

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2020**

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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, 2020, 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.

## **Opinions**

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, 2020, 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.

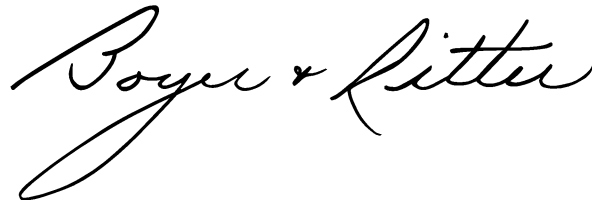
### *Other Information*

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 9, 2020, on our consideration of South Middleton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Middleton School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering 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 9, 2020

**SOUTH MIDDLETON SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
Year Ended June 30, 2020**

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, 2020. Comparative financial information for fiscal year ended June 30, 2019, 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 2019-2020, the School Board adopted a General Fund Budget with a real estate tax millage rate of 11.0994 mills which represented a 5.09% increase from the 2018-2019 year. In 2018-2019, the District approved a 2.42% tax increase, which represents a real estate tax millage rate of 10.8182.

**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 Chartwells, 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 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 2019-2020 fiscal year, the change in net position for governmental activities was an increase of \$3,710,461 and an increase of \$28,379 for business-type activities, for a net total increase of \$3,738,840. For the 2018-2019 fiscal year, the change in net position for governmental activities was an increase of \$3,267,395 and a decrease of \$33,933 for business-type activities for a net total increase of \$3,233,402 as reflected in the chart below.

	Governmental Activities		Business-Type Activities		Total Activities	
	2020	2019	2020	2019	2020	2019
Current assets	\$ 13,740,394	\$ 11,935,458	\$ 142,295	\$ 66,913	\$ 13,882,689	\$ 12,002,371
Capital assets	48,702,338	49,920,339	640	3,195	48,702,978	49,923,534
<b>Total assets</b>	<b>\$ 62,442,732</b>	<b>\$ 61,855,797</b>	<b>\$ 142,935</b>	<b>\$ 70,108</b>	<b>\$ 62,585,667</b>	<b>\$ 61,925,905</b>
<b>Deferred outflows of resources</b>	<b>\$ 5,637,074</b>	<b>\$ 6,525,113</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,637,074</b>	<b>\$ 6,525,113</b>
Current liabilities	\$ 3,991,818	\$ 4,184,120	\$ 167,507	\$ 123,059	\$ 4,159,325	\$ 4,307,179
Long-term liabilities	84,890,151	89,030,064	-	-	84,890,151	89,030,064
<b>Total liabilities</b>	<b>\$ 88,881,969</b>	<b>\$ 93,214,184</b>	<b>\$ 167,507</b>	<b>\$ 123,059</b>	<b>\$ 89,049,476</b>	<b>\$ 93,337,243</b>
<b>Deferred inflows of resources</b>	<b>\$ 5,265,373</b>	<b>\$ 4,944,723</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,265,373</b>	<b>\$ 4,944,723</b>
Net investment in capital assets	\$ 15,263,837	\$ 14,059,305	\$ 640	\$ 3,195	\$ 15,264,477	\$ 14,062,500
Restricted	61,952	74,510	-	-	61,952	74,510
Unrestricted	(41,393,325)	(43,911,812)	(25,212)	(56,146)	(41,418,537)	(43,967,958)
<b>Total net position</b>	<b>\$ (26,067,536)</b>	<b>\$ (29,777,997)</b>	<b>\$ (24,572)</b>	<b>\$ (52,951)</b>	<b>\$ (26,092,108)</b>	<b>\$ (29,830,948)</b>

	Governmental Activities		Business-Type Activities		Total Activities	
	2020	2019	2020	2019	2020	2019
<b>Program Revenues</b>						
Charges for services	\$ 641,280	\$ 633,525	\$ 321,065	\$ 472,702	\$ 962,345	\$ 1,106,227
Operating grants and contributions	6,580,472	6,355,489	470,446	356,856	7,050,918	6,712,345
Capital grants and contributions	-	-	-	-	-	-
<b>Total program revenues</b>	<b>7,221,752</b>	<b>6,989,014</b>	<b>791,511</b>	<b>829,558</b>	<b>8,013,263</b>	<b>7,818,572</b>
<b>General Revenues (Expenses)</b>						
Taxes	26,439,609	25,420,821	-	-	26,439,609	25,420,821
General subsidies	4,565,315	4,435,396	-	-	4,565,315	4,435,396
Investment earnings	195,092	192,238	417	625	195,509	192,863
Loss on disposition of capital assets	-	-	-	-	-	-
Other local revenue	46,550	64,157	-	-	46,550	64,157
<b>Total general revenues</b>	<b>31,246,566</b>	<b>30,112,612</b>	<b>417</b>	<b>625</b>	<b>31,246,983</b>	<b>30,113,237</b>
<b>Total Revenues</b>	<b>38,468,318</b>	<b>37,101,626</b>	<b>791,928</b>	<b>830,183</b>	<b>39,260,246</b>	<b>37,931,809</b>
<b>Total Expenses</b>	<b>34,653,857</b>	<b>33,834,231</b>	<b>867,549</b>	<b>864,176</b>	<b>35,521,406</b>	<b>34,698,407</b>
<b>Excess (deficiency) before transfers</b>	<b>3,814,461</b>	<b>3,267,395</b>	<b>(75,621)</b>	<b>(33,993)</b>	<b>3,738,840</b>	<b>3,233,402</b>
Transfers	(104,000)	-	104,000	-	-	-
<b>Changes in net position</b>	<b>3,710,461</b>	<b>3,267,395</b>	<b>28,379</b>	<b>(33,993)</b>	<b>3,738,840</b>	<b>3,233,402</b>
Net position - beginning	(29,777,997)	(33,045,392)	(52,951)	(18,958)	(29,830,948)	(33,064,350)
Net position - ending	<b>\$ (26,067,536)</b>	<b>\$ (29,777,997)</b>	<b>\$ (24,572)</b>	<b>\$ (52,951)</b>	<b>\$ (26,092,108)</b>	<b>\$ (29,830,948)</b>

## Fund Balances

The General Fund balance increase of \$1,621,741 was due to better than expected collections in real estate tax, interim real estate tax and real estate transfer tax. District expenditures were slightly less than budgeted projections, which can be attributed to the closing of buildings in March due to COVID 19. Expenditures such as utilities, substitutes, supplies, field trips, etc. were lower than budgeted due to school closure.

The Cafeteria Fund continues to be managed by Chartwells, with the 2019-2020 school year being the second year the management group oversaw the food service program. Chartwells provided the District with a break even budget for the 2019-2020 school year. The cafeteria fund ended the 2019-2020 fiscal year with a \$28,379 increase in net position, which included a \$104,000 transfer from the general fund. With the COVID-19 school closures, Chartwells shifted their food services pick-up process in order to continue to provide meals to South Middleton School District Students. It should also be noted that the USDA in partnership with PDE authorized free reimbursable meals to all children 0-18 years of age effective in March 2020.

The Capital Projects Fund closed the year with a restricted fund balance of \$1,248,379 which is an increase of \$396,842 from the 2018-2019 fiscal year. This increase is a direct reflection of a budgetary fund transfer, which is earmarked for capital improvement projects such as turf and track replacement at the Stadium and the lighting project at Boiling Springs High School Auditorium. The District did use some Capital Projects funds for the second phase of the Boiling Springs High School roof project and phone replacement upgrade.

