

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2017**

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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, 2017, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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, 2017, 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.

## **Other Matters**

### *Required Supplementary Information*

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

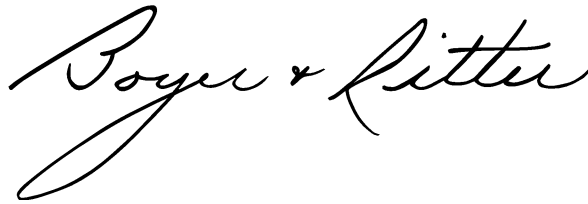
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Middleton School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the South Middleton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Middleton School District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania  
December 19, 2017

**SOUTH MIDDLETON SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

The Management of the South Middleton School District presents the following discussion and analysis of the District's financial activities for the fiscal year ended June 30, 2017. Comparative financial information for fiscal year ended June 30, 2016, is also presented in this report to show changes in the financial position of the District from the prior to current year. The purpose of this discussion is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements.

**Financial Highlights**

For fiscal year 2016-2017, the School Board adopted a General Fund Budget with a real estate tax millage rate of 9.5526 mills which represented a 2.34% increase from the 2015-2016 year. In 2017-2018 the District approved a 7.28% tax increase which represents a real estate tax millage rate of 10.2484.

On June 20, 2016, the District passed its 2016-2017 budget. The budget represented revenues that were less than expenditures. After utilizing a planned spend down of \$335,799 of the District's committed fund balance, revenues were then equal to expenditures.

**Overview of the Financial Statements**

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

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

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

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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



## FINANCIAL ANALYSIS OF THE DISTRICT

### Net Position and Statement of Activities

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

The results of this year's operations as a whole are reported in the Statement of Activities. Direct expenses are listed by program, and then offset by program revenues to determine net (expense) revenue and changes in net position. General revenues, such as taxes, state general subsidies, and investment earnings are then applied prior to transfers, and special items, to determine the change in net position. For the 2016-17 fiscal year, the change in net position for governmental activities was an increase of \$174,207 and an increase of \$16,048 for business-type activities, for a net total increase of \$190,255. For the 2015-2016 fiscal year, the change in net position for governmental activities was a decrease of \$2,128,539 and a decrease of \$44,685 for business-type activities for a net total decrease of \$2,173,224 as reflected in the chart below.

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 11,701,716	\$ 17,859,747	\$ 38,882	\$ 7,760	\$ 11,740,598	\$ 17,867,507
Capital assets	50,415,745	43,551,489	8,623	12,357	50,424,368	43,563,846
<b>Total assets</b>	<b>\$ 62,117,461</b>	<b>\$ 61,411,236</b>	<b>\$ 47,505</b>	<b>\$ 20,117</b>	<b>\$ 62,164,966</b>	<b>\$ 61,431,353</b>
<b>Deferred outflows of resources</b>	<b>\$ 9,801,123</b>	<b>\$ 4,522,323</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,801,123</b>	<b>\$ 4,522,323</b>
Current liabilities	\$ 5,461,925	\$ 4,795,432	\$ 67,963	\$ 56,623	\$ 5,529,888	\$ 4,852,055
Long-term liabilities	96,174,159	92,302,834	-	-	96,174,159	92,302,834
<b>Total liabilities</b>	<b>\$ 101,636,084</b>	<b>\$ 97,098,266</b>	<b>\$ 67,963</b>	<b>\$ 56,623</b>	<b>\$ 101,704,047</b>	<b>\$ 97,154,889</b>
<b>Deferred inflows of resources</b>	<b>\$ 1,870,000</b>	<b>\$ 597,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,870,000</b>	<b>\$ 597,000</b>
Net investment in capital assets	\$ 12,449,574	\$ 10,568,591	\$ 8,623	\$ 12,357	\$ 12,458,197	\$ 10,580,948
Restricted	37,540	24,281	-	-	37,540	24,281
Unrestricted	(44,074,614)	(42,354,579)	(29,081)	(48,863)	(44,103,695)	(42,403,442)
<b>Total net position</b>	<b>\$ (31,587,500)</b>	<b>\$ (31,761,707)</b>	<b>\$ (20,458)</b>	<b>\$ (36,506)</b>	<b>\$ (31,607,958)</b>	<b>\$ (31,798,213)</b>

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
<b>Program Revenues</b>						
Charges for services	\$ 758,773	\$ 695,933	\$ 476,581	\$ 499,204	\$ 1,235,354	\$ 1,195,137
Operating grants and contributions	6,041,904	5,345,217	298,909	250,396	6,340,813	5,595,613
Capital grants and contributions	2,000,000	-	-	-	2,000,000	-
<b>Total program revenues</b>	<b>8,800,677</b>	<b>6,041,150</b>	<b>775,490</b>	<b>749,600</b>	<b>9,576,167</b>	<b>6,790,750</b>
<b>General Revenues (Expenses)</b>						
Taxes	22,668,351	21,995,190	-	-	22,668,351	21,995,190
General subsidies	4,305,663	4,188,004	-	-	4,305,663	4,188,004
Investment earnings	69,548	59,593	83	108	69,631	59,701
Loss on disposition of capital assets	(239,878)	-	-	-	(239,878)	-
Other local revenue	41,244	14,748	-	-	41,244	14,748
<b>Total general revenues</b>	<b>26,844,928</b>	<b>26,257,535</b>	<b>83</b>	<b>108</b>	<b>26,845,011</b>	<b>26,257,643</b>
<b>Total revenues</b>	<b>35,645,605</b>	<b>32,298,685</b>	<b>775,573</b>	<b>749,708</b>	<b>36,421,178</b>	<b>33,048,393</b>
<b>Total Expenses</b>	<b>35,442,328</b>	<b>34,427,224</b>	<b>788,595</b>	<b>794,393</b>	<b>36,230,923</b>	<b>35,221,617</b>
<b>Excess (deficiency) before transfers</b>	<b>203,277</b>	<b>(2,128,539)</b>	<b>(13,022)</b>	<b>(44,685)</b>	<b>190,255</b>	<b>(2,173,224)</b>
Transfers	(29,070)	-	29,070	-	-	-
Changes in net position	174,207	(2,128,539)	16,048	(44,685)	190,255	(2,173,224)
Net position - beginning	(31,761,707)	(29,633,168)	(36,506)	8,179	(31,798,213)	(29,624,989)
Net position - ending	\$ (31,587,500)	\$ (31,761,707)	\$ (20,458)	\$ (36,506)	\$ (31,607,958)	\$ (31,798,213)

## Fund Balances

The General Fund balance increase of \$14,096 was due to better than expected collections in real estate taxes and earned income taxes. District expenditures were on par with budgeted projections. The original 2016-2017 budget called for utilization of \$335,799 from the District's committed fund balance. Due to the better than expected collection of revenue, the District was able to save this committed fund balance so that it may be used in future years.

