

SOUTH MIDDLETON SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1, to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. The District expanded its note disclosures and required supplementary information related to its other post-employment benefits plans. Our opinion is not modified with respect to this matter.

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 13, 2018, 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 13, 2018

**SOUTH MIDDLETON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2018**

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, 2018. Comparative financial information for fiscal year ended June 30, 2017, 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 2017-2018, the School Board adopted a General Fund Budget with a real estate tax millage rate of 10.2484 mills which represented a 7.28% increase from the 2016-2017 year. In 2018-2019 the District approved a 3.06% tax increase which represents a real estate tax millage rate of 10.5621.

On June 19, 2017, the District passed its 2017-2018 budget. The budget represented revenues that were greater than expenditures in the amount of \$392,708. In addition to revenues being greater than expenditures, the district also planned for a funded budgetary reserve in the amount of \$288,578. In total the budget provided for a planned surplus in the amount of \$681,286.

Overview of the Financial Statements

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

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

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

Government-wide Statements Report the District as a Whole

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

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

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

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

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

Net Position and Statement of Activities

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

The results of this year's operations as a whole are reported in the Statement of Activities. Direct expenses are listed by program, and then offset by program revenues to determine net (expense) revenue and changes in net position. General revenues, such as taxes, state general subsidies, and investment earnings are then applied prior to transfers, and special items, to determine the change in net position. For the 2017-2018 fiscal year, the change in net position for governmental activities was an increase of \$1,998,245 and an increase of \$1,500 for business-type activities, for a net total increase of \$1,999,745. For the 2016-2017 fiscal year, the change in net position for governmental activities was an increase of \$174,207 and an increase of \$16,048 for business-type activities for a net total increase of \$190,255 as reflected in the chart below.

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 10,422,696	\$ 11,701,716	\$ 19,708	\$ 38,882	\$ 10,442,404	\$ 11,740,598
Capital assets	51,429,117	50,415,745	5,750	8,623	51,434,867	50,424,368
Total assets	\$ 61,851,813	\$ 62,117,461	\$ 25,458	\$ 47,505	\$ 61,877,271	\$ 62,164,966
Deferred outflows of resources	\$ 8,374,604	\$ 9,801,123	\$ -	\$ -	\$ 8,374,604	\$ 9,801,123
Current liabilities	\$ 4,748,442	\$ 5,461,925	\$ 44,416	\$ 67,963	\$ 4,792,858	\$ 5,529,888
Long-term liabilities	96,850,367	96,174,159	-	-	96,850,367	96,174,159
Total liabilities	\$ 101,598,809	\$ 101,636,084	\$ 44,416	\$ 67,963	\$ 101,643,225	\$ 101,704,047
Deferred inflows of resources	\$ 1,673,000	\$ 1,870,000	\$ -	\$ -	\$ 1,673,000	\$ 1,870,000
Net investment in capital assets	\$ 13,191,010	\$ 12,449,574	\$ 5,750	\$ 8,623	\$ 13,196,760	\$ 12,458,197
Restricted	273,154	37,540	-	-	273,154	37,540
Unrestricted	(46,509,556)	(44,074,614)	(24,708)	(29,081)	(46,534,264)	(44,103,695)
Total net position	\$ (33,045,392)	\$ (31,587,500)	\$ (18,958)	\$ (20,458)	\$ (33,064,350)	\$ (31,607,958)

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for services	\$ 744,672	\$ 758,773	\$ 474,480	\$ 476,581	\$ 1,219,152	\$ 1,235,354
Operating grants and contributions	6,248,224	6,041,904	326,652	298,909	6,574,876	6,340,813
Capital grants and contributions	-	2,000,000	-	-	-	2,000,000
Total program revenues	6,992,896	8,800,677	801,132	775,490	7,794,028	9,576,167
General Revenues (Expenses)						
Taxes	24,972,730	22,668,351	-	-	24,972,730	22,668,351
General subsidies	4,380,892	4,305,663	-	-	4,380,892	4,305,663
Investment earnings	98,346	69,548	333	83	98,679	69,631
Loss on disposition of capital assets	-	(239,878)	-	-	-	(239,878)
Other local revenue	92,966	41,244	-	-	92,966	41,244
Total general revenues	29,544,934	26,844,928	333	83	29,545,267	26,845,011
Total Revenues	36,537,830	35,645,605	801,465	775,573	37,339,295	36,421,178
Total Expenses	34,521,520	35,442,328	818,030	788,595	35,339,550	36,230,923
Excess (deficiency) before transfers	2,016,310	203,277	(16,565)	(13,022)	1,999,745	190,255
Transfers	(18,065)	(29,070)	18,065	29,070	-	-
Changes in net position	1,998,245	174,207	1,500	16,048	1,999,745	190,255
Net position - beginning	(31,587,500)	(31,761,707)	(20,458)	(36,506)	(31,607,958)	(31,798,213)
Prior period adjustment	(3,456,137)	-	-	-	(3,456,137)	-
Net position - beginning (restated)	(35,043,637)	(31,761,707)	(20,458)	(36,506)	(35,064,095)	(31,798,213)
Net position - ending	\$ (33,045,392)	\$ (31,587,500)	\$ (18,958)	\$ (20,458)	\$ (33,064,350)	\$ (31,607,958)