	2020	2019	Change	% Change
General Fund, including Athletics	\$ 8,547,843	\$ 6,926,102	\$ 1,621,741	23.41%
Capital Projects Fund	1,248,379	851,537	396,842	46.60%
<b>Total Governmental Fund Balances</b>	<b>\$ 9,796,222</b>	<b>\$ 7,777,639</b>	<b>\$ 2,018,583</b>	<b>25.95%</b>
		Budget	Actual	Difference
Total Revenues		\$ 37,502,591	\$ 38,525,156	\$ 1,022,565
Total Expenditures		36,739,202	36,036,026	703,176
Change in Fund Balances excluding Interfund Transfers		763,389	2,489,130	1,725,741
Interfund Transfers		(763,389)	(867,389)	(104,000)
<b>Net Changes in Fund Balances</b>		<b>\$ -</b>	<b>1,621,741</b>	<b>\$ 1,621,741</b>
<b>General Fund Balance - June 30, 2019</b>			<b>6,926,102</b>	
<b>General Fund Balance - June 30, 2020</b>			<b>\$ 8,547,843</b>	

### Capital Assets

On June 30, 2020, the District recorded \$48,539,188 in Total Capital Assets, which represents a decrease of \$1,381,151 from the previous fiscal year. This decrease is based on the completion of recent construction projects at W.G. Rice and Iron Forge Elementary Schools.

	2020	2019	Change
<b>Governmental Activities</b>			
Land and site improvements	\$ 1,994,623	\$ 2,095,974	\$ (101,351)
Buildings and improvements	44,636,881	45,812,900	(1,176,019)
Furniture and equipment	1,907,684	2,011,465	(103,781)
<b>Total Governmental Capital Assets</b>	<b>48,539,188</b>	<b>49,920,339</b>	<b>(1,381,151)</b>
<b>Business-Type Activities</b>			
<b>Total Business Capital Assets</b>	<b>640</b>	<b>3,195</b>	<b>(2,555)</b>
<b>Total Capital Assets</b>	<b>\$ 48,539,828</b>	<b>\$ 49,923,534</b>	<b>\$ (1,383,706)</b>

## Long-Term Liabilities

Bonds payable at June 30, 2020, were \$33,850,000 compared to \$36,000,000 at June 30, 2019. A total of \$11,590,000 of debt was paid off, with \$9,745,000 of new issuances during the 2019-2020 fiscal year.

<b>General Obligation Debt</b>	2020	2019
Series of 2014	\$ 640,000	\$ 640,000
Series of 2015	450,000	9,975,000
Series A of 2016	8,935,000	8,940,000
Series B of 2016	4,375,000	6,700,000
Series of 2019	9,745,000	9,745,000
Series of 2020	9,705,000	-
<b>Total Outstanding Debt</b>	<b>\$ 33,850,000</b>	<b>\$ 36,000,000</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 2.6% for the 2020-2021 fiscal year. The District raised taxes for the 2019-2020 fiscal year by 2.3%, which was the maximum amount allowed by the Act 1 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 reached an agreement on a new contract in February of 2018. The contract was retroactive to July 1, 2018, and runs through June 30, 2020. A key change within the contract was the implementation of a Qualified High Deductible Health Plan (QHDHP), in correlation with a District-funded Health Savings Account, that will help to control rising insurance premium costs. A new agreement dated July 1, 2020 through June 30, 2024, was approved in August 2020.

The District Act 93 team and support staff have compensation and benefit plans in place through the 2019-2020 school year. Like the SMEA contract, these compensation and benefits plan include the QHDHP, in correlation with a District-funded Health Savings Account, that have helped to contain district expenditures. New compensation and benefit plans for both Act 93 team and support staff, dated July 1, 2020 through June 30, 2023, were approved in October 2020.

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

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

The District's Financial Report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the funds it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office of the South Middleton School District, at 4 Academy Street, Suite 100, Boiling Springs, PA 17007.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2020**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 7,279,523	\$ 123,783	\$ 7,403,306
Investments	3,609,021	-	3,609,021
Internal balances	85,781	(85,781)	-
Receivables	2,735,477	85,677	2,821,154
Inventories	20,592	18,616	39,208
Prepaid expenditures	10,000	-	10,000
Capital assets			
Construction-in-progress	163,150	-	163,150
Other capital assets, net of depreciation	48,539,188	640	48,539,828
Total capital assets	48,702,338	640	48,702,978
<b>Total assets</b>	<b>\$ 62,442,732</b>	<b>\$ 142,935</b>	<b>\$ 62,585,667</b>
<b>Deferred Outflows of Resources</b>			
Deferred amounts on pension liability	\$ 5,230,000	\$ -	\$ 5,230,000
Deferred amounts on OPEB liabilities	403,770	-	403,770
Deferred amounts on refunding debt	3,304	-	3,304
<b>Total deferred outflows of resources</b>	<b>\$ 5,637,074</b>	<b>\$ -</b>	<b>\$ 5,637,074</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 3,978,340	\$ 128,908	\$ 4,107,248
Contracts payable	13,478	-	13,478
Unearned revenues	-	38,599	38,599
Long-term obligations			
Due within one year	2,460,000	-	2,460,000
Due in more than one year	32,871,601	-	32,871,601
Net pension liability	45,473,000	-	45,473,000
OPEB liabilities	4,085,550	-	4,085,550
Total long-term liabilities	84,890,151	-	84,890,151
<b>Total liabilities</b>	<b>\$ 88,881,969</b>	<b>\$ 167,507</b>	<b>\$ 89,049,476</b>
<b>Deferred Inflows of Resources</b>			
Deferred amounts on pension liability	\$ 4,701,000	\$ -	\$ 4,701,000
Deferred amounts on OPEB liabilities	564,373	-	564,373
<b>Total deferred inflows of resources</b>	<b>\$ 5,265,373</b>	<b>\$ -</b>	<b>\$ 5,265,373</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 15,263,837	\$ 640	\$ 15,264,477
Restricted	61,952	-	61,952
Unrestricted	(41,393,325)	(25,212)	(41,418,537)
<b>Total net position</b>	<b>\$ (26,067,536)</b>	<b>\$ (24,572)</b>	<b>\$ (26,092,108)</b>

