

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the 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 (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Contents.

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

#### *Basis for Opinions*

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

#### *Emphasis of Matter*

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* as of July 1, 2021. Our opinion is not modified with respect to this matter.

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

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

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

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

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

### ***Required Supplementary Information***

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

### ***Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania  
November 17, 2022

**SOUTH MIDDLETON SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
Year Ended June 30, 2022**

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, 2022. Comparative financial information for fiscal year ended June 30, 2021, 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 2021-2022, the School Board adopted a General Fund Budget with a real estate tax millage rate of 11.4292 mills which represented a 3.0% increase from the 2020-2021 year. In 2020-2021 the District approved a 2.58% tax increase which represents a real estate tax millage rate of 10.0966.

On June 21, 2021, the District passed a balanced budget for the 2021-2022 general fund.

**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 Trust Funds held by the District.

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 the District's assets and liabilities utilizing the full accrual basis of accounting. The Statement of Activities accounts are for all 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 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 Chartwells to manage the District-wide food service operation. In a typical year, students, staff, and visitors are charged fees to help cover the costs of the food service operation. During the 2021-2022 school year, the district operated the food service department by extending the seamless summer option (SSO). The Pennsylvania Department of Education (PDE) extended SSO for the 2021-2022 school year due to COVID 19. SSO provided free meals to students and in turn the District received the revenue through PDE. The District receives these revenues as well as any expenditure 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

Net position equals total assets plus deferred outflows of resources less liabilities and deferred inflows of resources and represents resources that may be used to pay for future operations and capital assets.

The results of this year's operations as a whole are reported in the Statement of Activities. Direct expenses are listed by program, and then offset by program revenues to determine net (expense) revenue and changes in net position. General revenues, such as taxes, state general subsidies, and investment earnings are then applied prior to transfers, and special items, to determine the change in net position. For the 2021-2022 fiscal year, the change in net position for governmental activities was an increase of \$5,194,887 and an increase of \$70,912 for business-type activities, for a net total increase of \$5,265,799. For the 2020-2021 fiscal year, the change in net position for governmental activities was an increase of \$867,312 and an increase of \$17,767 for business-type activities for a net total increase of \$885,079 as reflected in the chart below.

#### Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2022	2021	2022	2021	2022	2021
Current assets	\$ 14,636,257	\$ 12,740,271	\$ 166,300	\$ 81,645	\$ 14,802,557	\$ 12,821,916
Capital assets	46,427,202	47,781,114	-	-	46,427,202	47,781,114
<b>Total assets</b>	<b>\$ 61,063,459</b>	<b>\$ 60,521,385</b>	<b>\$ 166,300</b>	<b>\$ 81,645</b>	<b>\$ 61,229,759</b>	<b>\$ 60,603,030</b>
<b>Deferred outflows of resources</b>	<b>\$ 9,991,319</b>	<b>\$ 7,913,969</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,991,319</b>	<b>\$ 7,913,969</b>
Current liabilities	\$ 4,950,523	\$ 4,452,132	\$ 102,193	\$ 88,450	\$ 5,052,716	\$ 4,540,582
Long-term liabilities	77,354,236	84,757,060	-	-	77,354,236	84,757,060
<b>Total liabilities</b>	<b>\$ 82,304,759</b>	<b>\$ 89,209,192</b>	<b>\$ 102,193</b>	<b>\$ 88,450</b>	<b>\$ 82,406,952</b>	<b>\$ 89,297,642</b>
<b>Deferred inflows of resources</b>	<b>\$ 8,549,323</b>	<b>\$ 4,220,353</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,549,323</b>	<b>\$ 4,220,353</b>
Net Position						
Net investment in capital assets	\$ 17,157,229	\$ 15,913,179	\$ -	\$ -	\$ 17,157,229	\$ 15,913,179
Restricted	207,445	193,938	-	-	207,445	193,938
Unrestricted	(37,163,978)	(41,101,308)	64,107	(6,805)	(37,099,871)	(41,108,113)
<b>Total net position</b>	<b>\$ (19,799,304)</b>	<b>\$ (24,994,191)</b>	<b>\$ 64,107</b>	<b>\$ (6,805)</b>	<b>\$ (19,735,197)</b>	<b>\$ (25,000,996)</b>

## Net Position and Statement of Activities (Continued)

	Governmental Activities		Business-Type Activities		Total Activities	
	2022	2021	2022	2021	2022	2021
<b>Program Revenues</b>						
Charges for services	\$ 1,035,390	\$ 634,564	\$ 62,270	\$ 23,368	\$ 1,097,660	\$ 657,932
Operating grants and contributions	6,875,690	7,161,013	1,272,506	835,565	8,148,196	7,996,578
<b>Total program revenues</b>	<b>7,911,080</b>	<b>7,795,577</b>	<b>1,334,776</b>	<b>858,933</b>	<b>9,245,856</b>	<b>8,654,510</b>
<b>General Revenues</b>						
Taxes	28,795,476	27,036,969	-	-	28,795,476	27,036,969
General subsidies	4,752,119	4,565,310	-	-	4,752,119	4,565,310
Investment earnings	49,661	52,201	39	127	49,700	52,328
Other local revenue	30,192	40,016	598	13,071	30,790	53,087
<b>Total general revenues</b>	<b>33,627,448</b>	<b>31,694,496</b>	<b>637</b>	<b>13,198</b>	<b>33,628,085</b>	<b>31,707,694</b>
<b>Total Revenues</b>	<b>41,538,528</b>	<b>39,490,073</b>	<b>1,335,413</b>	<b>872,131</b>	<b>42,873,941</b>	<b>40,362,204</b>
<b>Total Expenses</b>	<b>36,343,641</b>	<b>38,622,761</b>	<b>1,264,501</b>	<b>854,364</b>	<b>37,608,142</b>	<b>39,477,125</b>
<b>Excess (deficiency) before transfers</b>	<b>5,194,887</b>	<b>867,312</b>	<b>70,912</b>	<b>17,767</b>	<b>5,265,799</b>	<b>885,079</b>
Transfers	-	-	-	-	-	-
<b>Changes in net position</b>	<b>5,194,887</b>	<b>867,312</b>	<b>70,912</b>	<b>17,767</b>	<b>5,265,799</b>	<b>885,079</b>
Net deficit - beginning	(24,994,191)	(26,067,536)	(6,805)	(24,572)	(25,000,996)	(26,092,108)
Prior period adjustment (see Note 1)	-	206,033	-	-	-	206,033
Net deficit - beginning (restated)	(24,994,191)	(25,861,503)	(6,805)	(24,572)	(25,000,996)	(25,886,075)
Net position - ending	<b>\$ (19,799,304)</b>	<b>\$ (24,994,191)</b>	<b>\$ 64,107</b>	<b>\$ (6,805)</b>	<b>\$ (19,735,197)</b>	<b>\$ (25,000,996)</b>

## Fund Balances

The General Fund balance increased by \$710,295. Low interest rates and a positive housing market resulted in an increase to real estate transfer tax.

The Cafeteria Fund continues to be managed by Chartwells, with the 2021-2022 school year being the third year the management group oversaw the food service program. The cafeteria fund ended the 2021-2022 fiscal year with a \$70,912 increase in net position. It should be noted that due to COVID-19 the USDA in partnership with PDE authorized free reimbursable meals to all children 0-18 years of age for the entire school year.

The Capital Projects Fund closed the year with a restricted fund balance of \$1,497,843 which is an increase of \$496,349 from the 2020-2021 fiscal year. This increase is a result of a planned transfer from the general fund. These funds will be used for future facility upgrades.

	2022	2021	Change	% Change
General Fund, including Athletics	\$ 7,703,583	\$ 6,993,288	\$ 710,295	10.16%
Capital Projects Fund	1,497,843	1,001,494	496,349	49.56%
<b>Total Governmental Fund Balances</b>	<b>\$ 9,201,426</b>	<b>\$ 7,994,782</b>	<b>\$ 1,206,644</b>	<b>15.09%</b>

	Budget	Actual	Difference
Total Revenues	\$ 40,323,396	\$ 41,127,103	\$ 803,707
Total Expenditures	39,723,396	40,068,311	(344,915)
Change in Fund Balances excluding Interfund Transfers	600,000	1,058,792	458,792
Leases on right to use arrangements	-	251,503	(251,503)
Interfund Transfers	(600,000)	(600,000)	-
	(600,000)	(348,497)	(251,503)
<b>Net Changes in Fund Balances</b>	<b>\$ -</b>	<b>710,295</b>	<b>\$ 458,792</b>
<b>General Fund Balance - June 30, 2021</b>		<b>6,993,288</b>	
<b>General Fund Balance - June 30, 2022</b>		<b>\$ 7,703,583</b>	

## Capital Assets

On June 30, 2022, the District recorded \$46,427,202 in Total Capital Assets net of accumulated depreciation, which represents a decrease of \$1,353,912 from the previous fiscal year. This decrease is based on the depreciation of recent construction projects at W. G. Rice and Iron Forge Elementary Schools. The district is currently working on a long-range facility plan that will include upgrades to Yellow Breeches Middle School and Boiling Springs High School.

