</b>	<b>(51,386)</b>
<b>Expenditures</b>				
Instructional	17,769,160	17,769,160	18,086,923	(317,763)
Support services	9,293,687	9,293,687	9,661,393	(367,706)
Noninstructional services	680,528	680,528	658,521	22,007
Debt service				
Principal	-	-	3,840,000	(3,840,000)
Interest	-	-	555,823	(555,823)
<b>Total expenditures</b>	<b>27,743,375</b>	<b>27,743,375</b>	<b>32,802,660</b>	<b>(5,059,285)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>2,561,631</b>	<b>2,561,631</b>	<b>(2,549,040)</b>	<b>(5,110,671)</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	-	-	4,827	4,827
Interfund transfers out	(2,879,233)	(2,879,233)	(411,900)	2,467,333
Bond discount	-	-	(4,827)	(4,827)
Budgetary reserve	(500,000)	(500,000)	-	500,000
<b>Total other financing uses</b>	<b>(3,379,233)</b>	<b>(3,379,233)</b>	<b>(411,900)</b>	<b>2,967,333</b>
<b>Net changes in fund balances</b>	<b>\$ (817,602)</b>	<b>\$ (817,602)</b>	<b>(2,960,940)</b>	<b>\$ (2,143,338)</b>
Fund Balances - July 1, 2013			7,332,623	
Fund Balances - June 30, 2014			<u>\$ 4,371,683</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE**

**June 30, 2014**

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<b>Assets</b>	
Cash and cash equivalents	\$ 57,548
Internal balances	26,762
Receivables	
Federal subsidies	6,284
State subsidies	512
Inventories	23,127
Other capital assets, net of depreciation	25,043
<b>Total assets</b>	<u><u>\$ 139,276</u></u>
<b>Liabilities</b>	
Unearned revenues	<u><u>\$ 21,529</u></u>
<b>Net Position</b>	
Net investment in capital assets	\$ 25,043
Unrestricted	92,704
<b>Total net position</b>	<u><u>\$ 117,747</u></u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**Year Ended June 30, 2014**

<hr/>	
Operating Revenues	
Food service revenues	\$ 476,551
Operating Expenses	
Food and milk	255,434
Labor, taxes and benefits	40,285
Other purchased services	533,030
Trash removal	10,824
Travel and other	2,840
Depreciation	12,858
<b>Total operating expenses</b>	<u>855,271</u>
<b>Operating loss</b>	(378,720)
Nonoperating Revenues	
Investment earnings	289
State sources	15,628
Federal sources	225,190
<b>Total nonoperating revenues</b>	<u>241,107</u>
<b>Changes in net position</b>	(137,613)
Net Position - July 1, 2013	255,360
Net Position - June 30, 2014	<u>\$ 117,747</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2014**

<b>Cash Flows From Operating Activities</b>	
Cash received from users	\$ 479,252
Cash payments for goods and services	(746,692)
Cash payments to employees for services	(40,285)
<b>Net cash used in operating activities</b>	<u>(307,725)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
State sources	15,116
Federal sources	173,340
<b>Net cash provided by noncapital financing activities</b>	<u>188,456</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
<b>Capital outlay</b>	<u>(17,887)</u>
<b>Cash Flows From Investing Activities</b>	
<b>Investment earnings</b>	<u>289</u>
<b>Net decrease in cash and cash equivalents</b>	(136,867)
<b>Cash and Cash Equivalents:</b>	
July 1, 2013	194,415
June 30, 2014	<u>\$ 57,548</u>
<b>Reconciliation of Operating Loss to Net Cash used    in Operating Activities</b>	
Operating loss	\$ (378,720)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	12,858
Value of donated commodities used	45,566
Changes in assets and liabilities:	
(Increase) decrease in:	
Internal balances	(598)
Inventories	10,468
Increase in:	
Unearned revenues	2,701
<b>Net cash used in operating activities</b>	<u>\$ (307,725)</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**June 30, 2014**