Fund Balances

The General Fund balance increase of \$2,065,600 was due to a planned budgetary surplus in addition to better than expected collections in real estate tax, realty transfer tax, and earned income tax. District expenditures including other financing sources were on par with budgeted projections but did have a slight variance over budget in the amount of \$114,791.

The Cafeteria Fund continued to be managed by ARAMARK Corp., with the 2017-2018 school year being the fifth year the management group oversaw the food service program. ARAMARK provided the District with a break even budget for the 2017-2018 school year. ARAMARK was contractually obligated to refund their management fee to the District for not meeting the full scope of their submitted budget. The cafeteria fund ended the 2017-2018 fiscal year with a \$1,500 increase in net position.

The Capital Projects Fund closed the year with a restricted fund balance of \$661,279 which is a decrease of \$2,489,252 from the 2016-2017 fiscal year. This decrease is a direct reflection of ongoing construction activities at the W.G. Rice Elementary School.

	2018	2017	Change	% Change
General Fund, including Athletics	\$ 5,526,937	\$ 3,461,337	\$ 2,065,600	59.68%
Capital Projects Fund	661,279	3,150,531	(2,489,252)	-79.01%
Total Governmental Fund Balances	\$ 6,188,216	\$ 6,611,868	\$ (423,652)	-6.41%

	Budget	Actual	Difference
Total Revenues	\$ 34,812,851	\$ 36,600,534	\$ 1,787,683
Total Expenditures	33,896,565	34,286,375	(389,810)
Change in Fund Balances excluding Interfund Transfers	916,286	2,314,159	1,397,873
Interfund Transfers	(235,000)	(248,559)	(13,559)
Net Changes in Fund Balances	<u>\$ 681,286</u>	2,065,600	<u>\$ 1,384,314</u>
General Fund Balance - June 30, 2017		<u>3,461,337</u>	
General Fund Balance - June 30, 2018		<u>\$ 5,526,937</u>	

Capital Assets

On June 30, 2018, the District recorded \$51,434,867 in Total Capital Assets, which represents an increase of \$1,010,499 from the previous fiscal year. This increase is based on the completion and full occupancy of the W.G. Rice Elementary School which increased capital assets during the year.

	2018	2017	Change
Governmental Activities			
Construction-in-progress	\$ -	\$ 1,705,744	\$ (1,705,744)
Land and site improvements	2,251,799	2,429,067	(177,268)
Buildings and improvements	47,080,473	44,191,622	2,888,851
Furniture and equipment	2,096,845	2,089,312	7,533
Total Governmental Capital Assets	<u>51,429,117</u>	<u>50,415,745</u>	<u>1,013,372</u>
Business-Type Activities			
Total Business Capital Assets	<u>5,750</u>	<u>8,623</u>	<u>(2,873)</u>
Total Capital Assets	<u>\$ 51,434,867</u>	<u>\$ 50,424,368</u>	<u>\$ 1,010,499</u>

Long-Term Liabilities

Bonds payable at June 30, 2018, were \$37,845,000 compared to \$40,050,000 at June 30, 2017. A total of \$2,205,000 of existing bonds was repaid during the 2017-2018 fiscal year.

