

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2015**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **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. 68, *Accounting and Financial Reporting for Pensions* as of July 1, 2014. The District expanded its note disclosures and required supplementary information related to its pension plans. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted Management’s Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

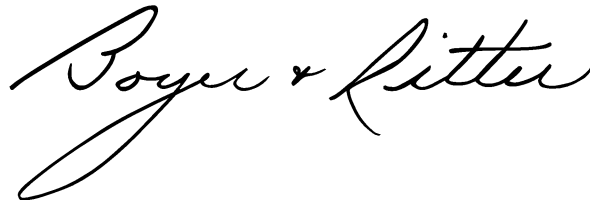
### *Other Information*

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

The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016, on our consideration of South Middleton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Middleton School District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania  
February 26, 2016

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,651,261	\$ 41,901	\$ 4,693,162
Investments	16,040,643	-	16,040,643
Receivables	2,775,816	47,111	2,822,927
Inventories	18,924	12,095	31,019
Capital assets			
Construction-in-progress	6,022,697	-	6,022,697
Other capital assets, net of depreciation	25,566,859	16,315	25,583,174
Total capital assets	31,589,556	16,315	31,605,871
<b>Total assets</b>	<b>\$ 55,076,200</b>	<b>\$ 117,422</b>	<b>\$ 55,193,622</b>
<b>Deferred Outflows of Resources</b>			
Deferred amounts on pension liability	\$ 3,031,000	\$ -	\$ 3,031,000
Deferred amounts on refunding debt	88,796	-	88,796
	<b>\$ 3,119,796</b>	<b>\$ -</b>	<b>\$ 3,119,796</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 5,591,134	\$ 80,984	\$ 5,672,118
Internal balances	(660)	1,416	756
Unearned revenues	16,222	26,843	43,065
Long-term liabilities			
Due within one year	1,280,000	-	1,280,000
Due in more than 1 year	77,467,468	-	77,467,468
Total long-term liabilities	78,747,468	-	78,747,468
<b>Total liabilities</b>	<b>\$ 84,354,164</b>	<b>\$ 109,243</b>	<b>\$ 84,463,407</b>
<b>Deferred Inflows of Resources</b>			
Deferred amounts on pension liability	\$ 3,475,000	\$ -	\$ 3,475,000
<b>Net Position</b>			
Net investment in capital assets	\$ 11,274,289	\$ 16,315	\$ 11,290,604
Unrestricted	(40,907,457)	(8,136)	(40,915,593)
<b>Total net position</b>	<b>\$ (29,633,168)</b>	<b>\$ 8,179</b>	<b>\$ (29,624,989)</b>