	Agency Fund	Private-Purpose Trust Fund	Total
	Student Activities		
<b>Assets</b>			
Cash and cash equivalents	\$ 126,590	\$ 111,928	\$ 238,518
<b>Total assets</b>	<b>\$ 126,590</b>	<b>\$ 111,928</b>	<b>\$ 238,518</b>
<b>Liabilities</b>			
Due to student groups	\$ 126,590	\$ -	\$ 126,590
<b>Total liabilities</b>	<b>\$ 126,590</b>	<b>\$ -</b>	<b>\$ 126,590</b>
<b>Net Position</b>			
Held in trust for private purposes	\$ -	\$ 111,928	\$ 111,928
<b>Total net position</b>	<b>\$ 126,590</b>	<b>\$ 111,928</b>	<b>\$ 238,518</b>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
PRIVATE-PURPOSE TRUST FUND**

**Year Ended June 30, 2014**

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Additions	
Contributions	\$ 8,051
Investment earnings	239
<b>Total additions</b>	<u>8,290</u>
Deductions	
Scholarships and awards	<u>9,541</u>
<b>Changes in net position</b>	(1,251)
Net Position - July 1, 2013	113,179
Net Position - June 30, 2014	<u>\$ 111,928</u>

See Notes to Financial Statements.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Summary of Significant Accounting Policies**

The South Middleton School District operates two elementary schools, one middle school, and one high school in Boiling Springs, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally-elected, nine-member Board-form of government.

The financial statements of the South Middleton School District (the 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 policies are as follows:

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

The South Middleton School District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

The South Middleton School District is the lowest level of government which has oversight responsibility and control over all activities related to public-school education in the Commonwealth of Pennsylvania. The District receives funding from local, state and Federal-government sources and must comply with the requirements of these source-entities. The District is affiliated with the Cumberland/Perry Area Vocational-Technical School and twelve member-school districts. The District is also affiliated with the Harrisburg Area Community College (HACC). The member-school districts participate in providing oversight responsibility to the Cumberland/Perry Area Vocational-Technical School and HACC through the following:

- Appointment of Board members who are also Board members of the participating schools
- Approval and funding of operating budgets

Despite the foregoing, the overriding issue is that the volume of participating school districts does not permit South Middleton School District to exercise "significant influence" over the operations of the Cumberland/Perry Area Vocational-Technical School and HACC, and the latter entities are not considered "component units of the South Middleton School District in determining the "reporting entity" as required by Government Accounting Standards Board Statement No. 39.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate, fund financial statements are provided in the report for all of the governmental, proprietary, and fiduciary funds of the School District, even though the latter are excluded from the government-wide financial statements. Major, individual, governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. Non-major, individual governmental funds are also reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 revenues to be available if they are collected within 60 days of the end of the current, fiscal period. Revenues from Federal, state and other grants designated for payment of specific expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures are generally recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payments are due.

When both restricted and unrestricted (including committed, assigned, and unassigned) resources are available for use, it is the School District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable, financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary, operating fund. It accounts for all financial resources except those required to be in another fund. Revenues are primarily derived from local property, earned income, and per capita taxes, and state and Federal distributions. Many of the more important activities of the School District, including instruction, administration of the School District and certain non-instructional services are accounted for in this Fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District operates one enterprise fund, the Food Service Fund. This fund accounts for the activities of the District's food-service program.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal on-going operations. The principal operating revenues of the School District's enterprise fund are food-service charges. Operating expenses for the School District's enterprise fund include food-production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The School District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

The School District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. This fund accounts for activities in the various scholarship accounts, the sole purpose of which is to provide annual scholarships to particular students as prescribed by donor stipulations.

The Activity Fund accounts for the resources authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. A portion of the Activity Fund is an agency fund which is separate from other agency funds because of legal requirements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are also accounted for using the modified-accrual basis of accounting.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### D. Budget and Budgetary Accounting

An operating budget is adopted on the modified-accrual basis of accounting for the General Fund prior to the beginning of each fiscal year. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates the following specific procedures relative to the adoption of the School District's budget and reporting of its financial statements:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

The School District must include in the aforementioned advertisement notification that public hearings will be held on the proposed operating budget; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. 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 effects of approved, budget amendments.

##### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund and the nonexpendable trust fund, the School District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value.