See Notes Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 20,829,540	\$ 523,689	\$ 4,781,500	\$ -	\$ (15,524,351)	\$ -	\$ (15,524,351)
Instructional student support	4,148,649	-	476,002	-	(3,672,647)	-	(3,672,647)
Administration and financial support	3,485,453	-	372,633	-	(3,112,820)	-	(3,112,820)
Operation and maintenance of plant services	2,766,077	52,863	137,648	-	(2,575,566)	-	(2,575,566)
Pupil transportation	1,693,638	-	695,016	-	(998,622)	-	(998,622)
Student activities	866,509	64,728	117,673	-	(684,108)	-	(684,108)
Community services	1,518	-	-	-	(1,518)	-	(1,518)
Interest on long-term debt	862,473	-	-	-	(862,473)	-	(862,473)
<b>Total governmental activities</b>	<b>34,653,857</b>	<b>641,280</b>	<b>6,580,472</b>	<b>-</b>	<b>(27,432,105)</b>	<b>-</b>	<b>(27,432,105)</b>
<b>Business-Type activities:</b>							
Food service	867,549	321,065	470,446	-	-	(76,038)	(76,038)
<b>Total School District</b>	<b>\$ 35,521,406</b>	<b>\$ 962,345</b>	<b>\$ 7,050,918</b>	<b>\$ -</b>	<b>\$ (27,432,105)</b>	<b>\$ (76,038)</b>	<b>\$ (27,508,143)</b>
<b>General Revenues and Transfers:</b>							
Property taxes levied for general purposes, net					\$ 20,346,872	\$ -	\$ 20,346,872
Public utility, realty transfer, earned income and other taxes for general purposes, net					6,092,737	-	6,092,737
Grants, subsidies and contributions not restricted					4,565,315	-	4,565,315
Investment earnings					195,092	417	195,509
Miscellaneous income					46,550	-	46,550
Transfers					(104,000)	104,000	-
<b>Total general revenues and transfers</b>					<b>31,142,566</b>	<b>104,417</b>	<b>31,246,983</b>
<b>Changes in net position</b>					<b>3,710,461</b>	<b>28,379</b>	<b>3,738,840</b>
<b>Net Position - July 1, 2019</b>					<b>(29,777,997)</b>	<b>(52,951)</b>	<b>(29,830,948)</b>
<b>Net Position - June 30, 2020</b>					<b>\$ (26,067,536)</b>	<b>\$ (24,572)</b>	<b>\$ (26,092,108)</b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2020**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 6,348,179	\$ 931,344	\$ 7,279,523
Investments	3,206,506	402,515	3,609,021
Due from other funds	90,429	-	90,429
Due from other governments	1,432,412	-	1,432,412
Taxes receivable - net	1,288,551	-	1,288,551
Other receivables	9,866	-	9,866
Inventories	20,592	-	20,592
Prepaid expenditures	10,000	-	10,000
<b>Total assets</b>	<b>\$ 12,406,535</b>	<b>\$ 1,333,859</b>	<b>\$ 13,740,394</b>
<b>Liabilities</b>			
Accounts payable	\$ 63,866	\$ 72,002	\$ 135,868
Contracts payable	-	13,478	13,478
Due to other governments	92,872	-	92,872
Accrued salaries and benefits	3,299,079	-	3,299,079
Payroll deductions and withholdings	206,681	-	206,681
Unearned revenues	-	-	-
<b>Total liabilities</b>	<b>3,662,498</b>	<b>85,480</b>	<b>3,747,978</b>
<b>Deferred Inflows of Resources</b>			
Delinquent property taxes	196,194	-	196,194
<b>Fund Balances</b>			
Non-spendable fund balance for:			
Inventories	30,592	-	30,592
Restricted fund balance for:			
Capital projects	-	1,248,379	1,248,379
Committed fund balance for:			
Future retirement and health care obligations	5,750,000	-	5,750,000
Unassigned	2,767,251	-	2,767,251
<b>Total fund balances</b>	<b>8,547,843</b>	<b>1,248,379</b>	<b>9,796,222</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 12,406,535</b>	<b>\$ 1,333,859</b>	<b>\$ 13,740,394</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, 2020**

<b>Total Fund Balances - Governmental Funds</b>	\$	9,796,222
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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 \$83,169,768, and the accumulated depreciation is \$34,467,430.		48,702,338
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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.		196,194
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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.		3,304
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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		5,230,000
Deferred inflows		(4,701,000)

Deferred inflows and outflows or resources related to OPEB are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail):		
Deferred outflows		403,770
Deferred inflows		(564,373)

Long-term liabilities, including bonds payable, net pension liability, compensated absences and other post-employment benefit liabilities, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable, net of related discounts and premiums	(34,628,233)	
Accrued interest	(243,840)	
Compensated absences	(703,368)	
Net pension liability	(45,473,000)	
OPEB liabilities	(4,085,550)	(85,133,991)

<b>Total net position - governmental activities</b>	\$	<u>(26,067,536)</u>
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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, 2020**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 27,379,368	\$ 10,222	\$ 27,389,590
State sources	10,870,461	-	10,870,461
Federal sources	275,327	-	275,327
<b>Total revenues</b>	<b>38,525,156</b>	<b>10,222</b>	<b>38,535,378</b>
<b>Expenditures</b>			
Instructional	20,068,467	-	20,068,467
Support services	11,801,285	162,351	11,963,636
Operation of noninstructional services	841,262	-	841,262
Capital outlay	-	618,108	618,108
Debt service			
Principal	2,335,000	-	2,335,000
Interest	989,959	72,681	1,062,640
<b>Total expenditures</b>	<b>36,036,026</b>	<b>853,140</b>	<b>36,889,166</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>2,489,130</b>	<b>(842,918)</b>	<b>1,646,212</b>
<b>Other Financing Sources (Uses)</b>			
Interfund transfers in	-	763,389	763,389
Interfund transfers out	(867,389)	-	(867,389)
Issuance of refunding bonds	-	9,705,000	9,705,000
Payment to refunded-bond escrow agent	-	(9,520,000)	(9,520,000)
Bond premium	-	291,371	291,371
<b>Total other financing sources (uses)</b>	<b>(867,389)</b>	<b>1,239,760</b>	<b>372,371</b>
<b>Net changes in fund balances</b>	<b>1,621,741</b>	<b>396,842</b>	<b>2,018,583</b>
Fund Balances - July 1, 2019	6,926,102	851,537	7,777,639
Fund Balances - June 30, 2020	<b>\$ 8,547,843</b>	<b>\$ 1,248,379</b>	<b>\$ 9,796,222</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, 2020**

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<b>Net change in fund balances - governmental funds</b>	<b>\$ 2,018,583</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 expense in the period.

Capital outlays	820,067	
Less depreciation expense	<u>(2,038,068)</u>	(1,218,001)

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.

(67,008)

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.

45,663

Governmental funds report District pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.

District pension and OPEB contributions (PSERS)		4,605,000
Cost of benefits earned net of employee contributions (PSERS)		(3,635,000)

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		(16,428)
Change in other post-employment benefits (District's plan)		(35,481)

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.

Issuance of long-term debt	(9,705,000)	
Premium on issuance of long-term debt	(291,371)	
Refunding of long-term debt	9,520,000	
Repayment of long-term debt	2,335,000	
Amortization of charges for bond refundings	(4,470)	
Amortization of bond premiums and discounts - net	<u>158,974</u>	<u>2,013,133</u>

<b>Changes in net position of governmental activities</b>	<b><u>\$ 3,710,461</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, 2020**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 26,654,633	\$ 26,654,248	\$ 27,379,368	\$ 725,120
State sources	10,597,958	10,598,343	10,870,461	272,118
Federal sources	250,000	250,000	275,327	25,327
<b>Total revenues</b>	<b>37,502,591</b>	<b>37,502,591</b>	<b>38,525,156</b>	<b>1,022,565</b>
<b>Expenditures</b>				
Instructional	20,636,786	20,639,253	20,068,467	570,786
Support services	11,984,718	11,983,497	11,801,285	182,212
Operation of noninstructional services	688,864	687,618	841,262	(153,644)
Debt service	3,428,834	3,428,834	3,324,959	103,875
<b>Total expenditures</b>	<b>36,739,202</b>	<b>36,739,202</b>	<b>36,036,026</b>	<b>703,176</b>
<b>Excess of revenues over expenditures</b>	<b>763,389</b>	<b>763,389</b>	<b>2,489,130</b>	<b>1,725,741</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers out	(763,389)	(763,389)	(867,389)	(104,000)
Budgetary reserve	-	-	-	-
<b>Total other financing uses</b>	<b>(763,389)</b>	<b>(763,389)</b>	<b>(867,389)</b>	<b>(104,000)</b>
<b>Net changes in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>1,621,741</b>	<b>\$ 1,621,741</b>
Fund Balances - July 1, 2019			6,926,102	
Fund Balances - June 30, 2020			<u>\$ 8,547,843</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2020**