	2022	2021	Change
<b>Governmental Activities</b>			
Land and site improvements	\$ 2,769,257	\$ 2,860,115	\$ (90,858)
Buildings and improvements	41,605,371	43,150,098	(1,544,727)
Furniture and equipment	1,847,180	1,770,901	76,279
Right-to-use leased equipment	205,394	-	205,394
<b>Total Governmental Capital Assets - Net</b>	<u>46,427,202</u>	<u>47,781,114</u>	<u>(1,353,912)</u>
<b>Business-Type Activities</b>			
<b>Total Business Capital Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Capital Assets - Net</b>	<u>\$ 46,427,202</u>	<u>\$ 47,781,114</u>	<u>\$ (1,353,912)</u>

## Long-Term Liabilities

Bonds payable at June 30, 2022, were \$29,725,000 compared to \$31,725,000 at June 30, 2021. A total of \$3,000,000 of debt was paid off during the 2021-2022 fiscal year.

<b>General Obligation Debt</b>	2022	2021
Series of 2014	\$ 640,000	\$ 640,000
Series of 2015	450,000	450,000
Series B of 2016	-	1,955,000
Series of 2019	9,675,000	9,710,000
Series of 2020	9,700,000	9,705,000
Series of 2021	9,260,000	9,265,000
<b>Total Outstanding Debt</b>	<b>\$ 29,725,000</b>	<b>\$ 31,725,000</b>

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 is reflected in the Statement of Net Position.

## 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 real estate 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. Prior to June 30, 2012, the District had ten (10) Pennsylvania Department of Education approved, limited exceptions to increasing its real estate tax rate beyond the index. On June 30, 2011, the Governor of Pennsylvania signed into law legislation eliminating seven of the ten exceptions and further restricting the three remaining exceptions. The Act 1 Index will limit the District, without state approved exceptions, to raise taxes at a maximum of 4.1% for the 2023-2024 fiscal year. The District raised taxes for the 2022-2023 fiscal year by 3.4%, which was the maximum amount allowed by the Act 1 index.

The District's agreement with the bargaining unit, South Middleton Education Association (SMEA), for District teaching professionals will expire on June 30, 2024. The agreement includes a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The agreement began July 1, 2020 through June 30, 2024. A key change within the contract was the implementation of a Qualified High Deductible Health Plan (QHDHP), in correlation with a District-funded Health Savings Account, that will help to control rising insurance premium costs.

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

The District Act 93 team and support staff have compensation and benefit plans in place through the June 30, 2023. Like the SMEA contract, these compensation and benefits plan include the QHDHP, in correlation with a District funded Health Savings Account, this has helped to contain District expenditures.

In June 2018, the Board approved the use of ESS, a staffing agency that provides custodial and classroom aide services to schools. In February 2019, that contract was awarded to ABM to provide custodial services for the District. The Board has authorized administration to utilize ABM services based on an attrition model with evening-shift custodial District staff. This approval has helped, and will continue to help, control salary and benefit costs for the District in upcoming budgets.

## **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 Academy Street, Suite 100, Boiling Springs, PA 17007.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2022**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 6,095,475	\$ 144,670	\$ 6,240,145
Investments	5,108,185	-	5,108,185
Internal balances	-	-	-
Receivables	3,430,502	-	3,430,502
Inventories	-	21,630	21,630
Prepaid expenditures	2,095	-	2,095
Capital assets			
Other capital assets, net of depreciation	46,427,202	-	46,427,202
Total capital assets	46,427,202	-	46,427,202
<b>Total assets</b>	<b>\$ 61,063,459</b>	<b>\$ 166,300</b>	<b>\$ 61,229,759</b>
<b>Deferred Outflows of Resources</b>			
Deferred amounts on pension liability	\$ 8,871,000	\$ -	\$ 8,871,000
Deferred amounts on OPEB liabilities	1,120,319	-	1,120,319
<b>Total deferred outflows of resources</b>	<b>\$ 9,991,319</b>	<b>\$ -</b>	<b>\$ 9,991,319</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 4,621,793	\$ 24,872	\$ 4,646,665
Unearned revenues	328,730	77,321	406,051
Long-term obligations			
Due within one year	1,403,529	-	1,403,529
Due in more than one year	30,222,558	-	30,222,558
Net pension liability	40,810,000	-	40,810,000
OPEB liabilities	4,918,149	-	4,918,149
Total long-term liabilities	77,354,236	-	77,354,236
<b>Total liabilities</b>	<b>\$ 82,304,759</b>	<b>\$ 102,193</b>	<b>\$ 82,406,952</b>
<b>Deferred Inflows of Resources</b>			
Deferred amounts on pension liability	\$ 7,907,000	\$ -	\$ 7,907,000
Deferred amounts on OPEB liabilities	509,825	-	509,825
Deferred amounts on refunding debt	132,498	-	132,498
<b>Total deferred inflows of resources</b>	<b>\$ 8,549,323</b>	<b>\$ -</b>	<b>\$ 8,549,323</b>
<b>Net Position (Deficit)</b>			
Net investment in capital assets	\$ 17,157,229	\$ -	\$ 17,157,229
Restricted	207,445	-	207,445
Unrestricted	(37,163,978)	64,107	(37,099,871)
<b>Total net position</b>	<b>\$ (19,799,304)</b>	<b>\$ 64,107</b>	<b>\$ (19,735,197)</b>

See Notes Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2022**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
<b>Governmental Activities:</b>							
Instruction	\$ 22,764,733	\$ 738,223	\$ 5,271,867	\$ -	\$ (16,754,643)	\$ -	\$ (16,754,643)
Instructional student support	3,989,785	-	501,344	-	(3,488,441)	-	(3,488,441)
Administration and financial support	3,233,811	-	402,589	-	(2,831,222)	-	(2,831,222)
Operation and maintenance of plant services	2,911,188	12,926	94,731	-	(2,803,531)	-	(2,803,531)
Pupil transportation	1,692,922	-	463,372	-	(1,229,550)	-	(1,229,550)
Student activities	1,073,508	284,241	141,787	-	(647,480)	-	(647,480)
Interest on long-term debt	677,694	-	-	-	(677,694)	-	(677,694)
<b>Total governmental activities</b>	<b>36,343,641</b>	<b>1,035,390</b>	<b>6,875,690</b>	<b>-</b>	<b>(28,432,561)</b>	<b>-</b>	<b>(28,432,561)</b>
<b>Business-Type activities:</b>							
Food service	1,264,501	62,270	1,272,506	-	-	70,275	70,275
<b>Total School District</b>	<b>\$ 37,608,142</b>	<b>\$ 1,097,660</b>	<b>\$ 8,148,196</b>	<b>\$ -</b>	<b>\$ (28,432,561)</b>	<b>\$ 70,275</b>	<b>\$ (28,362,286)</b>
<b>General Revenues and Transfers:</b>							
Property taxes levied for general purposes, net					\$ 22,131,346	\$ -	\$ 22,131,346
Public utility, realty transfer, earned income and other taxes for general purposes, net					6,664,130	-	6,664,130
Grants, subsidies and contributions not restricted					4,752,119	-	4,752,119
Investment earnings					49,661	39	49,700
Miscellaneous income					30,192	598	30,790
<b>Total general revenues and transfers</b>					<b>33,627,448</b>	<b>637</b>	<b>33,628,085</b>
<b>Changes in net position</b>					<b>5,194,887</b>	<b>70,912</b>	<b>5,265,799</b>
<b>Net deficit - July 1, 2021</b>					<b>(24,994,191)</b>	<b>(6,805)</b>	<b>(25,000,996)</b>
<b>Net position - June 30, 2022</b>					<b>\$ (19,799,304)</b>	<b>\$ 64,107</b>	<b>\$ (19,735,197)</b>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2022**