The Cafeteria Fund continues to be managed by ARAMARK Corp., with the 2016-2017 school year being the fourth year the management group oversaw the food service program. ARAMARK provided the District with a break even budget for the 2016-2017 school year. ARAMARK was contractually obligated to refund their management fee to the District for not meeting the full scope of their submitted budget. The cafeteria fund ended the 2016-2017 fiscal year with a \$16,048 increase in net position.

The Capital Projects Fund closed the year with a restricted fund balance of \$3,150,531 which is a decrease of \$6,460,763. This decrease is a direct reflection of ongoing construction activities at the Iron Forge Elementary School as well as the beginning stages of construction for the W.G. Rice Elementary School. The District did receive the \$2,000,000 LEED Gold Certification Grant funding that directly correlated with the Iron Forge Elementary School Project.

	2017	2016	Change	% Change
General Fund, including Athletics	\$ 3,461,337	\$ 3,447,241	\$ 14,096	0.41%
Capital Projects Fund	3,150,531	9,611,294	(6,460,763)	-67.22%
<b>Total Governmental Fund Balances</b>	<b>\$ 6,611,868</b>	<b>\$ 13,058,535</b>	<b>\$ (6,446,667)</b>	<b>-49.37%</b>

**2016-17 General Fund Budget**

	Budget	Actual	Difference
Total Revenues	\$ 33,518,496	\$ 33,926,941	\$ 408,445
Total Expenditures	33,854,295	33,810,575	43,720
Change in Fund Balances excluding Interfund Transfers	(335,799)	116,366	452,165
Interfund Transfers	-	(102,270)	(102,270)
<b>Net Changes in Fund Balances</b>	<u>\$ (335,799)</u>	14,096	<u>\$ 349,895</u>
<b>General Fund Balance - June 30, 2016</b>		<u>3,447,241</u>	
<b>General Fund Balance - June 30, 2017</b>		<u>\$ 3,461,337</u>	

**Capital Assets**

On June 30, 2017, the District recorded \$50,424,368 in Total Capital Assets, which represents an increase of \$6,860,522 from the previous fiscal year. This increase is based on the completion and full occupancy the Iron Forge Elementary School and the continued completion of renovations at W.G. Rice Elementary School which increased capital assets during the year.

	2017	2016	Change
Governmental Activities			
Construction-in-progress	\$ 1,705,744	\$ 19,178,926	\$ (17,473,182)
Land and site improvements	1,647,720	1,830,822	(183,102)
Buildings and improvements	46,264,510	21,803,917	24,460,593
Furniture and equipment	797,771	737,824	59,947
<b>Total Governmental Capital Assets</b>	<u>50,415,745</u>	<u>43,551,489</u>	<u>6,864,256</u>
Business-Type Activities			
<b>Total Business Capital Assets</b>	<u>8,623</u>	<u>12,357</u>	<u>(3,734)</u>
<b>Total Capital Assets</b>	<u>\$ 50,424,368</u>	<u>\$ 43,563,846</u>	<u>\$ 6,860,522</u>

## Long-Term Liabilities

Bonds payable at June 30, 2017, were \$40,050,000 compared to \$41,330,000 at June 30, 2016. A total of \$1,280,000 of existing bonds was repaid during the 2016-2017 fiscal year.

<b>General Obligation Debt</b>	2017	2016
Series of 2014	\$ 9,980,000	\$ 9,985,000
Series of 2015	9,985,000	9,990,000
Series A of 2016	8,950,000	8,950,000
Series B of 2016	11,135,000	12,405,000
<b>Total Outstanding Debt</b>	<b>\$ 40,050,000</b>	<b>\$ 41,330,000</b>

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

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

Pennsylvania's Act 1 of 2006 places limitations on the ability of the District to raise taxes without voter approval. While this has not been a binding constraint to date, it may have long-term effects as the index is linked to a national salary index and a state salary index, both of which have had minimal increases in recent years. Prior to June 30, 2012, the District had ten (10) Pennsylvania Department of Education approved, limited exceptions to increasing its tax rate beyond the index. On June 30, 2011, the Governor of Pennsylvania signed into law legislation eliminating seven of the ten exceptions and further restricting the three remaining exceptions. The Act 1 Index will limit the District, without state approved exceptions, to raise taxes at a maximum of 2.4% for the 2018-2019 fiscal year. The District raised taxes for the 2017-2018 fiscal year by 7.28%. The Act 1 index for 2017-2018 fiscal year was 2.5%. For the first time under the Act 1 of 2006 legislation, the South Middleton School District Board of Directors elected to utilize the approved referendum exceptions and raise taxes beyond the index.

The District's agreement with the bargaining unit (South Middleton Education Association) for District teaching professionals expired on June 30, 2017. The expired agreement includes a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The outstanding agreement began July 1, 2012 through June 30, 2015, and was extended from July 1, 2014 through June 30, 2017. The District and SMEA leadership continue to work together and collectively bargain in good faith to achieve settlement of a new agreement.

The District has reached an agreement with the Act 93 team on a salary and benefit plan that extends through the 2019-2020 school year. The District also adopted a new compensation and benefit plan for support staff that extends through the 2019-2020 school year.

To date, the District approved and submitted to the Pennsylvania Department of Education (PDE) "PlanCon parts A-E" for renovations to the W.G. Rice Educational Center, the District's current grade K thru 2 school building. Subsequently, the project has been approved by PDE. These renovations propose revitalizing the buildings HVAC and Electrical Systems as well as addressing some building envelope and cosmetic needs of the building. The District extended its contract with Crabtree, Rohrbaugh and Associates architectural firm for the renovations and construction of W.G. Rice Elementary School. The District awarded bids for the project at the May 2017 Regular Board Meeting. Renovations are underway with an anticipated completion of December 2017.

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

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,234,512	\$ 31,382	\$ 5,265,894
Investments	3,890,855	-	3,890,855
Internal balances	34,396	(34,396)	-
Receivables	2,523,029	18,157	2,541,186
Inventories	18,924	23,739	42,663
Capital assets			
Construction-in-progress	1,705,744	-	1,705,744
Other capital assets, net of depreciation	48,710,001	8,623	48,718,624
Total capital assets	50,415,745	8,623	50,424,368
<b>Total assets</b>	\$ 62,117,461	\$ 47,505	\$ 62,164,966
<b>Deferred Outflows of Resources</b>			
Deferred amounts on pension liability	\$ 9,780,000	\$ -	\$ 9,780,000
Deferred amounts on refunding debt	21,123	-	21,123
<b>Total deferred outflows of resources</b>	\$ 9,801,123	\$ -	\$ 9,801,123
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 5,382,126	\$ 38,227	\$ 5,420,353
Unearned revenues	79,799	29,736	109,535
Long-term liabilities			
Due within one year	2,205,000	-	2,205,000
Due in more than one year	93,969,159	-	93,969,159
Total long-term liabilities	96,174,159	-	96,174,159
<b>Total liabilities</b>	\$ 101,636,084	\$ 67,963	\$ 101,704,047
<b>Deferred Inflows of Resources</b>			
Deferred amounts on pension liability	\$ 1,870,000	\$ -	\$ 1,870,000
<b>Net Position</b>			
Net investment in capital assets	\$ 12,449,574	\$ 8,623	\$ 12,458,197
Restricted	37,540	-	37,540
Unrestricted	(44,074,614)	(29,081)	(44,103,695)
<b>Total net position</b>	\$ (31,587,500)	\$ (20,458)	\$ (31,607,958)