See Notes Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 20,400,065	\$ 501,094	\$ 3,612,012	\$ -	\$ (16,286,959)	\$ -	\$ (16,286,959)
Instructional student support	2,597,860	-	226,484	-	(2,371,376)	-	(2,371,376)
Administration and financial support	3,906,254	-	309,836	-	(3,596,418)	-	(3,596,418)
Operation and maintenance of plant services	2,779,378	3,308	142,087	-	(2,633,983)	-	(2,633,983)
Pupil transportation	1,382,021	-	583,142	-	(798,879)	-	(798,879)
Student activities	757,091	65,465	67,221	-	(624,405)	-	(624,405)
Community services	2,660	-	-	-	(2,660)	-	(2,660)
Interest on long-term debt	923,258	-	118,521	-	(804,737)	-	(804,737)
<b>Total governmental activities</b>	<b>32,748,587</b>	<b>569,867</b>	<b>5,059,303</b>	<b>-</b>	<b>(27,119,417)</b>	<b>-</b>	<b>(27,119,417)</b>
<b>Business-type activities:</b>							
Food service	803,171	476,509	216,918	-	-	(109,744)	(109,744)
<b>Total School District</b>	<b>\$ 33,551,758</b>	<b>\$ 1,046,376</b>	<b>\$ 5,276,221</b>	<b>\$ -</b>	<b>\$ (27,119,417)</b>	<b>\$ (109,744)</b>	<b>\$ (27,229,161)</b>
<b>General Revenues:</b>							
Property taxes levied for general purposes, net					\$ 16,577,617	\$ -	\$ 16,577,617
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net					4,801,166	-	4,801,166
Grants, subsidies and contributions not restricted					4,098,326	-	4,098,326
Investment earnings					46,754	176	46,930
Miscellaneous income					34,014	-	34,014
<b>Total general revenues and transfers</b>					<b>25,557,877</b>	<b>176</b>	<b>25,558,053</b>
<b>Changes in net position</b>					<b>(1,561,540)</b>	<b>(109,568)</b>	<b>(1,671,108)</b>
<b>Net Position - July 1, 2014 (as previously reported)</b>					<b>14,717,372</b>	<b>117,747</b>	<b>14,835,119</b>
Prior period adjustment (see Note 9)					(42,789,000)	-	(42,789,000)
<b>Net Position - July 1, 2014 (restated)</b>					<b>(28,071,628)</b>	<b>117,747</b>	<b>(27,953,881)</b>
<b>Net Position - June 30, 2015</b>					<b>\$ (29,633,168)</b>	<b>\$ 8,179</b>	<b>\$ (29,624,989)</b>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2015**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 4,282,797	\$ 368,464	\$ 4,651,261
Investments	725,908	15,314,735	16,040,643
Receivables			
Taxes - net	1,012,343	-	1,012,343
Federal subsidies	521,364	-	521,364
State subsidies	1,099,304	-	1,099,304
Other	15,492	-	15,492
Due from other governments	127,313	-	127,313
Due to other funds	1,782	-	1,782
Inventories	18,924	-	18,924
<b>Total assets</b>	<b>\$ 7,805,227</b>	<b>\$ 15,683,199</b>	<b>\$ 23,488,426</b>
<b>Liabilities</b>			
Accounts payable	\$ 139,388	\$ 1,747,953	\$ 1,887,341
Due to other funds	-	1,122	1,122
Due to other governments	327,433	-	327,433
Accrued salaries and benefits	2,784,863	-	2,784,863
Accrued payroll withholdings	254,123	-	254,123
Unearned revenues	1,771	14,451	16,222
<b>Total liabilities</b>	<b>3,507,578</b>	<b>1,763,526</b>	<b>5,271,104</b>
<b>Deferred Inflows of Resources</b>			
Delinquent property taxes	322,802	-	322,802
<b>Fund Balances</b>			
Non-spendable fund balance for:			
Inventories	18,924	-	18,924
Restricted for:			
Capital projects	-	13,919,673	13,919,673
Committed fund balance for:			
Future retirement, insurance increases, future capital projects, and for instructional resources	3,436,085	-	3,436,085
Unassigned	519,838	-	519,838
<b>Total fund balances</b>	<b>3,974,847</b>	<b>13,919,673</b>	<b>17,894,520</b>
<b>Total liabilities, deferred inflows and     fund balances</b>	<b>\$ 7,805,227</b>	<b>\$ 15,683,199</b>	<b>\$ 23,488,426</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, 2015**

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 17,894,520</b>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$58,767,402, and the accumulated depreciation is \$27,177,846.	31,589,556
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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.	322,802
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The difference between the reacquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds.	88,796
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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 inflows	(3,475,000)
Deferred outflows	3,031,000

Long-term liabilities, including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable	(34,290,000)	
Accrued interest	(337,374)	
Bond-issuance premium	(33,736)	
Net pension liability	(43,064,000)	
Compensated absences	(886,029)	
Other post-employment benefit obligations	(473,703)	(79,084,842)

<b>Total net position - governmental activities</b>	<b>\$ (29,633,168)</b>
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See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2015**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 22,066,054	\$ 19,936	\$ 22,085,990
State sources	8,959,452	-	8,959,452
Federal sources	198,177	-	198,177
<b>Total revenues</b>	<b>31,223,683</b>	<b>19,936</b>	<b>31,243,619</b>
<b>Expenditures</b>			
Instructional	18,576,396	-	18,576,396
Support services	9,859,884	181,583	10,041,467
Noninstructional services	696,311	-	696,311
Capital outlay	-	5,410,011	5,410,011
Debt service			
Principal	1,210,000	-	1,210,000
Interest	733,788	-	733,788
<b>Total expenditures</b>	<b>31,076,379</b>	<b>5,591,594</b>	<b>36,667,973</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>147,304</b>	<b>(5,571,658)</b>	<b>(5,424,354)</b>
<b>Other Financing Sources (Uses)</b>			
Interfund transfers out	(544,140)	544,140	-
Proceeds from general long-term debt	-	9,995,000	9,995,000
Bond discount	-	(14,444)	(14,444)
<b>Total other financing sources (uses)</b>	<b>(544,140)</b>	<b>10,524,696</b>	<b>9,980,556</b>
<b>Net changes in fund balances</b>	<b>(396,836)</b>	<b>4,953,038</b>	<b>4,556,202</b>
Fund Balances - July 1, 2014	4,371,683	8,966,635	13,338,318
Fund Balances - June 30, 2015	<b>\$ 3,974,847</b>	<b>\$ 13,919,673</b>	<b>\$ 17,894,520</b>