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<b>Assets</b>	
Cash and cash equivalents	\$ 123,783
Receivables	
State sources	3,344
Federal sources	81,965
Other	368
Inventories	18,616
Other capital assets, net of depreciation	640
<b>Total assets</b>	<u><u>\$ 228,716</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 128,908
Due to other funds	85,781
Unearned revenues	38,599
<b>Total liabilities</b>	<u><u>\$ 253,288</u></u>
<b>Net Position</b>	
Net investment in capital assets	\$ 640
Unrestricted	(25,212)
<b>Total net position</b>	<u><u>\$ (24,572)</u></u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
PROPRIETARY FUND - FOOD SERVICE  
Year Ended June 30, 2020**

<hr/>	
Operating Revenues	
Food service revenue	\$ 321,065
Other operating revenues	4,000
<b>Total operating revenues</b>	<u>325,065</u>
Operating Expenses	
Other purchased services	816,573
Supplies	52,421
Depreciation	2,555
<b>Total operating expenses</b>	<u>871,549</u>
<b>Operating loss</b>	(546,484)
Nonoperating Revenues	
Investment earnings	417
State sources	22,753
Federal sources	447,693
<b>Total nonoperating revenues</b>	<u>470,863</u>
Interfund Transfer In	<u>104,000</u>
<b>Changes in net position</b>	28,379
Net Position - July 1, 2019	<u>(52,951)</u>
Net Position - June 30, 2020	<u>\$ (24,572)</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - FOOD SERVICE  
Year Ended June 30, 2020**

<hr/>	
Cash Flows From Operating Activities	
Cash received from meal sales	\$ 332,308
Cash payments for goods and services	(698,110)
<b>Net cash used in operating activities</b>	<u>(365,802)</u>
Cash Flows From Noncapital Financing Activities	
State sources	19,409
Federal sources	310,013
Transfers	104,000
Refunds of prior year expenditures	4,000
<b>Net cash provided by noncapital financing activities</b>	<u>437,422</u>
Cash Flows From Investing Activities	
<b>Investment earnings</b>	<u>417</u>
<b>Net increase in cash and cash equivalents</b>	72,037
Cash and Cash Equivalents:	
July 1, 2019	51,746
June 30, 2020	<u>\$ 123,783</u>

(Continued)

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - FOOD SERVICE (Continued)  
Year Ended June 30, 2020**

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Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (546,484)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,555
Value of donated commodities used	55,715
Refund of prior year expenditures	(4,000)
Changes in assets and liabilities:	
(Increase) decrease in:	
Other accounts receivable	(50)
Inventories	(3,294)
(Decrease) increase in:	
Accounts payable	33,205
Internal balances	85,308
Unearned revenues	11,243
<b>Net cash used in operating activities</b>	<u><u>\$ (365,802)</u></u>
Supplemental Disclosure	
Noncash noncapital financing activity	
USDA donated commodities	<u><u>\$ 55,715</u></u>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**June 30, 2020**

	Agency Fund Student Activities	Private-Purpose Trust Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 209,501	\$ 192,007	\$ 401,508
Accounts receivable	1,180	-	1,180
<b>Total assets</b>	<b>\$ 210,681</b>	<b>\$ 192,007</b>	<b>\$ 402,688</b>
<b>Liabilities</b>			
Due to student groups	\$ 206,033	\$ -	\$ 206,033
Due to other funds	4,648	-	4,648
<b>Total liabilities</b>	<b>\$ 210,681</b>	<b>\$ -</b>	<b>\$ 210,681</b>
<b>Net Position</b>			
Held in trust for private purposes	\$ -	\$ 192,007	\$ 192,007
<b>Total net position</b>	<b>\$ -</b>	<b>\$ 192,007</b>	<b>\$ 192,007</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, 2020**

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Additions	
Contributions	\$ 11,497
Investment earnings	1,334
<b>Total additions</b>	<u>12,831</u>
Deductions	
Scholarships and awards	13,264
<b>Total deductions</b>	<u>13,264</u>
<b>Changes in net position</b>	(433)
Net Position - July 1, 2019	192,440
Net Position - June 30, 2020	<u>\$ 192,007</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 Fund Balance

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

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

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

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2020. 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 - Pensions: The District recognizes the difference between expected and actual experience, changes in assumptions, net difference between projected and actual investment earnings, changes in proportion, the difference between employer contributions and proportionate share of total contributions, and the contributions subsequent to the measurement June 30, 2019, as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Outflows of Resources - Other Post-Employment Benefits: The District recognizes changes in assumptions, net difference between projected and actual investment earnings, benefit payments subsequent to the measurement date and contributions subsequent to the measurement date as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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



# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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.

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

The balance of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2020, are as follows:

	Governmental Activities
<hr/>	
OPEB Liabilities	
District's Single Employer Plan	\$ 2,018,550
PSERS Cost Sharing Plan	2,067,000
Total	<u><u>\$ 4,085,550</u></u>
Deferred Outflows of Resources	
District's Single Employer Plan	\$ 206,770
PSERS Cost Sharing Plan	197,000
Total	<u><u>\$ 403,770</u></u>
Deferred Inflows of Resources	
District's Single Employer Plan	\$ 334,373
PSERS Cost Sharing Plan	230,000
Total	<u><u>\$ 564,373</u></u>

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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, changes in proportion, and the difference between employer contributions and apportioned share of total contributions as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

Deferred Inflows of Resources - Other Post-Employment Benefits: The District recognizes the changes in assumptions, changes in proportion and the difference between employer contributions and proportionate share of total contributions as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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

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

### Net Position and Fund Balance Classification

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

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

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

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

##### Fund Balance:

The 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.

#### 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 9, 2020, the date that the financial statements were available to be issued. See Note 14.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Deposits and Investments**

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

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

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

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District’s investments may not be returned to it. A summary of the District’s deposits as of June 30, 2020, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	M&T Bank
Insured (FDIC)	250,000	250,000	F&M Trust
Uninsured, collateralized in accordance with Act 72	3,272,462	3,734,839	M&T Bank
Uninsured, collateralized in accordance with Act 72	3,753,766	3,753,766	F&M Trust
	<u>\$ 7,526,228</u>	<u>\$ 7,988,605</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, 2020, 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	71 days	AAAm	\$ 3,197
Pennsylvania Local Government Investment Trust (PLGIT)			
PLGIT - Class Shares	99 days	AAAm	275,362
PLGIT - I-Class Shares	99 days	AAAm	27
PLGIT - PRIME	74 days	AAAm	3,150,954
PLGIT - ARM Series	104 days	AAAm	402,515
Pennsylvania Treasurer's INVEST Daily Program	84 days	AAAm	55,551
			<u>\$ 3,887,606</u>

##### Portfolio Assets

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

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

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

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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### Portfolio Assets (Continued)

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

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

Pennsylvania Treasurer's INVEST Daily Program is administered by the Pennsylvania Treasury Department. The funds are invested by INVEST directly in a portfolio of securities which is held by a third-party custodian. INVEST pools are invested in high-quality, short-term securities denominated in U.S. dollars. These investments 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.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### 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 98% of the District's total investments.