	General Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 5,120,483	\$ 754,628	\$ 220,364	\$ 6,095,475
Investments	4,364,970	743,215	-	5,108,185
Due from other funds	9,595	-	-	9,595
Due from other governments	1,597,832	-	-	1,597,832
Taxes receivable - net	1,328,471	-	-	1,328,471
Other receivables	503,019	-	1,180	504,199
Prepaid expenditures	2,095	-	-	2,095
<b>Total assets</b>	<b>\$ 12,926,465</b>	<b>\$ 1,497,843</b>	<b>\$ 221,544</b>	<b>\$ 14,645,852</b>
<b>Liabilities</b>				
Accounts payable	\$ 366,447	\$ -	\$ 4,504	\$ 370,951
Due to other funds	-	-	9,595	9,595
Due to other governments	254,529	-	-	254,529
Accrued salaries and benefits	3,609,403	-	-	3,609,403
Payroll deductions and withholdings	181,372	-	-	181,372
Unearned revenues	328,730	-	-	328,730
<b>Total liabilities</b>	<b>4,740,481</b>	<b>-</b>	<b>14,099</b>	<b>4,754,580</b>
<b>Deferred Inflows of Resources</b>				
Delinquent property taxes	482,401	-	-	482,401
<b>Fund Balances</b>				
Non-spendable fund balance for:				
Inventories	2,095	-	-	2,095
Restricted fund balance for:				
Capital projects	-	1,497,843	207,445	1,705,288
Assigned fund balance for:				
Future technology, facility, and curricular expenses	1,756,712	-	-	1,756,712
Committed fund balance for:				
Future retirement and health care obligations	3,993,288	-	-	3,993,288
Unassigned	1,951,488	-	-	1,951,488
<b>Total fund balances</b>	<b>7,703,583</b>	<b>1,497,843</b>	<b>207,445</b>	<b>9,408,871</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 12,926,465</b>	<b>\$ 1,497,843</b>	<b>\$ 221,544</b>	<b>\$ 14,645,852</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, 2022**

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<b>Total Fund Balances - Governmental Funds</b>	\$	9,408,871
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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 \$85,117,422, and the accumulated depreciation/amortization is \$38,690,220.		46,427,202
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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.		482,401
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The difference between the reacquisition price and the net carrying amount of the refunded debt is a deferred inflow of resources, which is not reported in the funds.		(132,498)
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Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail):

Deferred outflows		8,871,000
Deferred inflows		(7,907,000)

Deferred inflows and outflows or resources related to OPEB are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail):

Deferred outflows		1,120,319
Deferred inflows		(509,825)

Long-term liabilities, including bonds payable, net pension liability, compensated absences and other post-employment benefit liabilities, 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, net of related discounts and premiums	(30,705,824)	
Accrued interest	(205,538)	
Lease obligations	(207,650)	
Compensated absences	(712,613)	
Net pension liability	(40,810,000)	
OPEB liabilities	(4,918,149)	(77,559,774)

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<b>Total net deficit - governmental activities</b>	\$	<b>(19,799,304)</b>
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**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2022**

	General Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 29,499,294	\$ 2,040	\$ 220,674	\$ 29,722,008
State sources	10,953,055	-	-	10,953,055
Federal sources	674,754	-	-	674,754
<b>Total revenues</b>	<b>41,127,103</b>	<b>2,040</b>	<b>220,674</b>	<b>41,349,817</b>
<b>Expenditures</b>				
Instructional	23,848,052	-	-	23,848,052
Support services	12,521,000	-	-	12,521,000
Operation of noninstructional services	882,858	-	207,167	1,090,025
Capital outlay	-	105,691	-	105,691
Debt service				
Principal	2,043,853	-	-	2,043,853
Interest	772,548	-	-	772,548
<b>Total expenditures</b>	<b>40,068,311</b>	<b>105,691</b>	<b>207,167</b>	<b>40,381,169</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,058,792</b>	<b>(103,651)</b>	<b>13,507</b>	<b>968,648</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	-	600,000	-	600,000
Interfund transfers out	(600,000)	-	-	(600,000)
Leases on right to use arrangements	251,503	-	-	251,503
<b>Total other financing sources (uses)</b>	<b>(348,497)</b>	<b>600,000</b>	<b>-</b>	<b>251,503</b>
<b>Net changes in fund balances</b>	<b>710,295</b>	<b>496,349</b>	<b>13,507</b>	<b>1,220,151</b>
Fund Balances - July 1, 2021	6,993,288	1,001,494	193,938	8,188,720
Fund Balances - June 30, 2022	\$ 7,703,583	\$ 1,497,843	\$ 207,445	\$ 9,408,871

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, 2022**

<b>Net change in fund balances - governmental funds</b>		<b>\$ 1,220,151</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/amortization expense. This is the amount by which capital outlays exceed depreciation/amortization expense in the period.

Capital outlays	465,801	
Less depreciation/amortization expense	(1,819,713)	(1,353,912)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as 'available in the governmental funds. Deferred tax revenues decreased by this amount this year.	188,710
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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 additional interest accrued in the Statement of Activities over the amount due is shown here.	(11,266)
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Governmental funds report District pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.

District pension and OPEB contributions (PSERS)		5,161,000
Cost of benefits earned net of employee contributions (PSERS)		(1,889,200)

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.

Change in compensated absences		66,071
Change in other post-employment benefits (District's plan)		(85,139)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effects of premiums, discounts, and similar items when debt is first issued, whereas these 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.

Repayment of long-term debt	2,000,000	
Amortization of charges for bond refundings	4,480	
Amortization of bond premiums and discounts - net	101,642	
Leases issued	(251,503)	
Repayment of lease obligations	43,853	1,898,472

<b>Changes in net position of governmental activities</b>		<b>\$ 5,194,887</b>
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**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2022**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 28,992,243	\$ 28,992,243	\$ 29,499,294	\$ 507,051
State sources	11,071,153	11,071,153	10,953,055	(118,098)
Federal sources	260,000	260,000	674,754	414,754
<b>Total revenues</b>	<b>40,323,396</b>	<b>40,323,396</b>	<b>41,127,103</b>	<b>803,707</b>
<b>Expenditures</b>				
Instructional	23,348,688	23,383,724	23,848,052	(464,328)
Support services	12,797,088	12,762,052	12,521,000	241,052
Operation of noninstructional services	790,651	790,651	882,858	(92,207)
Debt service	2,786,969	2,786,969	2,816,401	(29,432)
<b>Total expenditures</b>	<b>39,723,396</b>	<b>39,723,396</b>	<b>40,068,311</b>	<b>(344,915)</b>
<b>Excess of revenues over expenditures</b>	<b>600,000</b>	<b>600,000</b>	<b>1,058,792</b>	<b>458,792</b>
<b>Other Financing Uses</b>				
Interfund transfers out	(600,000)	(600,000)	(600,000)	-
Leases on right to use arrangements	-	-	251,503	251,503
<b>Total other financing uses</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>(348,497)</b>	<b>251,503</b>
<b>Net changes in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>710,295</b>	<b>\$ 710,295</b>
Fund Balances - July 1, 2021			6,993,288	
Fund Balances - June 30, 2022			<u>\$ 7,703,583</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2022**

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<b>Assets</b>	
Cash and cash equivalents	\$ 144,670
Inventories	<u>21,630</u>
<b>Total assets</b>	<b><u><u>\$ 166,300</u></u></b>
<b>Liabilities</b>	
Accounts payable	\$ 24,872
Unearned revenues	<u>77,321</u>
<b>Total liabilities</b>	<b><u><u>\$ 102,193</u></u></b>
<b>Net Position</b>	
Unrestricted	\$ 64,107
<b>Total net position</b>	<b><u><u>\$ 64,107</u></u></b>

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, 2022**

<hr/>	
Operating Revenues	
Food service revenue	\$ 62,270
Other operating revenues	598
<b>Total operating revenues</b>	<u>62,868</u>
Operating Expenses	
Other purchased services	1,198,447
Food and Supplies	66,054
<b>Total operating expenses</b>	<u>1,264,501</u>
<b>Operating loss</b>	(1,201,633)
Nonoperating Revenues	
Investment earnings	39
State sources	36,031
Federal sources	1,236,475
<b>Total nonoperating revenues</b>	<u>1,272,545</u>
<b>Changes in net position</b>	70,912
Net Deficit - July 1, 2021	<u>(6,805)</u>
Net Position - June 30, 2022	<u>\$ 64,107</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - FOOD SERVICE  
Year Ended June 30, 2022**

<hr/>	
Cash Flows From Operating Activities	
Cash received from meal sales	\$ 99,144
Cash payments for goods and services	<u>(1,220,059)</u>
<b>Net cash used in operating activities</b>	<u><u>(1,120,915)</u></u>
Cash Flows From Noncapital Financing Activities	
State sources	38,084
Federal sources	<u>1,219,878</u>
<b>Net cash provided by noncapital financing activities</b>	<u><u>1,257,962</u></u>
Cash Flows From Investing Activities	
<b>Investment earnings</b>	<u>39</u>
<b>Net increase in cash and cash equivalents</b>	137,086
Cash and Cash Equivalents:	
July 1, 2021	<u>7,584</u>
June 30, 2022	<u><u>\$ 144,670</u></u>