See Notes Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2017**

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	\$ 21,787,838	\$ 690,023	\$ 4,248,883	\$ -	\$ (16,848,932)	\$ -	\$ (16,848,932)
Instructional student support	3,486,398	-	418,020	-	(3,068,378)	-	(3,068,378)
Administration and financial support	3,522,768	-	350,054	-	(3,172,714)	-	(3,172,714)
Operation and maintenance of plant services	2,767,477	7,495	184,870	2,000,000	(575,112)	-	(575,112)
Pupil transportation	1,665,434	-	720,664	-	(944,770)	-	(944,770)
Student activities	993,723	61,255	119,413	-	(813,055)	-	(813,055)
Community services	1,510	-	-	-	(1,510)	-	(1,510)
Interest on long-term debt	1,217,180	-	-	-	(1,217,180)	-	(1,217,180)
<b>Total governmental activities</b>	<b>35,442,328</b>	<b>758,773</b>	<b>6,041,904</b>	<b>2,000,000</b>	<b>(26,641,651)</b>	<b>-</b>	<b>(26,641,651)</b>
<b>Business-Type activities:</b>							
Food service	788,595	476,581	298,909	-	-	(13,105)	(13,105)
<b>Total School District</b>	<b>\$ 36,230,923</b>	<b>\$ 1,235,354</b>	<b>\$ 6,340,813</b>	<b>\$ 2,000,000</b>	<b>\$ (26,641,651)</b>	<b>\$ (13,105)</b>	<b>\$ (26,654,756)</b>
<b>General Revenues (Expenses) and Transfers:</b>							
Property taxes levied for general purposes, net					\$ 17,674,071	\$ -	\$ 17,674,071
Public utility, realty transfer, earned income and other taxes for general purposes, net					4,994,280	-	4,994,280
Grants, subsidies and contributions not restricted					4,305,663	-	4,305,663
Investment earnings					69,548	83	69,631
Loss on disposition of capital assets					(239,878)	-	(239,878)
Miscellaneous income					41,244	-	41,244
Transfers					(29,070)	29,070	-
<b>Total general revenues (expenses) and transfers</b>					<b>26,815,858</b>	<b>29,153</b>	<b>26,845,011</b>
<b>Changes in net position</b>					<b>174,207</b>	<b>16,048</b>	<b>190,255</b>
<b>Net Position - July 1, 2016</b>					<b>(31,761,707)</b>	<b>(36,506)</b>	<b>(31,798,213)</b>
<b>Net Position - June 30, 2017</b>					<b>\$ (31,587,500)</b>	<b>\$ (20,458)</b>	<b>\$ (31,607,958)</b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 5,197,209	\$ 37,303	\$ 5,234,512
Investments	10,878	3,879,977	3,890,855
Due from other funds	48,235	6,841	55,076
Due from other governments	1,500,548	-	1,500,548
Taxes receivable - net	1,013,506	-	1,013,506
Other receivables	8,975	-	8,975
Inventories	18,924	-	18,924
<b>Total assets</b>	<b>\$ 7,798,275</b>	<b>\$ 3,924,121</b>	<b>\$ 11,722,396</b>
<b>Liabilities</b>			
Accounts payable	\$ 460,678	\$ 760,558	\$ 1,221,236
Due to other funds	7,424	13,032	20,456
Due to other governments	203,698	-	203,698
Accrued salaries and benefits	2,924,152	-	2,924,152
Payroll deductions and withholdings	347,365	-	347,365
Unearned revenues	79,799	-	79,799
<b>Total liabilities</b>	<b>4,023,116</b>	<b>773,590</b>	<b>4,796,706</b>
<b>Deferred Inflows of Resources</b>			
Delinquent property taxes	313,822	-	313,822
<b>Fund Balances</b>			
Non-spendable fund balance for:			
Inventories	18,924	-	18,924
Restricted fund balance for:			
Capital projects	-	3,150,531	3,150,531
Committed fund balance for:			
Future retirement, insurance increases, future capital projects, and for instructional resources	3,428,317	-	3,428,317
Unassigned	14,096	-	14,096
<b>Total fund balances</b>	<b>3,461,337</b>	<b>3,150,531</b>	<b>6,611,868</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 7,798,275</b>	<b>\$ 3,924,121</b>	<b>\$ 11,722,396</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, 2017**

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<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 6,611,868</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 \$78,731,751, and the accumulated depreciation is \$28,316,006.	50,415,745
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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.	313,822
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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.	21,123
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Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail)	
Deferred outflows	9,780,000
Deferred inflows	(1,870,000)

Long-term liabilities, including bonds payable, net pension liability, 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, net of related discounts and premiums	(41,100,285)
Accrued interest	(685,899)
Net pension liability	(53,472,000)
Compensated absences	(932,634)
Other post-employment benefit obligations	(669,240)
	(96,860,058)

<b>Total net position - governmental activities</b>	<b>\$ <u><u>(31,587,500)</u></u></b>
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See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2017**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 23,579,374	\$ 29,933	\$ 23,609,307
State sources	10,098,530	2,000,000	12,098,530
Federal sources	249,037	-	249,037
<b>Total revenues</b>	<b>33,926,941</b>	<b>2,029,933</b>	<b>35,956,874</b>
<b>Expenditures</b>			
Instructional	19,749,729	-	19,749,729
Support services	10,758,646	3,194	10,761,840
Operation of noninstructional services	900,737	-	900,737
Capital outlay	-	8,560,702	8,560,702
Debt service			
Principal	1,280,000	-	1,280,000
Interest	1,104,751	-	1,104,751
Refund of prior year receipts	16,712	-	16,712
<b>Total expenditures</b>	<b>33,810,575</b>	<b>8,563,896</b>	<b>42,374,471</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>116,366</b>	<b>(6,533,963)</b>	<b>(6,417,597)</b>
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	-	73,200	73,200
Interfund transfers out	(102,270)	-	(102,270)
<b>Total other financing sources (uses)</b>	<b>(102,270)</b>	<b>73,200</b>	<b>(29,070)</b>
<b>Net changes in fund balances</b>	<b>14,096</b>	<b>(6,460,763)</b>	<b>(6,446,667)</b>
Fund Balances - July 1, 2016	3,447,241	9,611,294	13,058,535
Fund Balances - June 30, 2017	<b>\$ 3,461,337</b>	<b>\$ 3,150,531</b>	<b>\$ 6,611,868</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, 2017**

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<b>Net change in fund balances - governmental funds</b>	<b>\$ (6,446,667)</b>
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlays	8,669,254	
Less net book value of disposed assets	(239,878)	
Less depreciation expense	<u>(1,565,120)</u>	6,864,256

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as 'available in the governmental funds. Deferred tax revenues decreased by this amount this year. (54,679)

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. (323,178)

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.