General Obligation Debt	2018	2017
Series of 2014	\$ 9,975,000	\$ 9,980,000
Series of 2015	9,980,000	9,985,000
Series A of 2016	8,945,000	8,950,000
Series B of 2016	8,945,000	11,135,000
Total Outstanding Debt	\$ 37,845,000	\$ 40,050,000

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 2.3% for the 2019-2020 fiscal year. The District raised taxes for the 2018-2019 fiscal year by 3.06%. The Act 1 index for 2018-2019 fiscal year was 2.4%. For the second time under the Act 1 of 2006 legislation, the South Middleton School District Board of Directors elected to utilize the approved referendum exceptions and raise taxes beyond the index.

The District's agreement with the bargaining unit (South Middleton Education Association) for District teaching professionals expired on June 30, 2017. The expired agreement includes a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The outstanding agreement began July 1, 2012 through June 30, 2015 and was extended from July 1, 2014 through June 30, 2017. The District and SMEA leadership 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) that will help to control rising insurance premium costs.

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 that have helped to contain district expenditures.

In June 2018, the Board approved the use of ESS, a staffing agency that provides custodial and classroom aide services to schools. The Board has authorized administration to utilize ESS services based on an attrition model with 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, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,105,875	\$ 18,527	\$ 7,124,402
Investments	705,479	-	705,479
Internal balances	106	(106)	-
Receivables	2,603,890	93	2,603,983
Inventories	7,346	1,194	8,540
Other capital assets, net of depreciation	51,429,117	5,750	51,434,867
Total assets	\$ 61,851,813	\$ 25,458	\$ 61,877,271
Deferred Outflows of Resources			
Deferred amounts on pension liability	\$ 8,027,000	\$ -	\$ 8,027,000
Deferred amounts on OPEB liabilities	333,723	-	333,723
Deferred amounts on refunding debt	13,881	-	13,881
Total deferred outflows of resources	\$ 8,374,604	\$ -	\$ 8,374,604
Liabilities			
Accounts payable and accrued expenses	\$ 4,685,373	\$ 18,747	\$ 4,704,120
Unearned revenues	63,069	25,669	88,738
Long-term obligations			
Due within one year	2,260,000	-	2,260,000
Due in more than one year	37,125,377	-	37,125,377
Net pension liability	53,043,000	-	53,043,000
OPEB liabilities	4,421,990	-	4,421,990
Total long-term liabilities	96,850,367	-	96,850,367
Total liabilities	\$ 101,598,809	\$ 44,416	\$ 101,643,225
Deferred Inflows of Resources			
Deferred amounts on pension liability	\$ 1,559,000	\$ -	\$ 1,559,000
Deferred amounts on OPEB liabilities	114,000	-	114,000
Total deferred inflows of resources	\$ 1,673,000	\$ -	\$ 1,673,000
Net Position			
Net investment in capital assets	\$ 13,191,010	\$ 5,750	\$ 13,196,760
Restricted	273,154	-	273,154
Unrestricted	(46,509,556)	(24,708)	(46,534,264)
Total net position	\$ (33,045,392)	\$ (18,958)	\$ (33,064,350)

See Notes Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

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
Governmental Activities:							
Instruction	\$ 20,972,329	\$ 668,727	\$ 4,437,052	\$ -	\$ (15,866,550)	\$ -	\$ (15,866,550)
Instructional student support	3,422,166	-	388,337	-	(3,033,829)	-	(3,033,829)
Administration and financial support	3,487,405	-	394,718	-	(3,092,687)	-	(3,092,687)
Operation and maintenance of plant services	2,946,433	4,732	198,552	-	(2,743,149)	-	(2,743,149)
Pupil transportation	1,659,936	-	703,624	-	(956,312)	-	(956,312)
Student activities	984,384	71,213	125,941	-	(787,230)	-	(787,230)
Interest on long-term debt	1,048,867	-	-	-	(1,048,867)	-	(1,048,867)
Total governmental activities	34,521,520	744,672	6,248,224	-	(27,528,624)	-	(27,528,624)
Business-Type activities:							
Food service	818,030	474,480	326,652	-	-	(16,898)	(16,898)
Total School District	\$ 35,339,550	\$ 1,219,152	\$ 6,574,876	\$ -	\$ (27,528,624)	\$ (16,898)	\$ (27,545,522)
General Revenues and Transfers:							
Property taxes levied for general purposes, net					\$ 19,256,088	\$ -	\$ 19,256,088
Public utility, realty transfer, earned income and other taxes for general purposes, net					5,716,642	-	5,716,642
Grants, subsidies and contributions not restricted					4,380,892	-	4,380,892
Investment earnings					98,346	333	98,679
Miscellaneous income					92,966	-	92,966
Transfers					(18,065)	18,065	-
Total general revenues and transfers					29,526,869	18,398	29,545,267
Changes in net position					1,998,245	1,500	1,999,745
Net Position - July 1, 2017 (as previously reported)					(31,587,500)	(20,458)	(31,607,958)
Prior period adjustment (see Note 1)					(3,456,137)	-	(3,456,137)
Net Position - July 1, 2017 (restated)					(35,043,637)	(20,458)	(35,064,095)
Net Position - June 30, 2018					\$ (33,045,392)	\$ (18,958)	\$ (33,064,350)