(Continued)



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - FOOD SERVICE (Continued)  
Year Ended June 30, 2022**

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Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (1,201,633)
Adjustments to reconcile operating loss to net cash used in operating activities	
Value of donated commodities used	66,054
Changes in assets and liabilities:	
Increase in:	
Inventories	6,394
(Decrease) increase in:	
Accounts payable	(22,533)
Internal balances	(5,473)
Unearned revenues	36,276
<b>Net cash used in operating activities</b>	<u><u>\$ (1,120,915)</u></u>
Supplemental Disclosure	
Noncash noncapital financing activity	
USDA donated commodities	<u><u>\$ 66,054</u></u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**June 30, 2022**

	Private-Purpose Trust Fund
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	\$ 254,177
<b>Total assets</b>	<u>\$ 254,177</u>
<b>Net Position</b>	
Held in trust for private purposes	\$ 254,177
<b>Total net position</b>	<u>\$ 254,177</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
PRIVATE-PURPOSE TRUST FUND  
Year Ended June 30, 2022**

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Additions	
Contributions	\$ 66,371
Investment earnings	22
<b>Total additions</b>	<u>66,393</u>
 Deductions	
<b>Scholarships and awards</b>	<u>14,346</u>
 <b>Changes in net position</b>	52,047
 Net Position - July 1, 2021	<u>202,130</u>
Net Position - June 30, 2022	<u>\$ 254,177</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 (the 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 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 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".

# **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. The effect of interfund activity has been mostly 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 tax 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 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 District are financed. The acquisition, use and balances of the 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 state and federal distributions. Many of the more important activities of the District, including instruction, administration of the District and certain non-instructional services are accounted for in this General 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.

The Student Sponsored Activity Fund is set up in accordance with Section 511 of the PA School Code for student sponsored school organizations and publications which do not meet the criteria to be reported as custodial funds per GASB Statement No. 84 Fiduciary Activities.

## **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 ongoing operations. The principal operating revenues of the District's enterprise fund are food service charges. Operating expenses for the 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 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 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.

## 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 District's budget and reporting of its financial statements:

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

The 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 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 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 Fund Balance

Cash and Cash Equivalents: The District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are carried at fair value or at amortized cost, depending on the investment type, consistent with generally accepted accounting principles.

Allowances for Estimated Uncollectible Taxes and Unearned Revenues: The allowance for estimated uncollectible taxes is based upon a 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 Fund Balance (Continued)

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2022. 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 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 - Pension and Other Post-Employment Benefits: The District recognizes deferred outflows of resources, which represent a consumption of net assets that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has identified these items in subsequent notes to the financial statements.

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.

## 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 Fund Balance (Continued)

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.

Leases: The District is a lessee for non-cancellable leases of equipment. A lease liability and an intangible right-to-use lease asset is recognized in the government-wide financial statements. The District considers all leases above their capitalization policy for recognition. Leases that are material individually or in the aggregate are recognized.

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

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments. The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

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

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

## 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 Fund Balance (Continued)

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the 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 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.

Other 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 Employees' Retirement System (PSERS), a governmental, cost sharing, multiple employer defined-benefit pension plan. The District provides access to health and dental care benefits, including 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.

The District also participates in a governmental cost sharing, multiple employer other post-employment benefit plan (OPEB) with PSERS for all eligible retirees who qualify and elect to participate. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 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 Fund Balance (Continued)

The balance of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2022, are as follows:

	Governmental Activities
<hr/>	
OPEB Liabilities	
District's Single Employer Plan	\$ 2,558,149
PSERS Cost Sharing Plan	2,360,000
Total	<u>\$ 4,918,149</u>
Deferred Outflows of Resources	
District's Single Employer Plan	\$ 632,919
PSERS Cost Sharing Plan	487,400
Total	<u>\$ 1,120,319</u>
Deferred Inflows of Resources	
District's Single Employer Plan	\$ 337,225
PSERS Cost Sharing Plan	172,600
Total	<u>\$ 509,825</u>

Additional disclosures related to other post-employment benefits of the District's Single Employer Plan and PSERS Cost Sharing Plan are in Notes 10 and 11, respectively.

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

## 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 Fund Balance (Continued)

Deferred Inflows of Resources - Pension and Other Post-Employment Benefits: The District recognizes deferred inflows of resources, which represent an acquisition of net assets that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has identified these items in subsequent notes to the financial statements.

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 yearend. 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.

Interfund Activity: 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. Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are indicated on the Statement of Net Position as internal balances.

#### Net Position and Fund Balance 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 Fund Balance (Continued)

##### Fund Balance:

The 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, 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.

#### F. New Accounting Pronouncements

The following list reflects only those pronouncements initially effective in the current or upcoming reporting periods which based on our review, may be applicable to the District's reporting requirements.

Following are descriptions of significant pronouncements that were considered or initially selected during the year ended June 30, 2022:

GASB issued Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### F. New Accounting Pronouncements (Continued)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 92, *Omnibus 2020*, enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of various GASB standards previously issued.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an IBOR.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, (1) increases consistency and comparability related to the reporting of fiduciary component units where a governing board does not exist and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension and OPEB plans and other employee benefit plans as fiduciary component units and (3) enhances the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan.

The following are descriptions of accounting pronouncements which will be considered for implementation during subsequent fiscal years, with modified effective dates as established by GASB Statement No. 95:

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the District beginning with its year ending June 30, 2023 (periods beginning after December 15, 2021). This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the District beginning with its year ending June 30, 2023 (fiscal periods beginning after June 15, 2022). This Statement improves financial reporting by addressing issues related to public-private and public-public partnerships.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### F. New Accounting Pronouncements (Continued)

GASB Statement No. 96 *Subscription-Based Information Technology Arrangements*. The requirements for this Statement are effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The District is currently evaluating what effect, if any, the adoption of GASB No. 96 will have on the District's financial statements.

GASB Statement No. 99, *Omnibus 2022 will be effective in fiscal years between June 30, 2022 and 2024*, depending on the topics addressed and their relation to other standards. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, will be effective for fiscal years beginning after June 15, 2023. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

GASB Statement No. 101, *Compensated Absences*, will be effective for fiscal years beginning after December 15, 2023. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. It requires that a liability for certain types of compensated absences - including parental leave, military leave, and jury duty leave - not be recognized until the leave commences. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### G. Other

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

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 17, 2022, the date that the financial statements were available to be issued.

## 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 instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
  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 policy of the District adheres to state statutes and prudent business practices. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the District.

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits as of June 30, 2022, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	M&T Bank
Insured (FDIC)	250,000	250,000	F&M Trust
Uninsured, collateralized in accordance with Act 72	2,755,916	3,145,461	M&T Bank
Uninsured, collateralized in accordance with Act 72	3,231,949	3,231,949	F&M Trust
	<u>\$ 6,487,865</u>	<u>\$ 6,877,410</u>	

Act 72 of 1971, as amended, 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 the pledgers 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, 2022, the District had the following investments:

<u>Investments</u>	<u>Weighted Avg. Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	60 days	AAAm	\$ 6,458
Pennsylvania Local Government Investment Trust (PLGIT)			
PLGIT - PRIME	61 days	AAAm	3,162,415
PLGIT - ARM Series	75 days	AAAm	743,217
Pennsylvania Treasurer's INVEST Daily Program	51 days	AAAm	1,202,556
			<u>\$ 5,114,646</u>

##### Portfolio Assets

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, PLGIT - PRIME, PLGIT - ARM Series, and Pennsylvania Treasurer's INVEST Daily Program, at amortized cost.

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

The PLGIT 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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Portfolio Assets (Continued)

The PLGIT - PRIME is a variable rate investment portfolio within the PLGIT fund. This web-based option requires no minimum balance and no minimum initial investment. This option limits redemptions or exchanges to two per calendar month.

The PLGIT - ARM Series is an option within the PLGIT fund. This is a program for the investment of bond proceeds only, consisting of a portfolio of the Trust which operates like a money market fund and individual portfolios of Investors. This option has no minimum initial investment requirement and has a minimum investment period of one day.