District pension contributions		4,078,000
Cost of benefits earned net of employee contributions (pension expense)		(5,284,000)

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

Change in compensated absences		(48,243)
Change in other post-employment benefits		(102,031)

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

Repayment of long-term debt	1,280,000	
Amortization of charges for bond refundings	(6,200)	
Amortization of bond premiums and discounts - net	<u>216,949</u>	<u>1,490,749</u>

<b>Changes in net position of governmental activities</b>	<b>\$ <u>174,207</u></b>
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See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 23,512,474	\$ 23,512,474	\$ 23,579,374	\$ 66,900
State sources	9,807,845	9,807,845	10,098,530	290,685
Federal sources	198,177	198,177	249,037	50,860
<b>Total revenues</b>	<b>33,518,496</b>	<b>33,518,496</b>	<b>33,926,941</b>	<b>408,445</b>
<b>Expenditures</b>				
Instructional	19,653,602	19,768,485	19,749,729	18,756
Support services	10,905,033	10,972,858	10,758,646	214,212
Operation of noninstructional services	927,094	744,386	900,737	(156,351)
Debt service	2,353,566	2,353,566	2,384,751	(31,185)
Refund of prior year's receipts	15,000	15,000	16,712	(1,712)
<b>Total expenditures</b>	<b>33,854,295</b>	<b>33,854,295</b>	<b>33,810,575</b>	<b>43,720</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(335,799)</b>	<b>(335,799)</b>	<b>116,366</b>	<b>452,165</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers out	-	-	(102,270)	(102,270)
<b>Net changes in fund balance</b>	<b>\$ (335,799)</b>	<b>\$ (335,799)</b>	<b>14,096</b>	<b>\$ 349,895</b>
Fund Balances - July 1, 2016			3,447,241	
Fund Balances - June 30, 2017			<u>\$ 3,359,067</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2017**

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<b>Assets</b>	
Cash and cash equivalents	\$ 31,382
Due from other funds	226
Receivables	
State sources	593
Federal sources	7,986
Other	9,578
Inventories	23,739
Other capital assets, net of depreciation	8,623
<b>Total assets</b>	<u>\$ 82,127</u>
<b>Liabilities</b>	
Accounts payable	\$ 38,227
Due to other funds	34,622
Unearned revenues	29,736
<b>Total liabilities</b>	<u>\$ 102,585</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 8,623
Unrestricted	(29,081)
<b>Total net position</b>	<u>\$ (20,458)</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, 2017**

<hr/>	
Operating Revenues	
Food service revenue	\$ 476,581
Operating Expenses	
Other purchased services	719,760
Supplies	65,101
Depreciation	3,734
<b>Total operating expenses</b>	<u>788,595</u>
<b>Operating loss</b>	(312,014)
Nonoperating Revenues	
Investment earnings	83
State sources	17,334
Federal sources	281,575
<b>Total nonoperating revenues</b>	<u>298,992</u>
Interfund Transfer In	<u>29,070</u>
<b>Changes in net position</b>	16,048
Net Position - July 1, 2016	(36,506)
Net Position - June 30, 2017	<u>\$ (20,458)</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2017**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 478,775
Cash payments for goods and services	(712,339)
<b>Net cash used in operating activities</b>	<u>(233,564)</u>
Cash Flows From Noncapital Financing Activities	
State sources	16,785
Federal sources	219,008
Transfers	29,070
<b>Net cash provided by noncapital financing activities</b>	<u>264,863</u>
Cash Flows From Investing Activities	
<b>Investment earnings</b>	<u>83</u>
<b>Net increase in cash and cash equivalents</b>	31,382
Cash and Cash Equivalents:	
July 1, 2016	-
June 30, 2017	<u>\$ 31,382</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (312,014)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	3,734
Value of donated commodities used	55,168
Changes in assets and liabilities:	
(Increase) decrease in:	
Other accounts receivable	12,906
Inventories	(11,067)
(Decrease) increase in:	
Accounts payable	20,216
Internal balances	6,369
Other current liabilities	(11,070)
Unearned revenues	2,194
<b>Net cash used in operating activities</b>	<u>\$ (233,564)</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**June 30, 2017**

	Agency Fund Student Activities	Private-Purpose Trust Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 162,972	\$ 116,098	\$ 279,070
Due from other funds	3,823	-	3,823
Accounts receivable	1,180	-	1,180
<b>Total assets</b>	<b>\$ 167,975</b>	<b>\$ 116,098</b>	<b>\$ 284,073</b>
<b>Liabilities</b>			
Due to student groups	\$ 163,993	\$ -	\$ 163,993
Due to other funds	3,982	65	4,047
<b>Total liabilities</b>	<b>\$ 167,975</b>	<b>\$ 65</b>	<b>\$ 168,040</b>
<b>Net Position</b>			
Held in trust for private purposes	\$ -	\$ 116,033	\$ 116,033
<b>Total net position</b>	<b>\$ -</b>	<b>\$ 116,033</b>	<b>\$ 116,033</b>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
PRIVATE-PURPOSE TRUST FUND  
Year Ended June 30, 2017**

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Additions	
Contributions	\$ 15,930
Investment earnings	139
<b>Total additions</b>	<u>16,069</u>
Deductions	
Scholarships and awards	<u>9,949</u>
<b>Total deductions</b>	<u>9,949</u>
<b>Changes in net position</b>	6,120
Net Position - July 1, 2016	109,913
Net Position - June 30, 2017	<u>\$ 116,033</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 tax revenues to be available if they are collected within 60 days of the end of the current, fiscal period. Revenues from Federal, state and other grants designated for payment of specific expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures are generally recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payments are due.

When both restricted and unrestricted (including committed, assigned, and unassigned) resources are available for use, it is the 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: The District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

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

Allowances for Estimated Uncollectible Taxes and Unearned Revenues: The allowance for estimated uncollectible taxes is based upon 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, 2017. 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 changes in assumptions in the pension plan, net difference between projected and actual investment earnings, changes in proportions in the pension plan, the difference between employer contributions and proportionate share of total contributions, and the contributions subsequent to the measurement date June 30, 2016, 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 Employees' Retirement System, a governmental, cost-sharing, multiple-employer defined-benefit pension plan. The District provides access to health and dental-care benefits, including prescription-drug coverage, to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

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 the difference between expected and actual experience and changes in proportions of the pension plan as deferred inflows of resources. These amounts are amortized over the average remaining services 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.

Interfund Activity: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts. Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are indicated on the Statement of Net Position as internal balances.