Allowances for Estimated Uncollectible Taxes and Unearned Revenues: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Delinquent property taxes in the deferred inflows section are based upon an historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes in the deferred inflows section. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Inventories: 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.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2014. The inventory consisted of government-donated commodities which were valued at their estimated, fair-market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method.

Capital Assets and Depreciation: Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized at the discretion of management, unless the assets are acquired by debt proceeds, in which case the assets are required to be capitalized. Management considers various factors in the capitalization of assets, including the asset's estimated useful lives, costs, and the extents to which the assets are parts of larger capital projects. The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets' useful lives are not capitalized. The District's policy is to capitalize all individual assets with a purchase value of \$5,000 or greater.

Depreciation is provided for fixed assets on the straight-line basis over the estimated useful lives of the assets or groups of assets as determined by management.

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Long-Term Obligations: In the government-wide financial statements, and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premiums or discounts.

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the School District accrues certain accumulated, employee benefits, such as unpaid vacation and sick pay. The calculation of this amount is determined by the appropriate vacation, sick and retirement lump-sum payments, adjusted for expected employee-turnover, which would be available to employees if they were to leave or retire from the School District. Accrued benefit days, multiplied by appropriate salaries, are reflected as a long-term liability unless retirements are likely within the ensuing fiscal year. Costs determined to be current-year costs are reflected as a liability of the General Fund.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employee's Retirement System, a governmental, cost-sharing multiple-employer defined-benefit pension plan. The District provides retiree-health, vision, dental, and prescription-drug coverage to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Deferred Inflows of Resources - Unearned Revenues: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various "due from" and "due to" accounts.

#### Equity Classification

Government-Wide Statements - Equity is classified as Net Position and displayed in three components:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: Consists restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Net Position is restricted because (1) constraints or limits are externally imposed by creditors, grantors, contributors, or laws and regulations by another government, or by (2) constitutional provisions or enabling legislation.

Unrestricted: All other Net Position that does not meet the definition of "Restricted" or "Net investment in capital assets."



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

#### Fund Balance:

The School District's fund balance classifications are defined and described as follows:

Non-spendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board Policy, the Board has delegated the authority to express intent to the District's Business Manager.

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the general fund.

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an assigned and unassigned General Fund balance of not less than 5 percent and not more than 8 percent of the budgeted expenditures for that year.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 5, 2014, the date that the financial statements were available to be issued.

Pending Change in Accounting Principles: In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for the District's June 30, 2015, financial statements. The effects of implementation of this Standard have not yet been determined.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments

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

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or its Instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
  1. The Federal Deposit Insurance Corporation (FDIC), or
  2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
  3. The National Credit Union Share Insurance Fund (NCUSIF)

to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral, as provided by law, shall be pledged by the depository.

- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. As of June 30, 2014, \$1,671,250 of the District's total bank balances of \$2,057,385 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72	\$ 1,671,250

Act 72 is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled-basis and authorizing the appointment of custodians to act as pledgors of the assets.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Deposits and Investments (Continued)

##### Investments

As of June 30, 2014, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Values</u>
Pennsylvania Local Government Investment Trust (PLGIT)	50 days weighted avg	\$ 13,703,421
Pennsylvania School District Liquid Asset Fund (PSDLAF)	41 days weighted avg	57,057
Pennsylvania Treasurer's INVEST Program	60 days weighted avg	100
		<u>\$ 13,760,578</u>

##### Portfolio Assets

PLGIT - This fund invests in U.S. Treasury and agency securities and repurchase agreements secured by such obligations, and certain municipal obligations and collateralized or insured-certificates of deposit. Weighted-average, portfolio maturity for the fund is expected to be kept at or below 60 days.

PSDLAF - This fund invests in U.S. Treasury and Federal securities, including those of Federal 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.

PA Treasurer's INVEST Program - This fund invests in U.S. treasury bills, notes, bonds, certificates of deposit and agency obligations. In order to provide adequate liquidity, the program invests a portion of its assets in repurchase agreements contracted with highly-rated counterparties. These repurchase agreements are collateralized by government obligations which are fully guaranteed by the full faith and credit of the United States Government. Weighted-average, portfolio maturity for the fund is expected to be kept at or below 60 days.

##### Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons, the time in which investments become due and payable, in years or months, weighted to reflect the dollar-size of individual investments within an investment type. WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments (Continued)

#### Interest-Rate Risk

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

#### Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2014, the District's investments in PLGIT, PSDLAF, and PA INVEST, were rated AAAM by Standard & Poor's.

#### Concentration of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in PLGIT represent 99% of the District's total investments.

### Note 3. Taxes Receivable, Estimated Uncollectible Taxes, and Deferred Inflows of Resources

A summary of the taxes receivable and related accounts at June 30, 2014, is as follows:

	Amount
Uncollected taxes	\$ 1,194,290
Estimated uncollectible taxes	<u>15,977</u>
Taxes Receivable - Net	<u>\$ 1,178,313</u>
Taxes to be collected within 60 days	\$ 798,939
Deferred inflows of resources - delinquent property taxes	<u>379,374</u>
Taxes Receivable - Net	<u>\$ 1,178,313</u>
Deferred Inflows of Resources	
Delinquent taxes	\$ 379,374
Total deferred inflows of resources	<u>\$ 379,374</u>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Property Taxes**

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2013-2014 is as follows:

July 1, 2013	tax levy date
Through August 31, 2013	2% discount
Through October 31, 2013	face payment period
November 1, 2013	10% penalty period
4th Monday, 2013	lien filing date
January 1, 2014	interim tax-levy date

The School District tax rate for all purposes in 2013-2014 was 9.01 mills (\$9.01 per \$1,000 assessed valuation). Refunds on payments of prior-year taxes are classified as “Other Debt Service” items under the Commonwealth of Pennsylvania accounting system.

**Note 5. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2014, are as follows:

	Due from other funds	Due to other funds
<b>Governmental Activities</b>		
General Fund	\$ -	\$ 26,762
<b>Business-Type Activities</b>		
Food Service	26,762	-
	<u>\$ 26,762</u>	<u>\$ 26,762</u>

All inter-fund receivable/payable balances resulted from the time lag between the dates that: (1) inter-fund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts (Continued)**

Operating transfers between funds at June 30, 2014, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 407,073
Capital Projects Fund	407,073	-
	<u>\$ 407,073</u>	<u>\$ 407,073</u>

Transfers and payments within the District are substantially for purposes of subsidizing operating functions or funding capital projects and asset acquisitions. Resources are accumulated in funds to support and simplify the administration of various projects or programs.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 6. General Fixed Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014
<b>Governmental Activities</b>				
Construction-in-progress	\$ -	\$ 954,206	\$ -	\$ 954,206
Land and site improvements	4,565,070	-	-	4,565,070
Buildings and building improvements	41,682,127	145,041	-	41,827,168
Furniture and equipment	5,915,799	47,080	-	5,962,879
<b>Total Governmental Activities Capital Assets</b>	<b>52,162,996</b>	<b>1,146,327</b>	<b>-</b>	<b>53,309,323</b>
Less accumulated depreciation				
Land and site improvements	2,183,973	193,452	-	2,377,425
Buildings and building improvements	17,094,598	1,064,996	-	18,159,594
Furniture and equipment	4,676,665	379,938	-	5,056,603
<b>Total Accumulated Depreciation</b>	<b>23,955,236</b>	<b>1,638,386</b>	<b>-</b>	<b>25,593,622</b>
<b>Governmental Activities, Capital Assets - Net</b>	<b>\$ 28,207,760</b>	<b>\$ (492,059)</b>	<b>\$ -</b>	<b>\$ 27,715,701</b>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 557,444	\$ 17,887	\$ 32,776	\$ 542,555
<b>Total Business-Type Activities Capital Assets</b>	<b>557,444</b>	<b>17,887</b>	<b>32,776</b>	<b>542,555</b>
Less accumulated depreciation				
Furniture and equipment	537,430	12,858	32,776	517,512
<b>Business-Type Activities, Capital Assets - Net</b>	<b>\$ 20,014</b>	<b>\$ 5,029</b>	<b>\$ -</b>	<b>\$ 25,043</b>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. General Fixed Assets (Continued)**