Pennsylvania Treasurer's INVEST Daily Program is administered by the Pennsylvania Treasury Department. The funds are invested by INVEST directly in a portfolio of securities which is held by a third-party custodian. INVEST pools are invested in high-quality, short-term securities denominated in U.S. dollars. These investments generally consist of: (1) direct obligations issued by, or obligations that are fully guaranteed as to principal and interest by, the U.S. government, its agencies or instrumentalities; (2) repurchase agreements backed by such securities; (3) Certificates of Deposit and (4) other money market funds with AAAM ratings. INVEST is acting in a fiduciary capacity for the District and recognizes the District as the pledgee of the collateral securities, these deposits are considered to be held by the agent in the District's name. Weighted-average portfolio maturity for the fund is expected to be kept at or below 60 days.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

##### Weighted-Average Maturity

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

##### 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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Credit Risk

As previously indicated, 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.

##### Concentration of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in PLGIT represent 76% 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, 2022, is as follows:

	Amount
Uncollected taxes	\$ 1,341,386
Estimated uncollectible taxes	<u>(12,915)</u>
Taxes Receivable - Net	<u>\$ 1,328,471</u>
Taxes to be collected within 60 days	\$ 846,070
Deferred inflows of resources - delinquent property taxes	<u>482,401</u>
Taxes Receivable - Net	<u>\$ 1,328,471</u>

#### Note 4. Property Taxes

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the District. The schedule for property taxes levied for 2021-2022 is as follows:

July 1, 2021	Tax Levy Date
Through August 31, 2021	2% Discount
Through October 31, 2021	Face Payment Period
November 1, 2021	10% Penalty Period
January 1, 2022	Interim Tax Levy Date

The District's tax rate for all purposes in 2021-2022, was 11.4292 mills (\$11.4292 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania's accounting system. Current tax collections for the District were approximately 99% of the total tax levy.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2022, are as follows:

	Due from other funds	Due to other funds
Governmental Funds		
General fund	\$ 9,595	\$ -
Fiduciary Funds		
Student activities	-	9,595
	<u>\$ 9,595</u>	<u>\$ 9,595</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.

Operating transfers between funds at June 30, 2022, are as follows:

	Transfers in	Transfers out
Governmental Funds		
General fund	\$ -	\$ 600,000
Capital projects fund	600,000	-
	<u>\$ 600,000</u>	<u>\$ 600,000</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. Capital Assets**

Capital asset activity for the year ended June 30, 2022, was as follows:

	July 1, 2021	Increases	Decreases	June 30, 2022
<b>Governmental Activities</b>				
Capital assets being depreciated/amortized				
Land and site improvements	\$ 5,572,559	\$ -	\$ -	\$ 5,572,559
Buildings and building improvements	71,604,797	34,726	-	71,639,523
Furniture and equipment	7,474,265	179,572	-	7,653,837
Right-to-use leased equipment	-	251,503	-	251,503
Total capital assets being depreciated/amortized	<u>84,651,621</u>	<u>465,801</u>	<u>-</u>	<u>85,117,422</u>
Less accumulated depreciation				
Land and site improvements	(2,712,444)	(90,858)	-	(2,803,302)
Buildings and building improvements	(28,454,699)	(1,579,453)	-	(30,034,152)
Furniture and equipment	(5,703,364)	(103,293)	-	(5,806,657)
Less accumulated amortization				
Right-to-use leased equipment	-	(46,109)	-	(46,109)
Total accumulated depreciation and amortization	<u>(36,870,507)</u>	<u>(1,819,713)</u>	<u>-</u>	<u>(38,690,220)</u>
Total capital assets being depreciated/amortized - net	<u>47,781,114</u>	<u>(1,353,912)</u>	<u>-</u>	<u>46,427,202</u>
<b>Total Governmental Activities, Capital Assets - Net</b>	<u>\$ 47,781,114</u>	<u>\$ (1,353,912)</u>	<u>\$ -</u>	<u>\$ 46,427,202</u>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 507,922	\$ -	\$ -	\$ 507,922
Less accumulated depreciation				
Furniture and equipment	<u>(507,922)</u>	<u>-</u>	<u>-</u>	<u>(507,922)</u>
<b>Business-Type Activities, Capital Assets - Net</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. Capital Assets (Continued)**

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

	Amount
Governmental Activities	
Instruction	\$ 1,259,727
Instructional student support	227,050
Administration and financial support	196,240
Operation and maintenance of plant services	69,113
Student activities	52,295
Transportation	15,288
Total Governmental Activities	<u>1,819,713</u>
Business-Type Activities	
Food service	-
Total School District	<u><u>\$ 1,819,713</u></u>

**Note 7. Long-Term Obligations**

During the fiscal year ended June 30, 2022, long-term obligations changed as follows:



**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

	July 1, 2021	Increases	Decreases	June 30, 2022	Due within one year
<b>General Obligation Bonds</b>					
Series of 2014	\$ 640,000	\$ -	\$ -	\$ 640,000	\$ 640,000
Series of 2015	450,000	-	-	450,000	450,000
Series B of 2016	1,955,000	-	(1,955,000)	-	-
Series of 2019	9,710,000	-	(35,000)	9,675,000	30,000
Series of 2020	9,705,000	-	(5,000)	9,700,000	210,000
Series of 2021	9,265,000	-	(5,000)	9,260,000	25,000
<b>Total General Obligation Bonds</b>	<b>31,725,000</b>	<b>-</b>	<b>(2,000,000)</b>	<b>29,725,000</b>	<b>1,355,000</b>
Unamortized bond premiums/(discounts)	1,082,466	-	(101,642)	980,824	-
<b>Total Long-Term Debt</b>	<b>32,807,466</b>	<b>-</b>	<b>(2,101,642)</b>	<b>30,705,824</b>	<b>1,355,000</b>
<b>Other Long-Term Obligations</b>					
Lease obligations	-	251,503	(43,853)	207,650	48,529
Compensated absences	778,684	-	(66,071)	712,613	-
<b>Total Other Long-Term Obligations</b>	<b>778,684</b>	<b>251,503</b>	<b>(109,924)</b>	<b>920,263</b>	<b>48,529</b>
<b>Total Long-Term Obligations</b>	<b>\$ 33,586,150</b>	<b>\$ 251,503</b>	<b>\$ (2,211,566)</b>	<b>\$ 31,626,087</b>	<b>\$ 1,403,529</b>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

General Obligation Bonds - Series of 2014 - During fiscal year 2013-14, the Board 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) finance 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. During fiscal year 2018-19, this bond was partially refunded with the Series of 2019 issuance.

General Obligation Bonds - Series of 2015 - During fiscal year 2014-15, the Board of the South Middleton School District issued General Obligation Bonds, Series of 2015 in the aggregate principal amount of \$9,995,000. The proceeds of the bonds were used to: (1) finance various capital projects of the District and (2) pay all costs of issuance of the 2015 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 2.75%. The bonds mature serially in amounts ranging from \$5,000 to \$955,000 through September 1, 2034. During fiscal year 2019-20, this bond was partially refunded with the Series of 2020 issuance.

General Obligation Bonds - Series B of 2016 - During fiscal year 2015-16, the Board of the South Middleton School District issued General Obligation Bonds, Series B of 2016 in the aggregate principal amount of \$12,405,000. The proceeds of the bonds were used to: (1) refund the District's outstanding General Obligation Bonds, Series of 2011 and (2) pay all costs of issuance of the Series B of 2016 Bond. The economic gain on the refunding of the 2011 bonds was \$433,921. The bonds bear interest semi-annually with rates ranging from 0.62% to 5.00%. The bonds mature serially in amounts ranging from \$805,000 to \$2,420,000 through October 1, 2021.

General Obligation Bonds - Series of 2019 - During fiscal year 2018-19, the Board of the South Middleton School District issued General Obligation Bonds, Series of 2019 in the aggregate principal amount of \$9,745,000. The proceeds of the bonds were used to: (1) currently refunding a portion of the District's outstanding General Obligation Bonds, Series of 2014, (2) funding capital projects of the District and (3) paying the costs of issuing the bonds. The economic gain on the refunding of the 2014 bonds was \$300,124. The bonds bear interest semi-annually with rates ranging from 2.00% to 4.00%. The bonds mature serially in amounts ranging from \$35,000 to \$925,000 through September 1, 2034.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

General Obligation Bonds - Series of 2020 - During fiscal year 2019-20, the Board of the South Middleton School District issued General Obligation Bonds, Series of 2020 in the aggregate principal amount of \$9,705,000. The proceeds of the bonds were used to: (1) currently refunding a portion of the District's outstanding General Obligation Bonds, Series of 2015, (2) funding capital projects of the District and (3) paying the costs of issuing the bonds. The economic gain on the refunding of the 2015 bonds was \$292,943. The bonds bear interest semi-annually with rates ranging from 1.00% to 4.00%. The bonds mature serially in amounts ranging from \$5,000 to \$890,000 through September 1, 2034.