## 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)

##### F. Other

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

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 19, 2017, the date that the financial statements were available to be issued.

#### Note 2. Deposits and Investments

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

- U. S. Treasury Bills
- Short-term obligations of the U. S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
  1. The Federal Deposit Insurance Corporation (FDIC), or
  2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
  3. The National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral, as provided by law, shall be pledged by the depository.
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### 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, 2017, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 49,906	\$ 49,906	F&M Trust
Insured (FDIC)	250,000	250,000	M&T Bank
Uninsured, collateralized in accordance with Act 72	2,227,060	2,504,026	M&T Bank
	<u>\$ 2,526,966</u>	<u>\$ 2,803,932</u>	

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledgers of the assets.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Investments

As of June 30, 2017, the District had the following investments:

<u>Investments</u>	<u>Weighted Avg. Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Pennsylvania School District Liquid Asset Fund (PSDLAF) PSDMAX	41 days	AAAm	\$ 21,307
Pennsylvania Local Government Investment Trust (PLGIT) PLGIT - Class Shares	78 days	AAAm	5,000,024
PLGIT - I-Class Shares	78 days	AAAm	26
PLGIT - ARM Series	71 days	AAAm	1,876,617
Pennsylvania Treasurer's INVEST Daily Program	58 days	AAAm	10,878
			<u>\$ 6,908,852</u>

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

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

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

The PLGIT - Class Shares is an option, within the PLGIT fund, which requires a minimum investment of \$50,000, a minimum investment period of thirty (30) days, and has a premature withdrawal penalty. Dividends are paid quarterly.

The PLGIT - I-Class Shares is an option, within the PLGIT fund, in which the shares are invested and redeemed by the Investor only through PLGIT’s Easy Online Network (“EON”), the Trusts’ online account access system. This option requires a minimum initial investment of \$50,000 and limits redemptions or exchanges to two per calendar month. However, there is no minimum investment period.

The PLGIT - ARM Series is a program, within the PLGIT fund, for the investment of bond proceeds only, consisting of a portfolio of the Trust which operates like a money market fund and individual portfolios of Investors. This option has no minimum initial investment requirement and has a minimum investment period of one (1) day.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Investments (Continued)

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

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

##### Weighted-Average Maturity

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

##### Interest-Rate Risk

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

##### 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.

##### Concentration of Credit Risk

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

A summary of the taxes receivable and related accounts at June 30, 2017, is as follows:

	Amount
Uncollected taxes	\$ 1,025,771
Estimated uncollectible taxes	<u>(12,265)</u>
Taxes Receivable - Net	<u>\$ 1,013,506</u>
Taxes to be collected within 60 days	\$ 699,683
Deferred inflows of resources - delinquent property taxes	<u>313,822</u>
Taxes Receivable - Net	<u>\$ 1,013,506</u>

**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 2016-2017 is as follows:

July 1, 2016	Tax Levy Date
Through August 31, 2016	2% Discount
Through October 31, 2016	Face Payment Period
November 1, 2016	10% Penalty Period
January 1, 2017	Interim Tax-Levy Date

The School District's tax rate for all purposes in 2016-2017 was 9.5526 mills (\$9.5526 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania's accounting system. Current tax collections for the School District were approximately 98% of the total tax levy.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2017, are as follows:

	Due from other funds	Due to other funds
<hr/>		
Governmental Funds		
General Fund	\$ 48,235	\$ 7,424
Capital Projects Fund	6,841	13,032
Proprietary Funds		
Food Service	226	34,622
Fiduciary Funds		
Student Activities	3,823	3,982
Private-Purpose Trust	-	65
	<hr/> <u>\$ 59,125</u>	<hr/> <u>\$ 59,125</u>

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

Operating transfers between funds at June 30, 2017, are as follows:

	Transfers in	Transfers out
<hr/>		
Governmental Funds		
General Fund	\$ -	\$ 102,270
Capital Projects Fund	73,200	-
Proprietary Funds		
Food Service	29,070	-
	<hr/> <u>\$ 102,270</u>	<hr/> <u>\$ 102,270</u>

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. General Fixed Assets**

Capital asset activity for the year ended June 30, 2017, was as follows:

	July 1, 2016	Increases	Decreases	June 30, 2017
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Construction-in-progress	\$ 19,178,926	\$ 1,705,744	\$ 19,178,926	\$ 1,705,744
Total capital assets not being depreciated	19,178,926	1,705,744	19,178,926	1,705,744
Capital assets being depreciated				
Land and site improvements	4,565,070	-	13,618	4,551,452
Buildings and building improvements	42,006,945	25,832,223	2,059,077	65,780,091
Furniture and equipment	6,399,235	310,213	14,984	6,694,464
Total capital assets being depreciated	52,971,250	26,142,436	2,087,679	77,026,007
Less accumulated depreciation				
Land and site improvements	2,734,248	179,179	9,695	2,903,732
Buildings and building improvements	20,203,028	1,136,163	1,823,610	19,515,581
Furniture and equipment	5,661,411	249,778	14,496	5,896,693
Total accumulated depreciation	28,598,687	1,565,120	1,847,801	28,316,006
Total capital assets being depreciated - net	24,372,563	24,577,316	239,878	48,710,001
<b>Total Governmental Activities, Capital Assets - Net</b>	<b>\$ 43,551,489</b>	<b>\$ 26,283,060</b>	<b>\$ 19,418,804</b>	<b>\$ 50,415,745</b>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 534,773	\$ -	\$ -	\$ 534,773
Total Business-Type Activities Capital Assets	534,773	-	-	534,773
Less accumulated depreciation				
Furniture and equipment	522,416	3,734	-	526,150
<b>Business-Type Activities, Capital Assets - Net</b>	<b>\$ 12,357</b>	<b>\$ (3,734)</b>	<b>\$ -</b>	<b>\$ 8,623</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	\$ 1,076,795
Instructional student support	162,472
Administration and financial support	171,110
Operation and maintenance of plant services	90,366
Student activities	58,370
Transportation	6,007
Total Governmental Activities	<u>1,565,120</u>
Business-Type Activities	
Food Service	3,734
Total School District	<u>\$ 1,568,854</u>

**Note 7. Long-Term Obligations**

During the fiscal year ended June 30, 2017, long-term debt changed as follows:

	July 1, 2016	Increases	Decreases	June 30, 2017	Due within one year
General Obligation Bonds					
Series of 2014	\$ 9,985,000	\$ -	\$ (5,000)	\$ 9,980,000	\$ 5,000
Series of 2015	9,990,000	-	(5,000)	9,985,000	5,000
Series A of 2016	8,950,000	-	-	8,950,000	5,000
Series B of 2016	12,405,000	-	(1,270,000)	11,135,000	2,190,000
Total General Obligation Bonds	<u>41,330,000</u>	-	(1,280,000)	40,050,000	2,205,000
Unamortized bond premiums/(discounts)	1,267,234	-	(216,949)	1,050,285	-
Total Long-Term Debt	<u>42,597,234</u>	-	(1,496,949)	41,100,285	2,205,000
Other Long-Term Obligations					
Compensated absences	884,391	48,243	-	932,634	-
Other post-employment benefits	567,209	102,031	-	669,240	-
Net pension liability	48,254,000	5,218,000	-	53,472,000	-
Total Other Long-Term Obligations	<u>49,705,600</u>	5,368,274	-	55,073,874	-
Total General Long-Term Obligations	<u>\$ 92,302,834</u>	\$ 5,368,274	\$ (1,496,949)	\$ 96,174,159	\$ 2,205,000

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

General Obligation Bonds - Series of 2014 - During fiscal year 2013-14, the Board of 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) finance various capital projects of the District, and (2) pay all costs of issuance of the 2014 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 3.50%. The bonds mature serially in amounts ranging from \$5,000 to \$925,000 through September 1, 2034.