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, 2015**

<b>Net change in fund balances - total governmental funds</b>	\$	4,556,202
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.</p>		
Capital outlays	5,458,079	
Less depreciation expense	<u>(1,584,224)</u>	3,873,855
<p>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 increased by this amount this year.</p>		
		(56,572)
<p>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.</p>		
		(175,615)
<p>Governmental funds report District pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions		2,971,000
Cost of benefits earned net of employee contributions (pension expense)		(3,690,000)
<p>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.</p>		
		(255,999)
<p>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.</p>		
Issuance of long-term debt	(9,980,556)	
Repayment of long-term debt	1,210,000	
Amortization of premium on bonds	<u>(13,855.00)</u>	(8,784,411)
<b>Change in net position - governmental activities</b>	<b>\$</b>	<b><u><u>(1,561,540)</u></u></b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 22,247,242	\$ 22,247,242	\$ 22,066,054	\$ (181,188)
State sources	9,541,728	9,541,728	8,959,452	(582,276)
Federal sources	165,804	165,804	198,177	32,373
<b>Total revenues</b>	<b>31,954,774</b>	<b>31,954,774</b>	<b>31,223,683</b>	<b>(731,091)</b>
<b>Expenditures</b>				
Instructional	18,795,197	18,795,197	18,576,396	218,801
Support services	9,837,100	9,837,100	9,859,884	(22,784)
Noninstructional services	714,600	714,600	696,311	18,289
Debt service				
Principal	-	-	1,210,000	(1,210,000)
Interest	-	-	733,788	(733,788)
<b>Total expenditures</b>	<b>29,346,897</b>	<b>29,346,897</b>	<b>31,076,379</b>	<b>(1,729,482)</b>
<b>Excess of revenues over expenditures</b>	<b>2,607,877</b>	<b>2,607,877</b>	<b>147,304</b>	<b>(2,460,573)</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers out	(2,507,974)	(2,507,974)	(544,140)	1,963,834
Budgetary reserve	(500,000)	(500,000)	-	500,000
<b>Total other financing uses</b>	<b>(3,007,974)</b>	<b>(3,007,974)</b>	<b>(544,140)</b>	<b>2,463,834</b>
<b>Net changes in fund balances</b>	<b>\$ (400,097)</b>	<b>\$ (400,097)</b>	<b>(396,836)</b>	<b>\$ 3,261</b>
Fund Balances - July 1, 2014			<u>4,371,683</u>	
Fund Balances - June 30, 2015			<u>\$ 3,974,847</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2015**

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<b>Assets</b>	
Cash and cash equivalents	\$ 41,901
Receivables	
Federal subsidies	4,509
State subsidies	377
Other	42,225
Inventories	12,095
Other capital assets, net of depreciation	16,315
<b>Total assets</b>	<u>\$ 117,422</u>
<b>Liabilities</b>	
Accounts payable	\$ 80,984
Internal balances	1,416
Unearned revenues	26,843
<b>Total liabilities</b>	<u>\$ 109,243</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 16,315
Unrestricted	(8,136)
<b>Total net position</b>	<u>\$ 8,179</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**Year Ended June 30, 2015**

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Operating Revenues	
Food service revenues	\$ 476,509
Operating Expenses	
Food and milk	216,116
Labor, taxes and benefits	14,809
Other purchased services	558,572
Travel and other	4,946
Depreciation	8,728
<b>Total operating expenses</b>	<u>803,171</u>
<b>Operating loss</b>	(326,662)
Nonoperating Revenues	
Investment earnings	176
State sources	15,763
Federal sources	201,155
<b>Total nonoperating revenues</b>	<u>217,094</u>
<b>Changes in net position</b>	(109,568)
Net Position - July 1, 2014	117,747
Net Position - June 30, 2015	<u>\$ 8,179</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2015**