General Obligation Bonds - Series of 2021 - During fiscal year 2020-21, the Board the South Middleton School District issued General Obligation Bonds, Series of 2021 in the aggregate principal amount of \$9,265,000. The proceeds of the bonds were used to: (1) currently refunding a portion of the District's outstanding General Obligation Bonds, Series of 2016A, (2) funding capital projects of the District and (3) paying the costs of issuing the bonds. The economic gain on the refunding of the 2016A bonds was \$330,007. The bonds bear interest semi-annually with rates ranging from 1.00% to 3.00%. The bonds mature serially in amounts ranging from \$5,000 to \$1,875,000 through September 1, 2040.

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

Years	General Obligation Debt		
	Principal	Interest	Total
2022-2023	\$ 1,355,000	\$ 786,114	\$ 2,141,114
2023-2024	1,395,000	746,614	2,141,614
2024-2025	1,450,000	691,739	2,141,739
2025-2026	1,495,000	645,464	2,140,464
2026-2027	1,530,000	611,089	2,141,089
2027-2031	8,245,000	2,470,777	10,715,777
2032-2036	8,795,000	1,426,438	10,221,438
2037-2040	5,460,000	249,000	5,709,000
	<u>\$ 29,725,000</u>	<u>\$ 7,627,235</u>	<u>\$ 37,352,235</u>

### 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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Leases

The District leases equipment for certain offices and buildings. The term of the lease is five years.

The District's equipment lease contains scheduled monthly payments with expiration dates extending through 2027. Lease and finance purchase obligations are fully funded by the general fund.

The following is a schedule of future minimum lease payments for leases with initial or remaining terms in excess of one year as of June 30, 2022:

Years	Principal	Interest	Total Payments
2023	\$ 48,529	\$ 5,566	\$ 54,095
2024	50,005	4,090	54,095
2025	51,526	2,569	54,095
2026	53,093	1,002	54,095
2027	4,497	11	4,508
Total Future Payments	<u>\$ 207,650</u>	<u>\$ 13,237</u>	<u>\$ 220,888</u>

#### Note 8. Affiliates

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

Total payments of \$444,141 were made by the District to the Vo-Tech School as the former's share of operating expenses for the year ended June 30, 2022.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Plan Description

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

##### Benefits Provided

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

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Defined-Benefit Pension Plan (Continued)**

Contributions

Member Contributions:

The contribution rates based on qualified member compensation for virtually all members are presented below:

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

  

<b>Shared Risk Program Summary</b>				
<b>Membership Class</b>	<b>Defined Benefit (DB) Base Rate</b>	<b>Shared Risk Increment</b>	<b>Minimum</b>	<b>Maximum</b>
T- E	7.50%	+ / - 0.50%	5.50%	9.50%
T- F	10.30%	+ / - 0.50%	8.30%	12.30%
T- G	5.50%	+ / - 0.75%	2.50%	8.50%
T- H	4.50%	+ / - 0.75%	1.50%	7.50%

Employer Contributions:

The District’s contractually required contribution rate for the fiscal year ended June 30, 2022, was 34.14% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Included in the District’s contractually required contribution rate is the Act 5 contribution rate totaling an estimated 0.15%.

The 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 ratio (as defined in Act 29 of 1994), which is at least one-half of the total District’s rate. The District’s contributions to the Plan, relating to pension benefits, for the year ended June 30, 2022, was \$5,042,926, and is equal to the required contribution for the year. For the year ended June 30, 2022, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$2,571,339.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

At June 30, 2022, the District reported a liability of \$40,810,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2020 to June 30, 2021. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's reported proportion was 0.0994%, which was an increase of 0.0946% from its proportion reported as of June 30, 2021.

For the year ended June 30, 2022, the District recognized pension expense of \$1,773,000. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 30,000	\$ 536,000
Changes in assumptions	1,979,000	-
Net difference between projected and actual investment earnings	-	6,496,000
Changes in proportion	1,733,000	857,000
Difference between employer contributions and proportionate share of total contributions	86,000	18,000
Contributions subsequent to the measurement date	5,043,000	-
	<u>\$ 8,871,000</u>	<u>\$ 7,907,000</u>

\$5,043,000 is reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Total
2023	\$ (1,290,000)
2024	(508,000)
2025	(193,000)
2026	(2,088,000)
2027	-
Thereafter	-
	<u>\$ (4,079,000)</u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Actuarial Assumptions

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

- Valuation Date – June 30, 2020
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- The discount rate used to measure the Total Pension Liability decreased from 7.25% as of June 30, 2020, to 7.00% as of June 30, 2021.

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



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Investments

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

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

For the year ended June 30, 2021, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 24.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Discount Rate

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

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current discount rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's proportionate share of the net pension liability	\$ 53,565,000	\$ 40,810,000	\$ 30,051,000

##### Pension Plan Fiduciary Net Position

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

##### Plan Payables

At June 30, 2022, the District reported a payable to PSERS of \$2,036,107, which represents the employer contributions owed to the pension plan.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 10. Other Post-Employment Benefits - District's Single Employer Plan**

Plan Description, Benefit Terms and Funding Policy

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. The District funds OPEB on a pay-as-you go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB Statement No. 75. The plan description and benefit terms provided by the Plan are summarized in the chart below:

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
<b>I. ALL GROUPS</b>	Retirement through PSERS	Coverage: Medical, Prescription, Drug, Dental and Vision  Premium Sharing: The member and spouse may elect medical, prescription drug, dental and vision coverage upon retirement by paying the full premiums.  Dependents: Spouses Included	Member coverage ceases at Medicare age  Spouse coverage ceases at Medicare age or when the member reaches Medicare age, whichever occurs first.
<p><b>Notes:</b></p> <ol style="list-style-type: none"> <li>1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he (or she) is eligible for either: 1) PSERS early retirement while under 62 with 5 years of PSERS Service or 2) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.</li> <li>2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he (or she) is eligible for either: 1) PSERS early retirement while under 65 with 10 years of PSERS Service or 2) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.</li> <li>3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.</li> </ol>			

Employees Covered by Benefit Terms

As of the July 1, 2020 actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	40
Inactive employees entitled to but not yet received benefit payments	-
Active employees	236
	276
	276

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

##### OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2021, the District reported a liability of \$2,558,149 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2021, and was determined by an actuarial valuation as of July 1, 2020. The OPEB liability is composed of the following:

	Amount
Total OPEB liability, beginning	<u>\$ 2,546,910</u>
Changes for the year:	
Service cost	209,050
Interest	49,520
Changes in assumptions	(74,585)
Benefit payments	<u>(172,746)</u>
Net changes	<u>11,239</u>
Total OPEB liability, ending	<u><u>\$ 2,558,149</u></u>

For the year ended June 30, 2022, the District recognized OPEB expense of \$264,289. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 120,650	\$ 228,890
Changes in assumptions	333,119	108,335
Benefit payments subsequent to the measurement date	179,150	-
	<u>\$ 632,919</u>	<u>\$ 337,225</u>

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

#### OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, \$179,150 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ending June 30:</u>	<u>Total</u>
2022	\$ 5,719
2023	5,719
2024	5,719
2025	5,719
2026	5,719
Thereafter	87,949
	<u>\$ 116,544</u>

#### Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increases which varies by age from 2.75 to 0%.
- Discount Rate - 1.86%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2020.
- Health Care Cost Trend Rate - 5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 10. Other Post-Employment Benefits - District's Single Employer Plan (Continued)**

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the district calculated using the discount rate of 2.28%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.28%) or one percentage higher (3.28%) than the current discount rate:

	1% Decrease 1.28%	Current Discount Rate 2.28%	1% Increase 3.28%
Total OPEB liability	\$ 2,738,161	\$ 2,558,149	\$ 2,387,043

The discount rate used to measure the Total OPEB liability increased from 1.86% as of July 1, 2020, to 2.28% as of July 1, 2021.

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

The following presents the total OPEB liability of the district calculated using the health care cost trend rates of (5.5% decreasing to 4.0%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 2,270,518	\$ 2,546,910	\$ 2,877,395

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan**

##### Plan Description

PSERS administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

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

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

##### Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2022, there were no assumed future benefit increases to participating eligible retirees.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2022, was 0.80% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$118,306 for the year ended June 30, 2022.

##### OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2022, the District reported a liability of \$2,360,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2022, the District's reported proportion was .0996 percent, which was an increase of .0050 percent from its proportion reported as of June 30, 2021.