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

A summary of the taxes receivable and related accounts at June 30, 2020, is as follows:

	Amount
Uncollected taxes	\$ 1,296,917
Estimated uncollectible taxes	(8,366)
Taxes Receivable - Net	<u>\$ 1,288,551</u>
Taxes to be collected within 60 days	\$ 1,092,357
Deferred inflows of resources - delinquent property taxes	196,194
Taxes Receivable - Net	<u>\$ 1,288,551</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 2019-2020 is as follows:

July 1, 2019	Tax Levy Date
Through August 31, 2019	2% Discount
Through October 31, 2019	Face Payment Period
November 1, 2019	10% Penalty Period
January 1, 2020	Interim Tax-Levy Date

The School District's tax rate for all purposes in 2019-2020, was 10.8182 mills (\$10.8182 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 99% of the total tax levy.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2020, are as follows:

	Due from other funds	Due to other funds
Governmental Funds		
General Fund	\$ 90,429	\$ -
Proprietary Funds		
Food Service	-	85,781
Fiduciary Funds		
Student Activities	-	4,648
	<u>\$ 90,429</u>	<u>\$ 90,429</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, 2020, are as follows:

	Transfers in	Transfers out
Governmental Funds		
General Fund	\$ -	\$ 867,389
Capital Projects Fund	763,389	-
Proprietary Funds		
Food Service	104,000	-
	<u>\$ 867,389</u>	<u>\$ 867,389</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, 2020, was as follows:

	July 1, 2019	Increases	Decreases	June 30, 2020
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Construction-in-progress	\$ -	\$ 163,150	\$ -	\$ 163,150
Total capital assets not being depreciated	-	163,150	-	163,150
Capital assets being depreciated				
Land and site improvements	4,558,608	-	-	4,558,608
Buildings and building improvements	70,662,679	539,364	-	71,202,043
Furniture and equipment	7,128,414	117,553	-	7,245,967
Total capital assets being depreciated	82,349,701	656,917	-	83,006,618
Less accumulated depreciation				
Land and site improvements	2,462,634	101,351	-	2,563,985
Buildings and building improvements	24,849,779	1,715,383	-	26,565,162
Furniture and equipment	5,116,949	221,334	-	5,338,283
Total accumulated depreciation	32,429,362	2,038,068	-	34,467,430
Total capital assets being depreciated - net	49,920,339	(1,381,151)	-	48,539,188
Total Governmental Activities, Capital Assets - Net	\$49,920,339	\$(1,218,001)	\$ -	\$48,702,338
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 507,922	\$ -	\$ -	\$ 507,922
Total Business-Type Activities Capital Assets	507,922	-	-	507,922
Less accumulated depreciation				
Furniture and equipment	504,727	2,555	-	507,282
Business-Type Activities, Capital Assets - Net	\$ 5,750	\$(2,555)	\$ -	\$ 640

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

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

	Amount
<b>Governmental Activities</b>	
Instruction	\$ 1,423,538
Instructional student support	245,872
Administration and financial support	213,593
Operation and maintenance of plant services	78,900
Student activities	67,450
Transportation	8,715
<b>Total Governmental Activities</b>	<u>2,038,068</u>
<b>Business-Type Activities</b>	
Food Service	2,555
<b>Total School District</b>	<u>\$ 2,040,623</u>

**Note 7. Long-Term Obligations**

During the fiscal year ended June 30, 2020, long-term obligations changed as follows:

	July 1, 2019	Increases	Decreases	June 30, 2020	Due within one year
<b>General Obligation Bonds</b>					
Series of 2014	\$ 640,000	\$ -	\$ -	\$ 640,000	\$ -
Series of 2015	9,975,000	-	(9,525,000)	450,000	-
Series A of 2016	8,940,000	-	(5,000)	8,935,000	5,000
Series B of 2016	6,700,000	-	(2,325,000)	4,375,000	2,420,000
Series of 2019	9,745,000	-	-	9,745,000	35,000
Series of 2020	-	9,705,000	-	9,705,000	-
<b>Total General Obligation Bonds</b>	<u>36,000,000</u>	<u>9,705,000</u>	<u>(11,855,000)</u>	<u>33,850,000</u>	<u>2,460,000</u>
Unamortized bond premiums/(discounts)	645,836	291,371	(158,974)	778,233	-
<b>Total Long-Term Debt</b>	<u>36,645,836</u>	<u>9,996,371</u>	<u>(12,013,974)</u>	<u>34,628,233</u>	<u>2,460,000</u>
<b>Other Long-Term Obligations</b>					
Compensated absences	686,940	16,428	-	703,368	-
<b>Total Other Long-Term Obligations</b>	<u>686,940</u>	<u>16,428</u>	<u>-</u>	<u>703,368</u>	<u>-</u>
<b>Total Long-Term Obligations</b>	<u>\$ 37,332,776</u>	<u>\$ 10,012,799</u>	<u>\$ (12,013,974)</u>	<u>\$ 35,331,601</u>	<u>\$ 2,460,000</u>

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

General Obligation Bonds - Series of 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. During fiscal year 2018-19 this bond was partially refunded with the Series of 2019 issuance.

General Obligation Bonds - Series of 2015 - During fiscal year 2014-15, the Board of 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. During fiscal year 2019-20 this bond was partially refunded with the Series of 2020 issuance.

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.

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

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
2020-2021	\$ 2,460,000	\$ 896,274	\$ 3,356,274
2021-2022	2,000,000	884,082	2,884,082
2022-2023	1,335,000	832,761	2,167,761
2023-2024	1,370,000	793,431	2,163,431
2024-2025	1,425,000	738,751	2,163,751
2026-2030	7,725,000	3,092,266	10,817,266
2031-2035	8,675,000	2,127,848	10,802,848
2036-2040	8,860,000	875,263	9,735,263
	<u>\$ 33,850,000</u>	<u>\$ 10,240,676</u>	<u>\$ 44,090,676</u>

#### Compensated Absences

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 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 \$399,640 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, 2020.

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

##### Plan Description

PSERS (Pennsylvania Public School Employees' Retirement System or the System) is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. 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 contractually required contribution rate for the fiscal year ended June 30, 2020, was 34.29% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 34.29% rate is composed of a contribution rate of 33.45% for pension benefits and .84% for healthcare insurance premium assistance (OPEB benefits).

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2020, was \$4,490,722, and is equal to the required contribution for the year. For the year ended June 30, 2020, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$2,304,920.

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

At June 30, 2020, the District reported a liability of \$45,473,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2019, the District's proportion was .0972 percent, which was a decrease of .0020 from its proportion measured as of June 30, 2018.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

For the year ended June 30, 2020, the District recognized pension expense of \$3,567,000. At June 30, 2020, 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	\$ 250,000	\$ 1,507,000
Changes in assumptions	435,000	-
Net difference between projected and actual investment earnings	-	130,000
Changes in proportion	-	3,018,000
Difference between employer contributions and proportionate share of total contributions	54,000	46,000
Contributions subsequent to the measurement date	4,491,000	-
	<u>\$ 5,230,000</u>	<u>\$ 4,701,000</u>

\$4,491,000 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 ending June 30, 2021. 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
2021	\$ (1,313,000)
2022	(2,034,000)
2023	(692,000)
2024	77,000
2025	(1,000)
Thereafter	1,000
	<u>\$ (3,962,000)</u>

#### Actuarial Assumptions

The total pension liability as of June 30, 2019, was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on 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.



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

The actuarial assumptions used in the June 30, 2019 valuation, were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2015.

#### Investments

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

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

For the year ended June 30, 2019, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternative investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	-20.0%	0.7%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability	\$ 56,641,000	\$ 45,473,000	\$ 36,016,000

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, 2020, the District has payables to the PSERS pension plan of \$1,834,577. This total is composed of staff payroll accruals for retirement contributions.