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) finance various capital projects of the District, and (2) pay all costs of issuance of the 2015 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 2.75%. The bonds mature serially in amounts ranging from \$5,000 to \$955,000 through September 1, 2034.

General Obligation Bonds - Series A of 2016 - During fiscal year 2015-16, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of A of 2016 in the aggregate principal amount of \$8,950,000. The proceeds of the bonds were used to: (1) finance various capital projects of the District, and (2) pay all costs of issuance of the Series A of 2016 Bond. The bonds bear interest semi-annually with rates ranging from 0.85% to 4.00%. The bonds mature serially in amounts ranging from \$5,000 to \$2,115,000 through September 1, 2039.

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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
2017-2018	\$ 2,205,000	\$ 1,225,085	\$ 3,430,085
2018-2019	2,260,000	1,169,264	3,429,264
2019-2020	2,340,000	1,088,836	3,428,836
2020-2021	2,435,000	993,676	3,428,676
2021-2022	1,165,000	907,201	2,072,201
2022-2026	7,675,000	3,963,896	11,638,896
2026-2031	7,820,000	3,013,006	10,833,006
2031-2036	8,640,000	1,747,120	10,387,120
2036-2041	5,510,000	336,400	5,846,400
	<u>\$ 40,050,000</u>	<u>\$ 14,444,484</u>	<u>\$ 54,494,484</u>

### Compensated Absences

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

### 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 \$340,567 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, 2017.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Plan Description

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

##### Benefits Provided

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 upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Contributions

###### 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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class 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 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

###### Employer Contributions:

The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2017, the District's rate of contribution was 30.03% of covered payroll. The 30.03% rate is composed of a pension contribution rate of 29.20% for pension benefits and 0.83% for healthcare-insurance premium assistance.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan for the years ended June 30, 2017, 2016 and 2015, were \$4,193,651, \$3,620,557, and \$3,008,433 respectively, and are equal to the required contributions for said years. For the year ended June 30, 2017 the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$2,099,102.

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

At June 30, 2017, the District reported a liability of \$53,472,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.1079 percent, which was a decrease of 0.0035 from its proportion measured as of June 30, 2015.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2017, the District recognized pension expense of \$5,244,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 445,000
Changes in assumptions	1,930,000	-
Net difference between projected and actual investment earnings	2,980,000	-
Changes in proportion	662,000	1,425,000
Difference between employer contributions and proportionate share of total contributions	130,000	-
Contributions subsequent to the measurement date	4,078,000	-
	<u>\$ 9,780,000</u>	<u>\$ 1,870,000</u>

\$4,078,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Total
2018	\$ 721,000
2019	721,000
2020	1,555,000
2021	833,000
2022	2,000
	<u>\$ 3,832,000</u>

#### Changes in Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	100.0%	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Discount Rate

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

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 65,410,000	\$ 53,472,000	\$ 43,440,000

#### Pension Plan Fiduciary Net Position

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

#### Plan Payables

At June 30, 2017, the District has payables to the PSERS pension plan of \$1,788,067. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2017.



# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 10. Other Post-Employment Benefits

#### Plan Description

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

#### Funding Policy

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

#### Funding Progress

For the year ended June 30, 2017, 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, 2016. 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 (ARC)	\$ 230,002
Interest on Net OPEB Obligation	25,524
Less adjustment to ARC	<u>(34,822)</u>
Annual OPEB cost	220,704
Contributions made (estimated)	<u>(118,673)</u>
Estimated Increase in Net OPEB Obligation	102,031
Net OPEB Obligation - beginning of year	<u>567,209</u>
Estimated Net OPEB Obligation - end of year	<u><u>\$ 669,240</u></u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for 2017 and the preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 204,586	56.75%	\$ 473,703
June 30, 2016	\$ 203,137	53.97%	\$ 567,209
June 30, 2017	\$ 220,704	53.77%	\$ 669,240

#### 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 healthcare cost-trend rates. Amounts are determined regarding the funded status of the plan, and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of 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 values of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care, cost trend rate of 6.50% in 2016, 6.0% in 2017 and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. 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.

#### 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.

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

The District has approved approximately \$2.7 million in construction projects as of June 30, 2017. The District has expended approximately \$0.6 million through the 2016-2017 school year. The approximate \$2.1 million remains an outstanding commitment of the District.

#### **Note 13. Subsequent Event**

In November 2017, an Education Contribution Agreement was established between the District and its largest taxpayer. Subsequent to a change in ownership the taxpayer was determined to have tax exempt status. In order to mitigate the District's significant loss of tax revenues, under the agreement, the taxpayer will contribute a portion of its pre-exempt tax revenue as a payment in-lieu of taxes to the District effective for the fiscal year ended June 30, 2019.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
 POST-EMPLOYMENT BENEFITS PLAN  
 Year Ended June 30, 2017**

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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>
7/1/2016	\$ -	\$ 1,765,249	\$ 1,765,249	0.00%	\$ 12,700,218	13.90%
7/1/2014	\$ -	\$ 1,676,096	\$ 1,676,096	0.00%	\$ 13,045,103	12.85%
7/1/2012	\$ -	\$ 1,391,535	\$ 1,391,535	0.00%	\$ 12,836,439	10.84%

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.1079%	0.1114%	0.1088%
District's proportionate share of the net pension liability	<u>\$53,472,000</u>	<u>\$48,254,000</u>	<u>\$43,064,000</u>
District's covered-employee payroll	<u>\$13,967,915</u>	<u>\$14,337,758</u>	<u>\$13,885,613</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	382.82%	336.55%	310.13%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
Year Ended June 30,**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 4,077,743	\$ 3,502,861	\$ 2,869,996
Contributions in relation to the contractually required contribution	<u>(4,077,743)</u>	<u>(3,502,861)</u>	<u>(2,869,996)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 14,297,856</u>	<u>\$ 13,977,367</u>	<u>\$ 14,347,111</u>
Contributions as a percentage of covered-employee payroll	28.52%	25.06%	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, 2017, 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 December 19, 2017.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as Findings 2017-001 and 2017-002 that we consider to be material weaknesses.