For the year ended June 30, 2022, the District recognized OPEB expense of \$116,200. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,000	\$ -
Changes in assumptions	251,000	31,000
Changes in proportion	90,000	141,000
Net difference between projected and actual investment earnings	5,000	-
Difference between employer contributions and proportionate share of total contributions	1,400	600
Contributions subsequent to the measurement date	118,000	-
	<u>\$ 487,400</u>	<u>\$ 172,600</u>



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

\$118,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2023	\$ 14,400
2024	13,200
2025	30,400
2026	47,000
2027	44,800
Thereafter	47,000
	<u>\$ 196,800</u>

##### Actuarial Assumptions

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

- Valuation Date – June 30, 2020
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.18% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.5%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%
- The discount rate used to measure the total OPEB liability decreased from 2.66% as of June 30, 2020 to 2.18%, as of June 30, 2021.

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### Actuarial Assumptions (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019, determined the employer contribution rate for fiscal year 2021.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

##### Investments

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

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

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

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2021.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

##### Discount Rate

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

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

The following presents the District's proportionate share of the net OPEB liability, calculated using the discount rate of 2.18%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.18%) or one percentage point higher (3.18%) than the current discount rate:

	1% Decrease 1.18%	Current Discount Rate 2.18%	1% Increase 3.18%
District's proportionate share of the net OPEB liability	\$ 2,709,000	\$ 2,360,000	\$ 2,073,000

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 11. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7%) that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,360,000	\$ 2,360,000	\$ 2,360,000

##### OPEB Plan Fiduciary Net Position

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

##### Plan Payables

At June 30, 2022, the District reported a payable to PSERS of \$47,712, which represents the employer contributions owed to the OPEB plan.

#### Note 12. 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. Most significant losses are covered by commercial insurance for 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. During the year ended June 30, 2022, the District did not incur any significant losses that were not covered by insurance.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

<b>For the Fiscal Year Ended June 30</b>	<b>School District's Proportion of the Net Pension Liability (Asset)</b>	<b>School District's Proportionate Share of the Net Pension Liability (Asset)</b>	<b>School District's Covered Payroll</b>	<b>School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2022	0.0994%	\$ 40,810,000	\$ 14,116,818	289.09%	63.67%
2021	0.0946%	\$ 46,580,000	\$ 13,282,346	350.69%	54.32%
2020	0.0972%	\$ 45,473,000	\$ 13,401,787	339.31%	55.56%
2019	0.0992%	\$ 47,621,000	\$ 13,364,151	356.33%	54.00%
2018	0.1074%	\$ 53,043,000	\$ 14,296,498	371.02%	51.84%
2017	0.1079%	\$ 53,472,000	\$ 13,967,915	382.82%	50.14%
2016	0.1114%	\$ 48,254,000	\$ 14,337,758	336.55%	54.36%
2015	0.1088%	\$ 53,064,000	\$ 13,885,613	382.15%	57.24%

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS -  
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

<b>For the Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to the Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>District's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
2022	\$ 5,042,926	\$ (5,042,926)	\$ -	\$ 14,726,881	34.24%
2021	\$ 4,766,298	\$ (\$4,766,298)	\$ -	\$ 13,286,408	35.87%
2020	\$ 4,490,722	\$ (\$4,490,722)	\$ -	\$ 13,286,408	33.80%
2019	\$ 4,326,300	\$ (\$4,326,300)	\$ -	\$ 13,432,735	32.21%
2018	\$ 4,274,328	\$ (\$4,274,328)	\$ -	\$ 13,453,282	31.77%
2017	\$ 4,077,743	\$ (\$4,077,743)	\$ -	\$ 14,297,856	28.52%
2016	\$ 3,502,861	\$ (\$3,502,861)	\$ -	\$ 13,977,367	25.06%
2015	\$ 2,869,996	\$ (\$2,869,996)	\$ -	\$ 14,347,111	20.00%

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -  
DISTRICT'S SINGLE EMPLOYER PLAN  
For the Fiscal Year Ended June 30,**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB liability</b>					
Service cost	\$ 209,050	\$ 122,806	\$ 124,552	\$ 166,341	\$ 160,579
Interest	49,520	69,647	61,570	73,005	53,095
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	-	142,586	-	(343,334)	-
Changes in assumptions	(74,585)	319,846	(52,648)	3,648	102,939
Benefit payments	(172,746)	(126,525)	(123,212)	(125,362)	(118,673)
Other changes	-	-	-	-	-
<b>Net change in total OPEB liability</b>	<b>11,239</b>	<b>528,360</b>	<b>10,262</b>	<b>(225,702)</b>	<b>197,940</b>
<b>Total OPEB Liability - beginning</b>	<b>2,546,910</b>	<b>2,018,550</b>	<b>2,008,288</b>	<b>2,233,990</b>	<b>2,036,050</b>
<b>Total OPEB Liability - ending</b>	<b>\$ 2,558,149</b>	<b>\$ 2,546,910</b>	<b>\$ 2,018,550</b>	<b>\$ 2,008,288</b>	<b>\$ 2,233,990</b>
<b>Covered payroll</b>	<b>\$ 13,023,589</b>	<b>\$ 13,023,589</b>	<b>\$ 12,019,760</b>	<b>\$ 12,019,760</b>	<b>\$ 12,700,218</b>
<b>Net OPEB liability as a percentage of covered payroll</b>	<b>19.64%</b>	<b>19.56%</b>	<b>16.79%</b>	<b>16.71%</b>	<b>17.59%</b>

**Notes to Schedule:**

For the fiscal year ended June 30, 2022:

Changes in assumptions: The discount rate changed from 1.86% to 2.28%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

Changes of benefit terms: None

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



**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -  
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

<b>For the Fiscal Year Ended June 30</b>	<b>District's Proportion of the Net OPEB Liability</b>	<b>District's Proportionate Share of the Net OPEB Liability</b>	<b>District's Covered Payroll</b>	<b>District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>
2022	0.0996%	\$ 2,360,000	\$ 14,116,818	16.72%	5.30%
2021	0.0946%	\$ 2,044,000	\$ 13,282,346	15.39%	5.69%
2020	0.0972%	\$ 2,067,000	\$ 13,401,787	15.42%	5.56%
2019	0.0992%	\$ 2,068,000	\$ 13,364,151	15.47%	5.56%
2018	0.1074%	\$ 2,188,000	\$ 14,296,498	15.30%	5.73%

The amounts presented for each fiscal year were determined as of the measurement date, which is one year prior to the fiscal year-end.

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULES OF DISTRICT'S OPEB CONTRIBUTIONS -  
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

<b>For the Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to the Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>District's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
2022	\$ 118,306	\$ (118,306)	\$ -	\$ 14,116,818	0.84%
2021	\$ 116,010	\$ (116,010)	\$ -	\$ 13,286,408	0.87%
2020	\$ 112,772	\$ (112,772)	\$ -	\$ 13,286,408	0.85%
2019	\$ 110,148	\$ (110,148)	\$ -	\$ 13,432,735	0.82%
2018	\$ 111,774	\$ (111,774)	\$ -	\$ 13,453,282	0.83%

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

**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 (District), as of and for the year ended June 30, 2022, 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 17, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

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 17, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

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

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

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

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

In our opinion, the District's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

***Basis for Opinion on Each Major Federal Program***

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

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

***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

## Report on Internal Control Over Compliance

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Item OMB 2022-001 to be a significant deficiency.

South Middleton School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit South Middleton School District's response and, accordingly, do not express an opinion on it.

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

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

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

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is positioned in the lower middle section of the page.

Camp Hill, Pennsylvania  
November 17, 2022



**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2022**

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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 2 CFR 200.516(a)3?  Yes  No

**SOUTH MIDDLETON SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2022**

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**Section I -- Summary of Auditor's Results (Continued)**

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Identification of the major programs:

Assistance Listing Number(s)	Name of Federal Programs/Cluster
84.425	Education Stabilization Fund
<b>Child Nutrition Cluster</b>	
10.555	National School Lunch Program
10.553	School Breakfast Program
10.555	Food Donation

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

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 compliance findings relating to the financial statement audit required to be reported.

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2022**

---

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

---

A. Significant Deficiency(ies) in Internal Control

**Finding 2022-001**

**Criteria:** Federal uniform guidance under CFR 200.320 and Pennsylvania State School Code bid requirements have various thresholds for procurement procedures to be followed by all non-federal entities. The acquisition of goods and services must abide by the rules set by Federal and State guidance to ensure that they are purchased properly and responsibly.

**Condition and context:** During the allowable cost testing of ESSER it was identified that a service consultant was utilized by the District. The service cost exceeded the “Small Purchase Procedures” threshold of Uniform Guidance, which calls for at least 3 price or rate quotes from a reasonable number of qualified sources. The procurement policy established by the board is consistent with the various requirements, however, the District identified that this policy and procedure was not followed.