Pension Reform

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, are required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a standalone defined contribution plan. PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6%.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

Plan Description, Benefit Terms and Funding Policy

The District provides retiree health, vision, and dental-care benefits, including prescription-drug coverage, to eligible, retired employees and qualified spouses/beneficiaries. This is a single-employer, defined-benefit plan administered by the District. The District funds OPEB on a pay-as-you go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB Statement No. 75. The plan description and benefit terms provided by the plan are summarized in the chart below:

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
<b>I. ALL GROUPS</b>	Retirement through PSERS	Coverage: Medical, Prescription, Drug, Dental, and Vision  Premium Sharing: The member and spouse may elect medical, prescription drug, dental, and vision coverage upon retirement by paying the full premiums.  Dependents: Spouses Included	Member coverage ceases at Medicare age  Spouse coverage ceases at Medicare age or when the member reaches Medicare age, whichever occurs first.
<p><b>Notes:</b></p> <p>1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he (or she) is eligible for either: 1) PSERS early retirement while under 62 with 5 years of PSERS Service or 2) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.</p> <p>2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he (or she) is eligible for either: 1) PSERS early retirement while under 65 with 10 years of PSERS Service or 2) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.</p> <p>3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.</p>			

Employees Covered by Benefit Terms

As of the July 1, 2018 actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	35
Inactive employees entitled to but not yet received benefit payments	-
Active employees	229
	264

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

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

At June 30, 2019, the District reported a liability of \$2,018,550 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2018. The OPEB liability is composed of the following:

	Amount
Total OPEB Liability, beginning	\$ 2,008,288
Changes for the year	
Service cost	124,552
Interest	61,570
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(52,648)
Benefit payments	(123,212)
Net Changes	10,262
Total OPEB Liability, ending	\$ 2,018,550

For the year ended June 30, 2019, the District recognized OPEB expense of \$162,006. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 286,112
Changes in assumptions	80,245	48,261
Benefit payments subsequent to the measurement date	126,525	-
	\$ 206,770	\$ 334,373

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$126,525 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ending June 30:	Total
2021	\$ (24,116)
2022	(24,116)
2023	(24,116)
2024	(24,116)
2025	(24,116)
Thereafter	(133,548)
	<u>\$ (254,128)</u>

##### Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increases which varies by age from 2.75 to 0%.
- Discount Rate - 3.36%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2019.
- Health Care Cost Trend Rate - 6.0% in 2018, and 5.5% in 2019-2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

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

The following presents the total OPEB liability of the district calculated using the discount rate of 3.36%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.36%) or one percentage higher (4.36%) than the current discount rate:

	1% Decrease 2.36%	Current Discount Rate 3.36%	1% Increase 4.36%
Total OPEB liability	\$ 2,159,477	\$ 2,018,550	\$ 1,885,631

The discount rate used to measure the Total OPEB liability increased from 2.98% as of July 1, 2018 to 3.36% as of July 1, 2019.

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

The following presents the total OPEB liability of the district calculated using the health care cost trend rates of (6.0% decreasing to 3.8%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 1,793,987	\$ 2,018,550	\$ 2,286,587

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### System Administration

The administrative staff of the System administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). 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. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The control and management of the System, including the investment of its assets is vested in the Board of Trustees (Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of the System by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

##### Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

##### Premium Assistance Eligibility Criteria

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

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2020, was 0.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$112,772 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$2,067,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB liability was calculated utilizing the employer's one year reported covered payroll as it relates to the total one year reported covered payroll. At June 30, 2019, the District's proportion was .0972%, which was a decrease of .0020 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$68,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,000	\$ -
Changes in assumptions	68,000	61,000
Changes in proportion	-	167,000
Net difference between projected and actual investment earnings	3,000	-
Difference between employer contributions and proportionate share of total contributions	1,000	2,000
Contributions subsequent to the measurement date	113,000	-
	<u>\$ 197,000</u>	<u>\$ 230,000</u>



# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

\$102,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	Amount
2020	\$ (33,000)
2021	(33,000)
2022	(34,000)
2023	(34,000)
2024	(15,000)
Thereafter	3,000
	<u>\$ (146,000)</u>

#### Actuarial Assumptions

The Total OPEB Liability as of June 30, 2019, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2018 to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.79% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on 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.
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The actuarial assumptions used in the June 30, 2019 valuation, were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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

Actuarial Assumptions (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017, determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	13.2%	0.2%
Fixed income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
	<u>100.0%</u>	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2019.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.79%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79% which represents the S&P 20 year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

#### Change in Actuarial Assumptions

The discount rate used to measure the total OPEB liability decreased from 2.98% as of June 30, 2018 to 2.79% as of June 30, 2019.

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

The following presents the District's proportionate share of the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
	1.98%	2.98%	3.98%
Total OPEB liability	\$ 2,355,000	\$ 2,067,000	\$ 1,829,000

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7.75%) that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 2,067,000	\$ 2,067,000	\$ 2,068,000

#### OPEB Plan Fiduciary Net Position

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

#### Plan Payables

At June 30, 2020, the District had payables to the OPEB plan of \$46,070.

### Note 12. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. 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 13. Commitments**

The District has approved approximately \$1,301,000 of construction projects as of June 30, 2020. The open construction projects include the turf and track project, the auditorium lighting project, and the phone system upgrade. The District expended approximately \$122,000 to date on these projects. The remaining \$1,179,000 is an outstanding commitment of the District.

#### **Note 14. Subsequent Events**

Recent developments arising from the coronavirus pandemic and efforts to mitigate the disease's domestic and global impacts have impacted the operations and finances of school districts. Changes in service approach, labor and personnel changes, facility closings, contracted service disruptions, personal protective equipment purchases and technological equipment acquisitions have affected all school districts. Unstable conditions enhance school district's risk factors as they have significant reliance on revenues from taxpayers and governmental agencies to fund their operations. These factors impact revenue recognition, cash flows and liquidity and contingencies. Presently, the ultimate, effects of this crisis on financial position, results of operations and cash flows are indeterminable because the duration of the crisis is also indeterminable; however, management continues to monitor developments.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF DISTRICT'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**Year Ended June 30,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
District's proportion of the net pension liability	0.0972%	0.0992%	0.1074%	0.1079%	0.1114%	0.1088%
District's proportionate share of the net pension liability	<u>\$ 45,473,000</u>	<u>\$ 47,621,000</u>	<u>\$ 53,043,000</u>	<u>\$ 53,472,000</u>	<u>\$ 48,254,000</u>	<u>\$ 43,064,000</u>
District's covered payroll	<u>\$ 13,401,787</u>	<u>\$ 13,364,151</u>	<u>\$ 14,296,498</u>	<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 payroll	339.31%	356.33%	371.02%	382.82%	336.55%	310.13%
Plan fiduciary net position as a percentage of the total pension liability	55.56%	54.00%	51.84%	50.14%	54.36%	57.24%

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

**Year Ended June 30,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 4,490,722	\$ 4,326,300	\$ 4,274,328	\$ 4,077,743	\$ 3,502,861	\$ 2,869,996
Contributions in relation to the contractually required contribution	(4,490,722)	(4,326,300)	(4,274,328)	(4,077,743)	(3,502,861)	(2,869,996)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 13,286,408	\$ 13,432,735	\$ 13,453,282	\$ 14,297,856	\$ 13,977,367	\$ 14,347,111
Contributions as a percentage of covered payroll	33.80%	32.21%	31.77%	28.52%	25.06%	20.67%

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



**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -  
DISTRICT'S SINGLE EMPLOYER PLAN**

**Year Ended June 30,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB liability</b>			
Service cost	\$ 124,552	\$ 166,341	\$ 160,579
Interest	61,570	73,005	53,095
Changes of benefit terms	-	-	-
Differences between Expected and Actual Experience	-	(343,334)	-
Changes in assumptions	(52,648)	3,648	102,939
Benefit payments	(123,212)	(125,362)	(118,673)
Other changes	-	-	-
<b>Net change in total OPEB liability</b>	<b>10,262</b>	<b>(225,702)</b>	<b>197,940</b>
<b>Total OPEB Liability - beginning</b>	<b>2,008,288</b>	<b>2,233,990</b>	<b>2,036,050</b>
<b>Total OPEB Liability - ending</b>	<b>\$ 2,018,550</b>	<b>\$ 2,008,288</b>	<b>\$ 2,233,990</b>
<b>District's covered payroll</b>	<b>\$ 12,019,760</b>	<b>\$ 12,019,760</b>	<b>\$ 12,700,218</b>
<b>Total OPEB Liability as a percentage of covered payroll</b>	<b>16.79%</b>	<b>16.71%</b>	<b>17.59%</b>