## **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*.

## **South Middleton School District's Response to Findings**

South Middleton School District's response to the internal control over financial reporting findings is described in the accompanying schedule of findings and questions costs. South Middleton School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

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

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

Camp Hill, Pennsylvania  
December 19, 2017

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

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

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

We have audited South Middleton School District's compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2017.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-003. Our opinion on each major federal program is not modified with respect to this matter

South Middleton School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.


## 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Middleton School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Camp Hill, Pennsylvania  
December 19, 2017

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

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

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

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

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)3?  Yes  No

**SOUTH MIDDLETON SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.010	Title I – Grants to Local Educational Agencies. <b>IDEA – Special Education Cluster</b>
84.027	Special Education – Grants to States
84.173	Special Education – Early Intervention

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

Auditee qualified as low-risk auditee?  Yes  No

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**Section II -- Financial Statement Findings**

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A. Material Weakness(es) in Internal Control

**Finding 2017-001**

**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 designated an employee responsible to prepare the financial records and the related audit support, to oversee the audit and the external CPA firm’s drafting of the financial statements including note disclosures. 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 and effect:** The District’s Business Office did not possess sufficient training to process, record, and reconcile all transactions on a timely basis. This impacted their ability to prepare the final financial records for audit. 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, which would include monitoring of balance sheet and income statement accounts. Additionally, Business Office personnel would benefit from trainings related to financial documentation and audit preparation.

**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 procedure and increasing training within the business office.

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

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

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A. Material Weakness(es) in Internal Control (Continued)

**Finding 2017-002**

**Criteria:** An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

**Condition and context:** The District has designated an individual responsible to oversee the external CPA firm's preparation of the financial statements. The District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the District's designee does not possess the expertise necessary to prepare the financial statements and notes to the financial statements for the District in conformity with generally accepted accounting principles.

**Cause and effect:** It is not uncommon for entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

**Recommendations:** We recommend the Board consider the cost benefit relationship of requiring enhanced skills for its Business office staff through additional training.

**Views of responsible officials and planned corrective actions:** Several years ago when GASB No. 34 was introduced and additional financial statements were required, larger districts added accountants and CPAs to their staff while smaller districts with fewer resources contracted with their accounting firms to draft statements. At this time the District is continuing the practice of hiring a third party to draft its statements. However, it should be noted that the District has actively engaged in providing its business office staff with professional development and training specifically tailored to equip the staff with the knowledge and expertise necessary to independently prepare the financial statements. These efforts involve continued discussions with the District's local auditors, as well as, staff attendance at various financial accounting workshops and seminars.

B. Compliance Findings

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

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

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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 as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

B. Compliance Findings

**Finding 2017-003 - 84.010 – Title I – Grants to Local Educational Agencies: Reporting.**

**Criteria:** The District is required by Title grants to file quarterly cash on hand reports that detail the program number, program approved amount, the cash received, cash disbursed, cash on hand, cash available, and status.

**Condition and context:** The District has designated an individual responsible to file the required reports. LEA's are required to file the reconciliation of Cash on Hand Quarterly Reports for any program for which they receive monthly payments. The reports are due the 10<sup>th</sup> working day of January, April, July and October. Failure to submit will result in suspension of payments. During the audit it was noted by the business management team that they did not file and their status with the State was noted as delinquent.

**Cause and effect:** The District stated that the site for filing was down when due dates arrived. The effect to the District was suspended payments on their Title I and Title II grants. The District did file their Final Expenditure reports, and payments were then issued.

**Recommendations:** We recommend the business staff addresses this reporting requirement ahead of time to address any possible system issue related to filing, to prevent a lack of cash flow, and meet the reporting requirements of the grants.

**Views of responsible officials and planned corrective actions:** District staff made repeated attempts throughout the 2016-2017 school year to gain access to the PDE reporting system to complete the required quarterly reports. Due to PDE's inability to respond in a timely manner to District requests, quarterly reports were not filed. The District continues to work with PDE to get the necessary system access so that District payments are not suspended.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017**

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at June 30, 2017	Provided to Subrecipients
<b>U.S. Department of Education</b>										
Passed through the Pennsylvania Department of Education										
Title I - Grants to Local Educational Agencies	84.010	013-160397	15-16	\$ 160,205	\$ 110,674	\$ 110,674	\$ -	\$ -	\$ -	\$ -
Title I - Grants to Local Educational Agencies	84.010	013-170397	16-17	\$ 219,863	69,066	-	219,863	219,863	150,797	-
					<u>179,740</u>	<u>110,674</u>	<u>219,863</u>	<u>219,863</u>	<u>150,797</u>	<u>-</u>
Title II - Supporting Effective Instruction State Grants	84.367	020-160397	15-16	\$ 29,824	20,609	20,609	-	-	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-170397	16-17	\$ 29,174	9,072	-	29,174	29,174	20,102	-
					<u>29,681</u>	<u>20,609</u>	<u>29,174</u>	<u>29,174</u>	<u>20,102</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education					<u>209,421</u>	<u>131,283</u>	<u>249,037</u>	<u>249,037</u>	<u>170,899</u>	<u>-</u>
Passed through the Capital Area Intermediate Unit										
Special Education Cluster										
Special Education - Grants to States	84.027	N/A	15-16	\$ 398,191	398,191	398,191	-	-	-	-
Special Education - Grants to States	84.027	N/A	16-17	\$ 392,123	266,778	-	392,123	392,123	125,345	-
					<u>664,969</u>	<u>398,191</u>	<u>392,123</u>	<u>392,123</u>	<u>125,345</u>	<u>-</u>
Special Education - Preschool Grants	84.173	N/A	15-16	\$ 1,140	1,140	1,140	-	-	-	-
Special Education - Preschool Grants	84.173	N/A	16-17	\$ 3,502	860	-	3,502	3,502	2,642	-
					<u>2,000</u>	<u>1,140</u>	<u>3,502</u>	<u>3,502</u>	<u>2,642</u>	<u>-</u>
Total Special Education Cluster					<u>666,969</u>	<u>399,331</u>	<u>395,625</u>	<u>395,625</u>	<u>127,987</u>	<u>-</u>
Title III - English Language Acquisition State Grants	84.365	N/A	16-17	\$ 5,885	5,885	-	5,885	5,885	-	-
Total passed through the Capital Area Intermediate Unit					<u>672,854</u>	<u>399,331</u>	<u>401,510</u>	<u>401,510</u>	<u>127,987</u>	<u>-</u>
Passed through the Berks County Intermediate Unit										
Early Childhood Education Community Innovation Zone Grant	84.413	N/A	16-17	\$ 75,000	75,000	-	75,000	75,000	-	-
Passed through the Northwest Tri-County Intermediate Unit										
Race to the Top - Early Learning Challenge	84.412	N/A	16-17	\$ 4,000	4,000	-	4,000	4,000	-	-
<b>Total U.S. Department of Education</b>					<u>961,275</u>	<u>530,614</u>	<u>729,547</u>	<u>729,547</u>	<u>298,886</u>	<u>-</u>