Depreciation expense was charged to the functions/programs of the District as follows:

	Amount
<b>Governmental Activities</b>	
Instruction	\$ 1,136,962
Instructional student support	157,593
Administration and financial support	197,720
Operation and maintenance of plant services	95,647
Student activities	5,806
Transportation	44,658
<b>Total Governmental Activities</b>	<u>1,638,386</u>
<b>Business-Type Activities</b>	
Food Service	12,858
<b>Total School District</b>	<u>\$ 1,651,244</u>

**Note 7. Long-Term Obligations**

Long-term obligations changed as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014
<b>General Obligation Bonds Payable</b>				
General Obligation Bonds - Series of 2009 -	\$ 3,835,000	\$ -	\$ (3,835,000)	\$ -
General Obligation Bonds - Series of 2011	15,515,000	-	(5,000)	15,510,000
General Obligation Bonds - Series of 2014	-	9,995,000	-	9,995,000
	<u>19,350,000</u>	<u>9,995,000</u>	<u>(3,840,000)</u>	<u>25,505,000</u>
Bond-issuance premium - net	104,398	-	(42,363)	62,035
<b>Total Bonds Payable</b>	<u>19,454,398</u>	<u>9,995,000</u>	<u>(3,882,363)</u>	<u>25,567,035</u>
Compensated absences	769,080	-	(50,572)	718,508
Other post-employment benefits	291,930	93,295	-	385,225
	<u>769,080</u>	<u>93,295</u>	<u>(50,572)</u>	<u>718,508</u>
<b>Total Long-Term Obligations</b>	<u>\$ 20,515,408</u>	<u>\$ 10,088,295</u>	<u>\$ (3,932,935)</u>	<u>\$ 26,670,768</u>



# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-Term Obligations (Continued)

#### General Obligation Bonds - Series of 2009

During fiscal 2008-09, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2009 in the aggregate principal amount of \$9,575,000. The proceeds of the bonds were used to: (1) refund the District's outstanding General Obligation Bonds, Series of 2001, (2) currently refund a portion of the School District's outstanding General Obligation Bonds, Series of 2003; and (3) pay all costs of issuance of the 2009 Bonds. The economic gain on the refunding of the 2001 and 2003 bonds was \$262,654. The bonds bear interest semi-annually with rates ranging from 2.00% to 3.00%. The bonds mature serially in amounts ranging from \$370,000 to \$1,905,000 through October 1, 2016. The bonds were paid-off in full in the 2013-14 fiscal year.

#### General Obligation Bonds - Series of 2011

During fiscal 2010-11, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2011 in the aggregate principal amount of \$15,770,000. The proceeds of the bonds were used to: (1) refund the District's outstanding General Obligation Bonds, Series of 2006, (2) refund the District's outstanding General Obligation Bonds, Series A of 2006; and (3) pay all costs of issuance of the 2011 Bonds. The economic gain on the refunding of the 2006 and 2006A bonds was \$529,043. The bonds bear interest semi-annually with rates ranging from 2.00% to 4.00%. The bonds mature serially in amounts ranging from \$5,000 to \$2,435,000 through October 1, 2021.

#### General Obligation Bonds - Series of 2014

During fiscal 2013-14, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2014 in the aggregate principal amount of \$9,995,000. The proceeds of the bonds were used to: (1) financing various capital projects of the District, and (2) pay all costs of issuance of the 2014 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 3.50%. The bonds mature serially in amounts ranging from \$5,000 to \$925,000 through September 1, 2034.