**Notes to Schedule:**

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -  
PSERS COST SHARING PLAN**

**Year Ended June 30,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
District's proportion of the net OPEB liability	0.0972%	0.0992%	0.1074%
District's proportionate share of the net OPEB liability	<u>\$ 2,067,000</u>	<u>\$ 2,068,000</u>	<u>\$ 2,188,000</u>
District's covered payroll	<u>\$ 13,401,787</u>	<u>\$ 13,364,151</u>	<u>\$ 14,296,498</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.42%	15.47%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.56%	5.73%

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF DISTRICTS CONTRIBUTIONS - PSERS COST SHARING PLAN  
Year Ended June 30,**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 112,772	\$ 110,148	\$ 111,774
Contributions in relation to the contractually required contribution	(112,772)	(110,148)	(111,774)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 13,286,408</u>	<u>\$ 13,432,735</u>	<u>\$ 13,453,282</u>
Contributions as a percentage of covered payroll	0.85%	0.82%	0.83%

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

**SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF 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, 2020, 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 9, 2020.

**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 Finding 2020-001 that we consider to be a material weakness.

### **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 & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania  
December 9, 2020

**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, 2020. 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, 2020.

## 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.

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

Camp Hill, Pennsylvania  
December 9, 2020



**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2020**

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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, 2020**

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

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
	<b>IDEA - Special Education Cluster</b>
84.027	Special Education - Grants to States
84.173	Special Education - Early Intervention
	<b>Child Nutrition Cluster</b>
10.555	National School Lunch Program
10.553	School Breakfast Program
10.555	Food Donation

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

**SOUTH MIDDLETON SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2020**

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**Section II - Financial Statement Findings**

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A. Material Weakness(es) in Internal Control

**Finding 2020-001**

**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 financial records required material adjustments.

**Cause and effect:** The financial records required material adjustments 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. On a monthly basis the Business Department will compare the employee benefits that are processed via the payroll procedure to the balance sheet accounts. Corresponding entries, to the expense accounts will be made to correct any variances. Further, benefit payments received from retirees or from COBRA payments will be reconciled monthly comparative to amounts paid out to benefit providers. This will provide a month to date and year to date reconciliation outlining payments received, and benefit payments made on behalf of retirees and prior employees on COBRA benefits. The use of the new business software will allow for an additional resource to assist with closing schedules. Additionally, the District will continue to collaborate with auditors throughout the fiscal year to discuss any internal procedures and processes.

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, 2020**

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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

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.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2020**

	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 7/1/2019	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2020	Provided to Subrecipients
<b>U.S. Department of Education</b>										
Passed through the Pennsylvania Department of Education										
Title I - Improving Basic Programs	84.010	013-190397	18-19	\$ 214,284	\$ 17,565	\$ 52,696	\$ -	\$ -	35,131	\$ -
Title I - Improving Basic Programs	84.010	013-200397	19-20	\$ 211,068	150,774	-	211,068	211,068	60,294	-
					<u>168,339</u>	<u>52,696</u>	<u>211,068</u>	<u>211,068</u>	<u>95,425</u>	<u>-</u>
Title II - Improving Teacher Quality	84.367	020-190397	18-19	\$ 50,926	59	59	-	-	-	-
Title II - Improving Teacher Quality	84.367	020-200397	19-20	\$ 48,221	47,352	-	48,221	48,221	869	-
					<u>47,411</u>	<u>59</u>	<u>48,221</u>	<u>48,221</u>	<u>869</u>	<u>-</u>
Title IV - Student Support and Academic Enrichment Program	84.424	144-200397	19-20	\$ 16,038	5,728	-	16,038	16,038	10,310	-
					<u>5,728</u>	<u>-</u>	<u>16,038</u>	<u>16,038</u>	<u>10,310</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education					<u>221,478</u>	<u>52,755</u>	<u>275,327</u>	<u>275,327</u>	<u>106,604</u>	<u>-</u>
Passed through Capital Area Intermediate Unit 15:										
Special Education Cluster										
Special Education - Grants to States	84.027	N/A	18-19	\$ 334,580	224,694	224,694	-	-	-	-
Special Education - Grants to States	84.027	N/A	19-20	\$ 345,701	220,663	-	345,701	345,701	125,038	-
					<u>445,357</u>	<u>224,694</u>	<u>345,701</u>	<u>345,701</u>	<u>125,038</u>	<u>-</u>
Special Education - Preschool Grants	84.173	N/A	18-19	\$ 780	780	780	-	-	-	-
Special Education - Preschool Grants	84.173	N/A	19-20	\$ 3,500	3,500	-	3,500	3,500	-	-
					<u>4,280</u>	<u>780</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>	<u>-</u>
Total Special Education Cluster					<u>449,637</u>	<u>225,474</u>	<u>349,201</u>	<u>349,201</u>	<u>125,038</u>	<u>-</u>
Total passed through the Capital Area Intermediate Unit					<u>449,637</u>	<u>225,474</u>	<u>349,201</u>	<u>349,201</u>	<u>125,038</u>	<u>-</u>
<b>Total U.S. Department of Education</b>					<u>671,115</u>	<u>278,229</u>	<u>624,528</u>	<u>624,528</u>	<u>231,642</u>	<u>-</u>

(Continued)

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended June 30, 2020

	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 7/1/2019	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2020	Provided to Subrecipients
<b>U.S. Department of Agriculture</b>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program*	10.555	N/A	19-20	N/A	231,785	-	284,674	284,674	52,889	-
School Breakfast Program*	10.553	N/A	19-20	N/A	78,228	-	107,304	107,304	29,076	-
Total passed through the Pennsylvania Department of Education					310,013	-	391,978	391,978	81,965	-
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program - Food Donations*	10.555	N/A	19-20	N/A	55,715	-	55,715	55,715	-	-
<b>Total U.S. Department of Agriculture</b>					365,728	-	447,693	447,693	81,965	-
<b>Total Expenditures of Federal Awards</b>					<u>\$ 1,036,843</u>	<u>\$ 278,229</u>	<u>\$ 1,072,221</u>	<u>\$ 1,072,221</u>	<u>\$ 313,607</u>	<u>\$ -</u>

\*Programs in the Child Nutrition Cluster

National School Lunch Program	\$ 284,674
School Breakfast Program	107,304
National School Lunch Program - Food Donations	55,715
	<u>\$ 447,693</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, 2019. 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, 2019

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

##### **Finding 2019-001**

**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 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 process of creating and documenting standard operating procedures which define levels of responsibility of team members, frequency of procedure, required steps and accounting procedures. With the recent personnel changes in the Business Office of eliminating the Assistant Business Manager position and creating the Accounting Specialist position, the District acknowledged the need for additional training and clear delineation of team members' responsibilities.