(Continued)

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
Year Ended June 30, 2017

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at June 30, 2017	Provided to Subrecipients
<b>U.S. Department of Homeland Security</b>										
Passed through PA Emergency Management Agency										
Public Assistance Grants	97.036	FEMA-4267 -DR-PA	15-16	\$ 10,300	10,300	10,300	-	-	-	-
<b>Total U.S. Department of Homeland Security</b>					<u>10,300</u>	<u>10,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Agriculture</b>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program*	10.555	N/A	15-16	N/A	587	587	-	-	-	-
National School Lunch Program*	10.555	N/A	16-17	N/A	204,785	-	212,061	212,061	7,276	-
					<u>205,372</u>	<u>587</u>	<u>212,061</u>	<u>212,061</u>	<u>7,276</u>	<u>-</u>
School Breakfast Program*	10.553	N/A	16-17	N/A	13,636	-	14,346	14,346	710	-
					<u>13,636</u>	<u>-</u>	<u>14,346</u>	<u>14,346</u>	<u>710</u>	<u>-</u>
Total passed through PA Dept. of Education					<u>219,008</u>	<u>587</u>	<u>226,407</u>	<u>226,407</u>	<u>7,986</u>	<u>-</u>
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program - Food Donation*	10.555	N/A	16-17	N/A	55,168	-	55,168	55,168	-	-
<b>Total U.S. Department of Agriculture</b>					<u>274,176</u>	<u>587</u>	<u>281,575</u>	<u>281,575</u>	<u>7,986</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>					<u>\$ 1,245,751</u>	<u>\$ 541,501</u>	<u>\$ 1,011,122</u>	<u>\$ 1,011,122</u>	<u>\$ 306,872</u>	<u>\$ -</u>

\*Programs in the Child Nutrition Cluster

National School Lunch Program	\$ 212,061
School Breakfast Program	14,346
National School Lunch Program - Food Donation	55,168
	<u>\$ 281,575</u>

See Notes to Schedule of Expenditures of Federal Awards.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District's under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has not elected to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

## SOUTH MIDDLETON SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2017

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#### A. Area of Non-Compliance

##### **Finding 2016-001**

**Criteria:** Section 200.302(b) Financial Management requires that the School District have written procedures to 1) implement the requirements of section 200.305 for cash payments 2) for determining the allowability of cost in accordance with Subpart E – Cost principles of this part and the terms and conditions of the federal award. It also requires that the financial management system identifies, in its accounts, of all federal awards received and expended and the Federal programs under which they are received.

**Condition and context:** During our audit, we noted the district did not have policies and procedures in place that are required by uniform guidance.

**Cause:** The School District had not taken the required steps to create and adopt policies and procedures required by the Uniform Grant Guidance.

**Effect:** Findings may result in a reduction or termination of Federal funding to the District.

**Recommendations:** The District must implement these policies and procedures to become compliant with the Uniform Grant Guidance.

**Views of responsible officials and planned corrective actions:** The required UGG policies and procedures were presented to the Policy Committee and subsequently to the full School Board on September 19, 2016, for first reading. Second reading and final approval took place at the October 17, 2016, school board meeting.

*Current Status – The finding has been remedied in the current year.*



**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2017**

South Middleton School District respectfully submits the following corrective action plan for the year ended, June 30, 2017.

The findings from the December 19, 2017 schedule of findings and questions costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

***Financial Statement Findings – Material Weakness(es) in Internal Control***

**Finding 2017-001**

**Recommendation:** 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. The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has designated an employee responsible to prepare the financial records and the related audit support, to oversee the audit and the external CPA firm’s drafting of the financial statements including note disclosures. 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. The District’s staff should adhere to strict monthly and annual closing schedules with defined roles and responsibilities, which would include monitoring of balance sheet and income statement accounts. Additionally, Business Office personnel would benefit from trainings related to financial documentation and audit preparation.

**Corrective Action:** 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 procedure and increasing training within the business office.

**Person Responsible:** Matthew I. Ulmer, Business Manager

**Completion Date:** June 30, 2018

## **Finding 2017-002**

**Recommendation:** An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements. The District has designated an individual responsible to oversee Boyer & Ritter, LLC preparation of the financial statements. The District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the District's designee does not possess the expertise necessary to prepare the financial statements and notes to the financial statements for the District in conformity with generally accepted accounting principles. We recommend the Board consider the cost benefit relationship of requiring enhanced skills for its Business office staff through additional training.

**Corrective Action:** Several years ago when GASB No. 34 was introduced and additional financial statements were required, larger districts added accountants and CPAs to their staff while smaller districts with fewer resources contracted with their accounting firms to draft statements. At this time the District is continuing the practice of hiring a third party to draft its statements. However, it should be noted that the District has actively engaged in providing its business office staff with professional development and training specifically tailored to equip the staff with the knowledge and expertise necessary to independently prepare the financial statements. These efforts involve continued discussions with the District's local auditors, as well as, staff attendance at various financial accounting workshops and seminars.

**Person Responsible:** Matthew I. Ulmer, Business Manager

**Completion Date:** June 30, 2018

## ***Federal Award Findings and Questioned Costs – Compliance Findings***

### **Department of Education**

#### **Finding 2017-003 – 84.010 – Title I – Grants to Local Educational Agencies: Reporting**

**Recommendation:** The District is required by Title grants to file quarterly cash on hand reports that detail the program number, program approved amount, the cash received, cash disbursed, cash on hand, cash available, and status. The District has designated an individual responsible to file the required reports. LEA's are required to file the reconciliation of Cash on Hand Quarterly Reports for any program for which they receive monthly payments. The reports are due the 10<sup>th</sup> working day of January, April, July and October. Failure to submit will result in suspension of payments. During the audit it was noted by the business management team that they did not file and their status with the State was noted as delinquent. We recommend the business staff addresses this reporting requirement ahead of time to address any possible system issue related to filing, to prevent a lack of cash flow, and meet the reporting requirements of the grants.

**Corrective Action:** District staff made repeated attempts throughout the 2016-2017 school year to gain access to the PDE reporting system to complete the required quarterly reports. Due to PDE's inability to respond in a timely manner to District requests, quarterly reports were not filed. The District continues to work with PDE to get the necessary system access so that District payments are not suspended.

**Person Responsible:** Matthew I. Ulmer, Business Manager

**Completion Date:** June 30, 2018

If there are any questions regarding this plan, please call Matthew I. Ulmer, Business Manager at 717-744-2139.

Sincerely,

A handwritten signature in blue ink that reads "Matthew I. Ulmer". The signature is written in a cursive style with a large initial "M".

Matthew I. Ulmer, Business Manager  
December 19, 2017