**Cause and effect:** Although the internal controls over procurement exist and were circumvented in this situation, additional procurement tests were performed and determined the lapse was an isolated incident. The service cost in question was also allowable cost under the grant requirements.

**Recommendations:** The District’s staff should adhere to the well-defined policy and procedures established by the District under Uniform Guidance and State regulations. Additional training for employees who are authorized to make purchases is recommended to ensure everyone who can authorize transactions follows all steps of the internal control process over disbursements.

B. Compliance Findings

There were no findings relating to the Federal awards required to be reported in accordance with Section 2 CFR 200.516(a).

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2022**

	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2022	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2022	Provided to Subrecipients
<b>U.S. Department of Education</b>										
Passed through the Pennsylvania Department of Education										
Title I - Grants to Local Education Agencies										
Title I - Grants to Local Education Agencies	84.010	013-210397	20-21	\$ 208,657	\$ 8,877	\$ 8,877	\$ -	\$ -	\$ -	\$ -
	84.010	013-220397	21-22	\$ 234,893	-	182,252	182,252	182,252	110,744	-
					80,385	8,877	182,252	182,252	110,744	-
Title II - Supporting Effective Instruction State Grants										
Title II - Supporting Effective Instruction State Grants	84.367	020-210397	20-21	\$ 46,528	(1,969)	(1,969)	-	-	-	-
	84.367	020-220397	21-22	\$ 48,575	-	48,575	48,575	48,575	33,941	-
					12,665	(1,969)	48,575	48,575	33,941	-
Title IV - Student Support and Academic Enrichment Program										
	84.424	144-220397	21-22	\$ 15,659	4,815	-	15,659	15,659	10,844	-
					4,815	-	15,659	15,659	10,844	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund I										
COVID-19 - Elementary & Secondary School Emergency Relief Fund I	84.425D	200-200397	20-22	\$ 173,012	160,941	160,941	-	-	-	-
	84.425D	200-210395	20-23	\$ 768,944	411,296	70,875	420,961	420,961	80,540	-
	84.027	252-210395	20-21	\$ 16,048	11,769	11,769	-	-	-	-
COVID-19 - SECIM Special Education Mitigation Grant										
COVID-19 - ARP ESSER Homeless Children and Youth	84.425W	181-212403	21-24	\$ 9,834	-	-	4,151	4,151	4,151	-
	84.425U	223-210397	20-24	\$ 1,555,352	84,837	-	-	-	(84,837)	-
COVID-19 - ARP 7% Learning Loss										
COVID-19 - ARP 7% Summer Program	84.425U	225-210397	20-24	\$ 86,347	4,710	-	-	-	(4,710)	-
	84.425U	225-210397	20-24	\$ 17,269	942	-	-	-	(942)	-
	84.425U	225-210397	20-24	\$ 17,269	942	-	-	-	(942)	-
					675,437	243,585	425,112	425,112	(6,740)	-
Total passed through the Pennsylvania Department of Education										
					773,302	250,493	671,598	671,598	148,789	-
Passed through the Pennsylvania Commission on Crime & Delinquency										
COVID-19 Elementary & Secondary School Emergency Relief Fund I	84.425D	2020-ES -01-34940	20-21	\$ 63,188	63,188	63,188	-	-	-	-
Passed through Capital Area Intermediate Unit 15:										
Special Education Cluster										
Special Education - Grants to States										
COVID-19 - Special Education - Grants to States	84.027	N/A	20-21	\$ 349,602	127,462	127,462	-	-	-	-
	84.027	N/A	21-22	\$ 84,778	46,454	-	84,778	84,778	38,324	-
	84.027	N/A	21-22	\$ 341,709	197,636	-	341,709	341,709	144,073	-
	84.173	N/A	21-22	\$ 1,398	1,398	-	1,398	1,398	-	-
					372,950	127,462	427,885	427,885	182,397	-
Title III - English Language Acquisition Grants										
	84.365	010-22-0612	21-22	\$ 5,713	-	-	3,157	3,157	3,157	-
Total passed through the Capital Area Intermediate Unit										
					372,950	127,462	431,042	431,042	185,554	-
					1,209,440	441,143	1,102,640	1,102,640	334,343	-
<b>Total U.S. Department of Education</b>										

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Year Ended June 30, 2022

	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2022	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2022	Provided to Subrecipients
<b>U.S. Department of Agriculture</b>										
Passed through the Pennsylvania Department of Education										
	10.555	N/A	20-21	N/A	36,291	36,291	-	-	-	-
National School Lunch Program	10.555	N/A	21-22	N/A	814,752	-	933,080	933,080	118,328	-
National School Lunch Program										
National School Lunch Program - Breakfast	10.553	N/A	20-21	N/A	13,166	13,166	-	-	-	-
National School Lunch Program - Breakfast	10.553	N/A	21-22	N/A	201,913	-	230,440	230,440	28,527	-
COVID-19 - National School Lunch Program - SNP Emergency Operating Costs	10.555	N/A	21-22	N/A	6,287	-	6,287	6,287	-	-
COVID-19 - National School Lunch Program - Supply Chain Assistance	10.555	N/A	21-22	N/A	44,932	-	-	-	(44,932)	-
COVID-19- Pandemic EBT Administrative Funds	10.649	N/A	21-22	N/A	614	-	614	614	-	-
					1,117,955	49,457	1,170,421	1,170,421	101,923	-
Total passed through the Pennsylvania Department of Education										
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program - Food Donations*	10.555	23-6004229	21-22	N/A	66,054	-	66,054	66,054	-	-
					1,184,009	49,457	1,236,475	1,236,475	101,923	-
<b>Total U.S. Department of Agriculture</b>										
<b>Total Expenditures of Federal Awards</b>										
Child Nutrition Cluster (Assistance Listing Numbers - 10.553, 10.555)					\$ 2,393,449	\$ 490,600	\$ 2,339,115	\$ 2,339,115	\$ 436,267	\$ -
Special Education Cluster (Assistance Listing Numbers - 84.027 and 84.173)					\$ 1,183,395	\$ 49,457	\$ 1,235,861	\$ 1,235,861	\$ 101,923	\$ -
Education Stabilization Fund (Assistance Listing Numbers - 84.425)					\$ 372,950	\$ 127,462	\$ 427,885	\$ 427,885	\$ 182,397	\$ -
					\$ 726,856	\$ 295,004	\$ 425,112	\$ 425,112	\$ (6,740)	\$ -

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 includes the Federal award activity of the District's under programs of the Federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the 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 the Uniform Guidance, 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. The District has not elected to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2022**

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There were no prior year audit findings.



Administration Office  
4 Academy Street, Suite 100  
Boiling Springs, PA 17007

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Facsimile: 717-258-4667  
www.smsd.us

**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2022**

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

---

A. Significant Deficiency in Internal Control

**Finding 2022-001**

**Criteria:** Federal uniform guidance under CFR 200.320 and Pennsylvania State School Code bid requirements have various thresholds for procurement procedures to be followed by all non-federal entities. The acquisition of goods and services must abide by the rules set by Federal and State guidance to ensure that they are purchased properly and responsibly.

**Condition and context:** During the allowable cost testing of ESSER it was identified that a service consultant was utilized by the District. The service cost exceeded the “Small Purchase Procedures” threshold of Uniform Guidance, which calls for at least 3 price or rate quotes from a reasonable number of qualified sources. The procurement policy established by the board is consistent with the various requirements, however, the District identified that this policy and procedure was not followed.

**Cause and effect:** Although the internal controls over procurement exist and were circumvented in this situation, additional procurement tests were performed and determined the lapse was an isolated incident. The service cost in question was also allowable cost under the grant requirements.

**Recommendations:** The District’s staff should adhere to the well-defined policy and procedures established by the District under Uniform Guidance and State regulations. Additional training for employees who are authorized to make purchases is recommended to ensure everyone who can authorize transactions follows all steps of the internal control process over disbursements.





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**Views of responsible officials and planned corrective actions:** The District recognizes the finding as a significant deficiency. A team of administrators has been established to review federal grants on a quarterly basis and approve all expenditures. This team consists of the Superintendent, Assistant to the Superintendent, Director of Business and Operations and Assistant Business Manager. This team will review the Uniform Grant Guidance Purchasing Procedure annually. The continuous review by this team will eliminate the possibility of circumventing the internal controls and procedures in place at the district. Additionally, the District will seek guidance from the Pennsylvania Department of Education, auditors, and solicitor when questions regarding procurement arise.

Person Responsible: Kevin J. O’Donnell, Jr., D.Ed., Assistant to the Superintendent

Completion Date: June 30, 2023

Sincerely,

Tina L. Darchicourt

Director of Business and Operations