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Cash Flows From Operating Activities	
Cash received from users	\$ 481,823
Cash payments for goods and services	(680,141)
Cash payments to employees for services	(14,809)
<b>Net cash used in operating activities</b>	<u>(213,127)</u>
Cash Flows From Noncapital Financing Activities	
State sources	15,898
Federal sources	181,406
<b>Net cash provided by noncapital financing activities</b>	<u>197,304</u>
Cash Flows From Investing Activities	
<b>Investment earnings</b>	<u>176</u>
<b>Net decrease in cash and cash equivalents</b>	(15,647)
Cash and Cash Equivalents:	
July 1, 2014	57,548
June 30, 2015	<u>\$ 41,901</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (326,662)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	8,728
Value of donated commodities used	21,524
Changes in assets and liabilities:	
(Increase) decrease in:	
Other accounts receivable	(42,225)
Inventories	11,032
Increase (decrease) in:	
Accounts payable	80,984
Internal balances	28,178
Unearned revenues	5,314
<b>Net cash used in operating activities</b>	<u>\$ (213,127)</u>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2015**

	Agency Fund <u>Student Activities</u>	Private-Purpose Trust Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 143,007	\$ 108,320	\$ 251,327
Accounts receivable	520	-	520
Due from other funds	821	-	821
<b>Total assets</b>	<u>\$ 144,348</u>	<u>\$ 108,320</u>	<u>\$ 252,668</u>
<b>Liabilities</b>			
Due to student groups	\$ 144,348	\$ -	\$ 144,348
Due to other funds	-	65	65
<b>Total liabilities</b>	<u>\$ 144,348</u>	<u>\$ 65</u>	<u>\$ 144,413</u>
<b>Net Position</b>			
Held in trust for private purposes	\$ -	\$ 108,255	\$ 108,255
<b>Total net position</b>	<u>\$ -</u>	<u>\$ 108,255</u>	<u>\$ 108,255</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, 2015**

Additions	
Contributions	\$ 5,819
Investment earnings	126
<b>Total additions</b>	<u>5,945</u>
Deductions	
Scholarships and awards	<u>9,618</u>
<b>Changes in net position</b>	(3,673)
Net Position - July 1, 2014	<u>111,928</u>
Net Position - June 30, 2015	<u><u>\$ 108,255</u></u>

See Notes to Financial Statements.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

#### A. Reporting Entity

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

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

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

Governmental fund financial statements are reported using the current, financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current, fiscal period. Revenues from Federal, state and other grants designated for payment of specific expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures are generally recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payments are due.

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

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

The District reports the following major governmental funds:

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

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

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

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### D. Budget and Budgetary Accounting

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

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

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

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

Legal budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved, budget amendments.

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

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

Investments: Investments are stated at fair value.

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2015. The inventory consisted of government-donated commodities which were valued at their estimated, fair-market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method.

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

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

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

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to their pension plan and the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2014 as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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

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



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported 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.

Deferred Inflows of Resources - Pensions: The District recognizes their share of the difference between projected earnings and actual investments of their pension plan and the changes in proportions in the pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

##### Net Position 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.”

##### Fund Balance:

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

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

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

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

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

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

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

Implementation of New Accounting Principle: In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for the District's 2015 financial statements.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through February 26, 2016, 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 its Instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
  1. The Federal Deposit Insurance Corporation (FDIC), or
  2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
  3. The National Credit Union Share Insurance Fund (NCUSIF)

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

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

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

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits as of June 30, 2015, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 89,796	\$ 89,796	F&M Trust
Insured (FDIC)	250,000	250,000	M&T Bank
Insured (FDIC)	2,726,000	2,726,000	Multiple Bank Certificates of Deposit
Uninsured and collateralized by assets maintained in conformity with ACT 72	4,569,259	4,714,830	
	<u>\$ 7,635,055</u>	<u>\$ 7,780,626</u>	

Financial Institutions - Various Banks CD's - The District invests in Certificates of Deposit at a number of banks through a PLGIT program. These investments are individually covered by FDIC as they are under the FDIC insurance threshold of \$250,000. The certificates are invested at the various banks and are held in the name of the District.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

#### Investments

As of June 30, 2015, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Carrying Value</u>
Pennsylvania Local Government Investment Trust (PLGIT)	50 days weighted avg	\$ 13,103,879
Pennsylvania School District Liquid Asset Fund (PSDLAF)	41 days weighted avg	41,242
Pennsylvania Treasurer's INVEST Program	60 days weighted avg	204,917
		<u>\$ 13,350,038</u>

#### Portfolio Assets

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

PSDLAF - This fund invests in U.S. Treasury and Federal securities, including those of Federal agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted-average, portfolio maturity for the fund is expected to be kept at or below 60 days.