The following is a schedule of principal and interest requirements to service the general long-term debt of the School District:

Years	General Obligation Debt		
	Principal	Interest	Total
2014-2015	\$ 1,210,000	\$ 733,788	\$ 1,943,788
2015-2016	1,275,000	723,066	1,998,066
2016-2017	1,780,000	678,041	2,458,041
2017-2018	2,230,000	630,604	2,860,604
2018-2019	2,290,000	570,702	2,860,702
2019-2024	8,060,000	1,862,684	9,922,684
2024-2029	3,560,000	1,145,302	4,705,302
2029-2034	4,175,000	533,171	4,708,171
2034-2035	925,000	16,188	941,188
	<u>\$ 25,505,000</u>	<u>\$ 6,893,546</u>	<u>\$ 32,398,546</u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7. Long-Term Obligations (Continued)

##### Compensated Absences

Under the terms of the School District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contract and varies by employee classification. In addition, employees are granted sick days per school year, and any unused sick days are permitted to be carried over to future years. Upon retirement from the School District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by an amount pre-established by the employment contract. The employees are also offered options regarding retirement payouts as prescribed in the contract if certain conditions are met. The total liability for accrued vacation, sick leave and retirement bonuses has been reflected in the Statement of Net Position.

#### Note 8. Affiliates

As explained in Note 1, the South Middleton School District is affiliated with the Cumberland/Perry Area Vocational-Technical School (Vo-Tech School).

Total payments of \$287,253 were made by the School District to the Vo-Tech School as the former's share of operating expenses for the year ended June 30, 2014.

#### Note 9. Defined-Benefit Pension Plans

##### Plan Description

Name of Plan: The Public School Employees' Retirement System (the System)

Type of Plan: Governmental cost-sharing multiple-employer 401(a) defined benefit plan

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare-insurance premium assistance to qualifying annuitants

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535).

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905 or by emailing Beth at [bgirman@pa.gov](mailto:bgirman@pa.gov). The CAFR is also available on the Publications page of the PSERS website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 9. Defined-Benefit Pension Plans (Continued)

##### Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, the District, and the Commonwealth.

##### Contribution Rates

Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the District's rate of contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and 0.93% for healthcare-insurance premium assistance

The School District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ration (as defined in Act 29 of 1994), which is at least one-half of the total School District's rate. The School District's contributions to the Plan for the years ended June 30, 2014, 2013 and 2012, were \$2,286,208, \$1,694,243, and \$1,190,094, respectively, and are equal to the required contributions for said years.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 10. Other Post Employment Benefits

Effective July 1, 2008, the District adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*.

#### Plan Description

The District provides retiree health, vision, and dental-care benefits, including prescription-drug coverage, to eligible retired employees and qualified spouses/beneficiaries. This is a single-employer, defined-benefit plan administered by the District. Benefits are provided to all faculty, academic and support staff who meet the following requirements. Employee must be age 55 with 25 years of PSERS service, age 62 with 1 year of service, or have 35 years of total PSERS service. Currently, the plan has approximately 290 members. The plan does not issue a separate, stand-alone financial statement.

#### Funding Policy

The District's medical plans are self-funded, and each plan's premiums are updated annually based on actual claims. Retirees are responsible for the full premium. The District is not responsible for payment of any premiums associated with retirees. Retirees are also responsible for various co-payments. The District funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

#### Funding Progress

For the year ended June 30, 2014, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of July 1, 2012. In accordance with GASB Statement No. 45, the valuation computes an annual, required contribution, which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded, actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 168,773
Interest on Net OPEB Obligation	13,136
Less adjustment to the annual required contribution	<u>(17,922)</u>
Annual OPEB cost	163,987
Amounts contributed:	
Payments of current premiums and claims	<u>(70,692)</u>
Increase in net OPEB obligation	93,295
OPEB obligation - beginning of year	<u>291,930</u>
OPEB obligation - end of year	<u>\$ 385,225</u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 10. Other Post Employment Benefits (Continued)

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current year are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2012	\$ 140,327	47.15%	\$ 225,735
June 30, 2013	\$ 165,073	59.90%	\$ 291,930
June 30, 2014	\$ 163,988	43.11%	\$ 385,225

Actuarial methods and assumptions - Actuarial valuations of an on-going plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health-care cost trend. Amounts are determined regarding the funded status of the plan, and the annual required contributions of employers are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial-accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care cost trend rate of 7.50% initially, reduced by periodic decrements to an ultimate rate of 5.50% after four years. Both rates included a 4.50% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 27 years remaining.