##### **Actions Taken During 2019-2020 FY:**

District staff did adhere to a strict monthly processing of financial statements by the 15 of each month. These responsibilities were outlined within job responsibilities distributed to various employees including the newly created Accounting Specialist position. This allowed for separation of duties and a clear check and balance process. End of month reconciliation processes were shifted to the Accounting Specialist position, as well as monitoring of balance sheet and income statement accounts. This separation of duties allowed for the Director of Business and Operations to oversee monthly and annual closing schedules. Mentorships and additional training were provided through CAIU Business Manager Cohorts, PASBO Accounting Committee, and partnership with Boyer & Ritter to provide consultative services through Cathy Harlow a retired Business Manager/Superintendent. Documented standard operating procedures were created for many accounting functions. Some additional procedures still need to be completed and in 19-20 this finding remains as 2020-001.



## SOUTH MIDDLETON SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2019

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#### A. Significant Deficiency(es) in Internal Control (Continued)

##### **Finding 2019-002**

**Criteria:** An integral component of an entity's internal control over financial reporting is the ability to segregate duties enough to prevent the potential for misappropriation of assets.

**Condition and context:** During our analysis of internal control, we noted that the duties related to the custody of assets, authorization of transactions, reconciliation of transactions, and record keeping over the cash disbursement process were not properly segregated from February 2019 through June 2019.

**Cause and effect:** During the year, the former business manager left the District. His role in the disbursement process was replaced by the assistant business manager who then performed the roles of both the assistant business manager and business manager due to lack of financial experience elsewhere in management. This led to an inadequate segregation of duties over cash disbursements. Because of the failure to segregate duties, internal accounting control does not reduce to a relatively low level the risk that irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**Recommendations:** We recommend now that the position of Accounting Specialist is filled the District now separate out the jobs over cash disbursements to better segregate the duties.

**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.

##### **Actions Taken During 2019-2020 FY:**

Segregation of duties over cash disbursement has been established with the creation of the new Accounting Specialist during 2019-2020. When cash transfers or disbursements are necessary between funds the Director of Business and Operations creates those transfers/disbursements through the proper online banking process. The Director of Business and Operations provides the back-up and transfer information to the Accounting Specialist who uses this information to make necessary entries into the business software. At the end of the month this information is used to reconcile the bank statements, which is also completed by the Accounting Specialist. Throughout the year, we worked closely with Cathy Harlow from Boyer and Ritter to seek advisement for cash disbursement entries to confirm proper account codes. Further, Mrs. Hranica, Accounting Specialist, went to PASBO trainings to educate herself on governmental accounting procedures.

## SOUTH MIDDLETON SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2019

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#### A. Significant Deficiency(ies) in Internal Control (Continued)

##### **Finding 2019-003**

**Criteria:** A key control for the District is having three separate signatures on all checks from different individuals within governance and management.

**Condition and context:** During our analysis of internal control we noted that one of the approved signors of checks was no longer an employee of the District.

**Cause and effect:** Due to an oversight during the year when the former business manager left the District, he was never removed as a check signor. The existence of this significant deficiency has the potential for a misappropriation of District funds.

**Recommendations:** We recommend the Board change check signors to individuals who are currently employed by the district. We also recommend that controls be put in place to ensure that when an employee who is a check signor of the district leaves the district, he or she is removed from the bank account as an authorized signor and the District's accounting system is updated for the change.

**Views of responsible officials and planned corrective actions:** With the hiring of new Business Office staff check signors were immediately updated and prior signors removed from corresponding bank accounts. At this time, the District has implemented controls to immediately update signers upon changes to the President of the Board of Directors, the Treasurer and the Director of Business and Operations to all District accounts, as well as electronic signatures to the District's accounting system.

##### **Actions Taken During 2019-2020 FY:**

Three separate signatures were established on all checks from different individuals throughout the entire fiscal year. This information was updated two times during the fiscal year, with the establishment of Mrs. Hranica becoming the Board Treasurer in the fall of 2019 and with Mrs. Knouse becoming the President of the Board of Directors in December 2019. Electronic signatures were updated both of those times into the District's business software, as well as updates to check signature names through banking establishments that the District distributes checks from.

## SOUTH MIDDLETON SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2019

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#### A. Significant Deficiency(ies) in Internal Control (Continued)

##### **Finding 2019-004**

**Criteria:** Reconciling of amounts outstanding to the recorded amounts is an integral part of any sound accounting system.

**Condition and context:** The monthly reconciled amounts over cash and accounts payable, in some cases do not agree with the amounts recorded in the general ledger.

**Cause and effect:** Monthly bank reconciliation reports do not identify all pertinent items to agree with amounts reported in the general ledger. The existence of this significant deficiency has the potential for misstatement of financial statement amounts as well as potential fraud.

**Recommendations:** We recommend the reconciliations reports performed each month be vouched directly to the corresponding general ledger account for agreement. All variances should be investigated by the accounting department.

**Views of responsible officials and planned corrective actions:** Through the audit process, the District has consulted with its auditors to establish a monthly process whereby adequate documentation and reconciliation procedures are implemented. Currently the Business Office is in the process of creating and documenting standard operating procedures which define levels of responsibility of team members, frequency of procedure, required steps and accounting procedures. With the recent personnel changes in the Business Office of eliminating the Assistant Business Manager position and creating the Accounting Specialist position, the District acknowledged the need for additional training and clear delineation of team members' responsibilities. The District is providing mentorships and other opportunities for the designated staff members to learn and grow in their current positions.

##### **Actions Taken During 2019-2020 FY:**

Monthly reconciliation reports were completed by the 15th of each month by the Accounting Specialist, whereby identifying all pertinent items to agree with amounts reported in the general ledger account codes in the district's business software. Variances were investigated initially by the Accounting Specialist and when needed reviewed by the Director of Business and Operations. End of month journal entry documents were created to allow for easy entry of items that needed to be posted each month. This document included standard entries to make to properly account for VISA transfers between funds, which was an area of known weakness for the district. Numerous meetings were established between Payroll Specialist, Accounting Specialist and Director of Business and Operations to work through variances within the payroll statement. Additionally, bi-weekly meetings were created called "Financial Check-Ins," which pulled together Accounting Specialist, Accounts Payable, Accounts Receivable to work through any outstanding reconciliation issues. Through these meetings and check ins the business team has transformed into data entry processors to developing a better understanding of the functions their roles play into the overall reconciliation procedures. The creation of Standard Operating Procedures also allowed each member of the Business Department to understand their responsibilities associated with the reconciliation process.



**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2020**

South Middleton School District respectfully submits the following corrective action plan for the year ended June 30, 2020.

The findings from the Section II – Financial Statement Findings are discussed below and numbered to correspond with the schedule. South Middleton School District is committed to the steps outlined in the corrective actions and has already made significant personnel changes to implement the documented plan.

**Financial Statement Findings – Material Weakness in Internal Control**

**Finding 2020-001**

**Recommendations:** The District's staff should adhere to strict monthly review of the general fund 0155 and 0470 accounts to confirm that these balance sheet accounts are being recorded properly. A monthly review will confirm that employee benefits through the payroll processes are properly recording to the individual expense accounts as well as the proper balance sheet accounts.

**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. On a monthly basis the Business Department will compare the employee benefits that are processed via the payroll procedure to the balance sheet accounts. Corresponding entries, to the expense accounts will be made to correct any variances. Further, benefit payments received from retirees or from COBRA payments will be reconciled monthly comparative to amounts paid out to benefit providers. This will provide a month to date and year to date reconciliation outlining payments received, and benefit payments made on behalf of retirees and prior employees on COBRA benefits. The use of the new business software will allow for an additional resource to assist with closing schedules. Additionally, the District will continue to collaborate with auditors throughout the fiscal year to discuss any internal procedures and processes.

**Person Responsible:** Nicole L Weber, Director of Business and Operations

**Completion Date:** June 30, 2021

Sincerely,

A handwritten signature in black ink that reads "Nicole L Weber".

Nicole L Weber

Director of Business and Operations