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

#### Weighted-Average Maturity

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Interest-Rate Risk

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

#### Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2015, the District's investments in PLGIT, PSDLAF, and PA INVEST, were rated AA/Stable by Standard & Poor's.

#### Concentration of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in PLGIT represent 98% 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, 2015, is as follows:

	Amount
Uncollected taxes	\$ 1,016,949
Estimated uncollectible taxes	<u>4,606</u>
Taxes Receivable - Net	<u>\$ 1,012,343</u>
Taxes to be collected within 60 days	\$ 689,541
Deferred inflows of resources - delinquent property taxes	<u>322,802</u>
Taxes Receivable - Net	<u>\$ 1,012,343</u>
Deferred Inflows of Resources	
Delinquent taxes	\$ 322,802
Total deferred inflows of resources	<u>\$ 322,802</u>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Property Taxes**

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2014-2015 is as follows:

July 1, 2014	tax levy date
Through August 31, 2014	2% discount
Through October 31, 2014	face payment period
November 1, 2014	10% penalty period
4th Monday, 2014	lien filing date
January 1, 2015	interim tax-levy date

The School District tax rate for all purposes in 2014-2015 was 9.15 mills (\$9.15 per \$1,000 assessed valuation). Refunds on payments of prior-year taxes are classified as “Other Debt Service” items under the Commonwealth of Pennsylvania accounting system.

**Note 5. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2015, are as follows:

	Due from other funds	Due to other funds
<hr/>		
Governmental Activities		
General Fund	\$ 1,782	\$ -
Capital Projects Fund	237	1,359
Business-Type Activities		
Food Service	-	1,416
Fiduciary-Type Activities		
Student Activities	821	-
Private-Purpose Trust	-	65
	<hr/>	<hr/>
	\$ 2,840	\$ 2,840
	<hr/>	<hr/>

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Interfund Accounts (Continued)

Operating transfers between funds at June 30, 2015, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ 544,140	\$ -
Capital Projects Fund	-	544,140
	<u>\$ 544,140</u>	<u>\$ 544,140</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**

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**Note 6. General Fixed Assets**

Capital asset activity for the year ended June 30, 2015, was as follows:

	July 1, 2014	Increases	Decreases	June 30, 2015
<b>Governmental Activities</b>				
Construction-in-progress	\$ 954,206	\$ 5,068,491	\$ -	\$ 6,022,697
Land and site improvements	4,565,070	-	-	4,565,070
Buildings and building improvements	41,827,168	-	-	41,827,168
Furniture and equipment	5,962,879	389,588	-	6,352,467
<b>Total Governmental Activities</b>				
Capital Assets	53,309,323	5,458,079	-	58,767,402
<b>Less accumulated depreciation</b>				
Land and site improvements	2,377,425	181,919	-	2,559,344
Buildings and building improvements	18,159,594	1,069,107	-	19,228,701
Furniture and equipment	5,056,603	333,198	-	5,389,801
<b>Total Accumulated Depreciation</b>	25,593,622	1,584,224	-	27,177,846
<b>Governmental Activities, Capital Assets - Net</b>	<b>\$ 27,715,701</b>	<b>\$ 3,873,855</b>	<b>\$ -</b>	<b>\$ 31,589,556</b>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 542,555	\$ -	\$ -	\$ 542,555
<b>Total Business-Type Activities</b>				
Capital Assets	542,555	-	-	542,555
<b>Less accumulated depreciation</b>				
Furniture and equipment	517,512	8,728	-	526,240
<b>Business-Type Activities, Capital Assets - Net</b>	<b>\$ 25,043</b>	<b>\$ (8,728)</b>	<b>\$ -</b>	<b>\$ 16,315</b>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

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

	Amount
Governmental Activities	
Instruction	\$ 1,097,006
Instructional student support	146,299
Administration and financial support	200,141
Operation and maintenance of plant services	91,782
Student activities	43,422
Transportation	5,574
Total Governmental Activities	<u>1,584,224</u>
Business-Type Activities	
Food Service	8,728
Total School District	<u>\$ 1,592,952</u>

**Note 7. Long-Term Obligations**

Long-term obligations changed as follows:

	July 1, 2014	Increases	Decreases	June 30, 2015	Due within one year
General Obligation Bonds Payable					
General Obligation Bonds - Series of 2011	\$ 15,510,000	\$ -	\$ (1,205,000)	\$ 14,305,000	\$ 1,270,000
General Obligation Bonds - Series of 2014	9,995,000	-	(5,000)	9,990,000	5,000
General Obligation Bonds - Series of 2015	-	9,995,000	-	9,995,000	5,000
	<u>25,505,000</u>	<u>9,995,000</u>	<u>(1,210,000)</u>	<u>34,290,000</u>	<u>1,280,000</u>
Bond-issuance premium - net	62,035	-	(28,299)	33,736	-
Total Bonds Payable	<u>25,567,035</u>	<u>9,995,000</u>	<u>(1,238,299)</u>	<u>34,323,736</u>	<u>1,280,000</u>
Compensated absences	718,508	-	167,521	886,029	-
Other post-employment benefits	385,225	88,478	-	473,703	-
Net Pension Liability	<u>45,030,000</u>	<u>-</u>	<u>(1,966,000)</u>	<u>43,064,000</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 71,700,768</u>	<u>\$ 10,083,478</u>	<u>\$ (3,036,778)</u>	<u>\$ 78,747,468</u>	<u>\$ 1,280,000</u>

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### General Obligation Bonds - Series of 2011

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

#### General Obligation Bonds - Series of 2014

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

#### General Obligation Bonds - Series of 2015

During fiscal year 2014-15, the Board of Directors 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) financing 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.

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

Years	General Obligation Debt		
	Principal	Interest	Total
2015-2016	\$ 1,280,000	\$ 956,059	\$ 2,236,059
2016-2017	1,785,000	916,910	2,701,910
2017-2018	2,235,000	869,373	3,104,373
2018-2019	2,295,000	809,371	3,174,371
2019-2020	2,365,000	740,384	3,185,384
2020-2025	8,425,000	5,922,268	13,302,268
2025-2030	7,380,000	2,019,396	9,599,396
2030-2034	8,525,000	968,750	7,893,750
	<u>\$ 34,290,000</u>	<u>\$ 13,202,511</u>	<u>\$ 45,197,511</u>

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

##### Compensated Absences

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

#### **Note 8. Affiliates**

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

Total payments of \$295,323 were made by the School District to the Vo-Tech School as the former's share of operating expenses for the year ended June 30, 2015.

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

##### Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly 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.state.pa.us](http://www.psers.state.pa.us).

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% 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 on 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

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

##### Contribution Rates

###### Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2015, the District's rate of contribution was 21.40% of covered payroll. The 21.40% rate is composed of a pension contribution rate of 20.50% for pension benefits and 0.90% for healthcare-insurance premium assistance.

The School District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ration (as defined in Act 29 of 1994), which is at least one-half of the total School District's rate. The School District's contributions to the Plan for the years ended June 30, 2015, 2014 and 2013, were \$3,008,433, \$2,286,208, and \$1,694,243, respectively, and are equal to the required contributions for said years. For the year ended June 30, 2015 the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$1,586,357.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

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

At June 30, 2015, the District reported a liability of \$43,064,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. The District's proportion of the new pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .1088 percent, which was a decrease of .001% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$3,676,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in the governmental funds and proprietary fund:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	3,079,000
Changes in proportions	-	396,000
Difference between employer contributions and proportionate share of total contributions	60,000	-
Contributions subsequent to the measurement date	2,971,000	-
	<u>\$ 3,031,000</u>	<u>\$ 3,475,000</u>

\$2,971,000 is reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ending June 30:	Total
2016	\$ (851,000)
2017	(851,000)
2018	(851,000)
2019	(851,000)
2020	(11,000)
	<u>\$ (3,415,000)</u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Actuarial Assumptions

The total pension liability as of June 30, 2014, was determined by rolling forward the System's total pension liability as of the June 30, 2013, actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurements:

- Actuarial Cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00% real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2013, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011, Board meeting, and were effective beginning with the June 30, 2011, actuarial valuation.



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	90.0%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	-9%	1.1%
	<u>100.0%</u>	

The above table 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, 2014.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Sensitivity of the District's proportionate share of the new pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that 1-percentage point lower (6.50%) or 1-percentage point higher(8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 53,716,000	\$ 43,064,000	\$ 33,970,000

##### 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.state.pa.us](http://www.psers.state.pa.us).

##### Plan Payables

At June 30, 2015, the District has payables to the PSERS pension plan of \$844,464. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2015.