#### Note 11. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years.

#### Note 12. Significant Commitments

The District has approved \$1,170,190 of construction projects as of June 30, 2014. The District expended approximately \$463,885 during the 2013-2014 year which is shown in expenditures in the governmental funds. The remaining \$706,305 is an outstanding commitment of the District.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
 POST-EMPLOYMENT BENEFITS PLAN  
 Year Ended June 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
6/1/2007	\$ -	\$ 956,801	\$ 956,801	0.00%	\$ 11,567,812	8.27%
7/1/2010	\$ -	\$ 1,109,317	\$ 1,109,317	0.00%	\$ 12,803,523	8.66%
7/1/2012	\$ -	\$ 1,391,535	\$ 1,391,535	0.00%	\$ 12,836,439	10.84%

**SUPPLEMENTARY INFORMATION**



**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***

Board of School Directors  
South Middleton School District  
Boiling Springs, 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 South Middleton School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise South Middleton Area School District's basic financial statements, and have issued our report thereon dated November 5, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Middleton School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Middleton School District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Middleton 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.

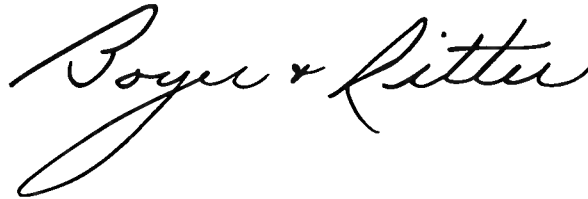
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether South Middleton 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania  
November 5, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

Board of School Directors  
South Middleton School District  
Boiling Springs, Pennsylvania

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

We have audited South Middleton School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Middleton School District's major federal programs for the year ended June 30, 2014. South Middleton School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of South Middleton School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Middleton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, South Middleton School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

Management of South Middleton School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Middleton School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Middleton School District internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is positioned centrally on the page.

Camp Hill, Pennsylvania  
November 5, 2014

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

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**Section I -- Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified that is not considered to be a material weakness (es)?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified that is not considered to be a material weakness (es)?  Yes  None Reported

Type of auditor's report issued on compliance for the major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?  Yes  No

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2014**

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
10.555	Child Nutrition Cluster - National School Lunch Program
10.553	Child Nutrition Cluster - National School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program - Food Donation

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee?  Yes  No

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**Section II -- Financial Statement Findings**

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A. Significant Deficiency (ies) in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There were no findings relating to the financial statement audit required to be reported.

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

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A. Significant Deficiency (ies) in Internal Control

There were no findings relating to the Federal awards required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

There were no findings relating to the Federal awards required to be reported in accordance with Section .510(a) of OMB Circular A-133.

Restated Program or Annual Award	Total Received (Refunded) in Fiscal Year	Restated Accrued (Deferred) Revenue at 7/1/13	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/14
\$ 32,108	\$ 21,334	\$ 21,334	\$ -	\$ -	\$ -
\$ 29,711	29,753	-	29,711	29,711	(42)
\$ 138,748	91,128	91,128	-	-	-
\$ 123,255	92,752	-	123,255	123,255	30,503
\$ 408,332	408,332	408,332	-	-	-
\$ 357,803	-	-	357,803	357,803	357,803
\$ 1,317	1,317	1,317	-	-	-
\$ 1,860	-	-	1,860	1,860	1,860
	644,616	522,111	512,629	512,629	390,124
N/A	172,899	-	179,109	179,109	6,210
N/A	441	-	515	515	74
N/A	45,566	-	45,566	45,566	-
	218,906	-	225,190	225,190	6,284
	\$ 863,522	\$ 522,111	\$ 737,819	\$ 737,819	\$ 396,408

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended June 30, 2014**

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Source Codes:

- D - Direct Funding
- I - Indirect Funding

Test of 25% Rule:

Total Federal Expenditures	\$	737,819	
Programs selected for testing major programs			
National School Lunch Program		179,109	
National School Breakfast Program		515	
National School Lunch Program - Food Donation		<u>45,566</u>	
	\$	<u>225,190</u>	/ \$737,819 =

See Notes to Schedule of Expenditures of Federal Awards.



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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#### **Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of South Middleton School District under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the South Middleton School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the South Middleton School District.

#### **Note 2. Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2014**

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There were no prior year audit findings.