##### Prior Period Adjustment - GASB No. 68 Implementation

Implementation of GASB No. 68 requires the District to recognize the obligation and deferred inflows and outflows resulting from the proportionate share of the PSERS net pension liability as of June 30, 2013. This resulted in a decrease in net position of \$42,789,000 as of July 1, 2014.

#### Note 10. Other Post-Employment Benefits

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

##### Plan Description

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Funding Policy

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

##### Funding Progress

For the year ended June 30, 2015, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of July 1, 2014. In accordance with GASB Statement No. 45, the valuation computes an annual, required contribution, which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded, actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 210,901
Interest on Net OPEB Obligation	17,335
Less adjustment to the annual required contribution	(23,650)
Annual OPEB cost	<u>204,586</u>
Amounts contributed:	
Payments of current premiums and claims	(116,108)
Increase in net OPEB obligation	<u>88,478</u>
OPEB obligation - beginning of year	<u>385,225</u>
OPEB obligation - end of year	<u><u>\$ 473,703</u></u>

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

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2013	\$ 165,073	59.90%	\$ 291,930
June 30, 2014	\$ 163,988	43.11%	\$ 385,225
June 30, 2015	\$ 204,586	56.75%	\$ 473,703

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

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

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

#### **Note 11. Risk Management**

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

#### **Note 12. Significant Commitments**

The District has approved approximately \$25.5 million in construction projects as of June 30, 2015. The District has expended approximately \$6 million through the 2014-2015 school year. The approximate \$19.5 million remains an outstanding commitment of the District.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
 POST-EMPLOYMENT BENEFITS PLAN  
 Year Ended June 30, 2015**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
7/1/2010	\$ -	\$ 1,109,317	\$ 1,109,317	0.00%	\$ 12,803,523	8.66%
7/1/2012	\$ -	\$ 1,391,535	\$ 1,391,535	0.00%	\$ 12,836,439	10.84%
7/1/2014	\$ -	\$ 1,676,096	\$ 1,676,096	0.00%	\$ 13,045,103	12.85%

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Year Ended June 30, 2015**

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District's proportion of the net pension liability	<u>\$ 43,064,000</u>
District's proportionate share of the net pension liability	0.1088%
District's covered-employee payroll	<u>\$ 13,885,613</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	310.13%
Plan fiduciary net position as a percentage of the total pension liability	57.24%

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF THE DISTRICTS CONTRIBUTIONS  
Year Ended June 30, 2015**

Contractually required contribution	\$ 2,869,996
Contributions in relation to the contractually required contribution	<u>(2,869,996)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,347,111</u>
Contributions as a percentage of covered-employee payroll	20.67%



**SUPPLEMENTARY INFORMATION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Middleton School District, as of and for the year ended June 30, 2015, 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 February 26, 2016.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2015-001, 2015-002, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Camp Hill, Pennsylvania  
February 26, 2016

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

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

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

We have audited South Middleton School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Middleton School District's major federal programs for the year ended June 30, 2015. South Middleton School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

In our opinion, South Middleton School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

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

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

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

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

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

Camp Hill, Pennsylvania  
February 26, 2016

**SOUTH MIDDLETON SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015**

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

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

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

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?  Yes

**SOUTH MIDDLETON SCHOOL DISTRICT  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2015**

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education – Grants To States – IDEA
84.173	Early Intervention

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

Auditee qualified as low-risk auditee?  X  Yes   No

**Section II -- Financial Statement Findings**

A. Material Weaknesses in Internal Control

**Finding 2015-001**

**Criteria:** Reconciliations of bank balances to the general ledger should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the books properly.

**Condition and context:** During our audit, we noted several months of bank statements, applicable to all funds, were not reconciled to the general ledger.

**Cause:** The District’s Business Office experienced gaps in personnel during the year which impaired their ability to process, record, and reconcile transactions on a timely basis. Also, a lack of supervision over the reconciliation process contributed to the deficiency.

**Effect:** The District’s staff and Board of Directors cannot reasonably rely on financial records without the performance of bank reconciliations.

**Recommendations:** We recommend the bank accounts be reconciled monthly to the general ledger and that any differences be promptly investigated and adjusted with adequate explanations. Ideally, all bank accounts should be reconciled no later than the 20th day of the following month or within a week of receipt of the bank statements. Additionally, we recommend the bank reconciliations be included in the monthly finance report to the Board.

**Views of responsible officials and planned corrective actions:** The District acknowledges the finding. The District has reconciled all bank accounts to the current reporting periods. The District has identified a consistent approach to reconciliations and will continue to perform monthly bank reconciliations on a timely basis.

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Section II - Financial Statement Findings (Continued)**

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A. Material Weaknesses in Internal Control (Continued)

**Finding 2015-002**

**Criteria:** The financial records submitted for audit, and the related audit support should not require material adjustments in order to support financial statements prepared in accordance with GAAP.

**Condition and context:** The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has assumed responsibility for evaluating the adequacy and results of the financial statements. However, the District's staff was not able to prepare the financial records and related support to a level which did not require material adjustments.

**Cause:** The District's Business Office experienced gaps in personnel during the year which impaired their capability to process, record, and reconcile all transactions on a timely basis. This impacted their ability to prepare the final financial records for audit.

**Effect:** The financial records required material adjustment in order for them to support financial statements prepared in accordance with GAAP.

**Recommendations:** The District's staff should adhere to strict monthly and annual closing schedules with defined roles and responsibilities. The balance sheet and income statement accounts should be monitored on a monthly basis.

**Views of responsible officials and planned corrective actions:** The District recognizes the finding as a material weakness. Through the audit process, the District has consulted with its auditors to establish a process whereby adequate documentation and closing schedules will be followed. Currently the Business Office is in the beginning stages of developing and implementing month-end and year-end closing procedures.

B. Compliance Findings

There were no 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, 2015**

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

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A. Significant Deficiency (ies) in Internal Control

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

B. Compliance Findings

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2015**

	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period
<b>U.S. Department of Education</b>				
Passed through the Pennsylvania Department of Education:				
Title II - Improving Teacher Quality	I	84.367	020-140397	13-14
Title II - Improving Teacher Quality	I	84.367	020-150397	14-15
Title I - Improving Basic Programs	I	84.010	013-140397	13-14
Title I - Improving Basic Programs	I	84.010	013-150397	14-15
Passed through the Capital Area Intermediate Unit:				
Special Education Cluster				
Special Education - Grants to States	I	84.027	N/A	13-14
Special Education - Grants to States	I	84.027	N/A	14-15
Early Intervention		84.173	N/A	13-14
Early Intervention		84.173	N/A	14-15
Total Special Education Cluster				
<b>Total U.S. Department of Education</b>				
<b>U.S. Department of Agriculture</b>				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program*	I (F)	10.555	N/A	14-15
National School Lunch Program*	I (F)	10.553	N/A	14-15
Passed through the Pennsylvania Department of Agriculture:				
Food Donation (a)*	I (F)	10.555	N/A	14-15
<b>Total U.S. Department of Agriculture</b>				
<b>Total Expenditures of Federal Awards</b>				
*Programs in the Child Nutrition Cluster				
National School Lunch Program		\$ 176,476		
School Breakfast Program		3,154		
National School Lunch Program- Food Donation		21,524		
		<u>\$ 201,154</u>		

See Notes to Schedule of Expenditures of Federal Awards.

Restated Program or Annual Award	Total Received (Refunded) in Fiscal Year	Restated Accrued (Deferred) Revenue at 7/1/14	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/15
\$ 29,711	\$ -	\$ (42)	\$ -	\$ -	\$ (42)
\$ 30,113	9,270	-	30,113	30,113	20,843
\$ 123,255	30,503	30,503	-	-	-
\$ 168,064	51,678	-	168,064	168,064	116,386
\$ 357,803	357,803	357,803	-	-	-
\$ 381,187	-	-	381,187	381,187	381,187
\$ 1,860	1,860	1,860	-	-	-
\$ 2,989	-	-	2,989	2,989	2,989
	<u>359,663</u>	<u>359,663</u>	<u>384,176</u>	<u>384,176</u>	<u>384,176</u>
	<u>451,114</u>	<u>390,124</u>	<u>582,353</u>	<u>582,353</u>	<u>521,363</u>
N/A	178,216	6,210	176,476	176,476	4,470
N/A	3,189	74	3,154	3,154	39
N/A	21,524	-	21,524	21,524	-
	<u>202,929</u>	<u>6,284</u>	<u>201,154</u>	<u>201,154</u>	<u>4,509</u>
	<u>\$ 654,043</u>	<u>\$ 396,408</u>	<u>\$ 783,507</u>	<u>\$ 783,507</u>	<u>\$ 525,872</u>

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of South Middleton School District under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the South Middleton School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the South Middleton School District.

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

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2015**

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There were no prior year audit findings.