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 6,400,136	\$ 705,739	\$ 7,105,875
Investments	705,479	-	705,479
Due from other funds	49,244	50,873	100,117
Due from other governments	1,514,150	-	1,514,150
Taxes receivable - net	1,028,448	-	1,028,448
Other receivables	31,746	-	31,746
Inventories	7,346	-	7,346
Total assets	\$ 9,736,549	\$ 756,612	\$ 10,493,161
Liabilities			
Accounts payable	\$ 281,637	\$ 31,763	\$ 313,400
Due to other funds	6,895	63,570	70,465
Due to other governments	188,865	-	188,865
Accrued salaries and benefits	3,137,829	-	3,137,829
Payroll deductions and withholdings	287,667	-	287,667
Unearned revenues	63,069	-	63,069
Total liabilities	3,965,962	95,333	4,061,295
Deferred Inflows of Resources			
Delinquent property taxes	243,650	-	243,650
Fund Balances			
Non-spendable fund balance for:			
Inventories	7,346	-	7,346
Restricted fund balance for:			
Capital projects	-	661,279	661,279
Committed fund balance for:			
Future retirement and health care obligations	2,000,000	-	2,000,000
Unassigned	3,519,591	-	3,519,591
Total fund balances	5,526,937	661,279	6,188,216
Total liabilities, deferred inflows of resources and fund balances	\$ 9,736,549	\$ 756,612	\$ 10,493,161

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

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

June 30, 2018

Total Fund Balances - Governmental Funds	\$ 6,188,216
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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 \$81,724,143, and the accumulated depreciation is \$30,295,026.	51,429,117
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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.	243,650
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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.	13,881
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Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail):	
Deferred outflows	8,027,000
Deferred inflows	(1,559,000)

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	333,723
Deferred inflows	(114,000)

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	(38,640,113)
Accrued interest	(757,612)
Compensated absences	(745,264)
Net pension liability	(53,043,000)
OPEB liabilities	(4,421,990)
	(97,607,979)

Total net position - governmental activities	\$ (33,045,392)
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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, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Local sources	\$ 25,971,419	\$ 12,764	\$ 25,984,183
State sources	10,372,981	-	10,372,981
Federal sources	256,134	-	256,134
Total revenues	36,600,534	12,764	36,613,298
Expenditures			
Instructional	19,083,891	-	19,083,891
Support services	10,892,900	38,734	10,931,634
Operation of noninstructional services	874,205	-	874,205
Capital outlay	-	2,693,776	2,693,776
Debt service			
Principal	2,205,000	-	2,205,000
Interest	1,225,084	-	1,225,084
Refund of prior years' receipts	5,295	-	5,295
Total expenditures	34,286,375	2,732,510	37,018,885
Excess (deficiency) of revenues over expenditures	2,314,159	(2,719,746)	(405,587)
Other Financing Sources (Uses)			
Interfund transfers in	-	235,000	235,000
Interfund transfers out	(248,559)	(4,506)	(253,065)
Total other financing sources (uses)	(248,559)	230,494	(18,065)
Net changes in fund balances	2,065,600	(2,489,252)	(423,652)
Fund Balances - July 1, 2017	3,461,337	3,150,531	6,611,868
Fund Balances - June 30, 2018	\$ 5,526,937	\$ 661,279	\$ 6,188,216

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, 2018

Net change in fund balances - governmental funds	\$ (423,652)
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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	2,992,392	
Less depreciation expense	<u>(1,979,020)</u>	1,013,372

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.

(70,172)

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.

(71,713)

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)	4,386,000	
Cost of benefits earned net of employee contributions (PSERS)	(5,379,000)	

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	187,370	
Change in other post-employment benefits (District's plan)	(96,890)	

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

Repayment of long-term debt	2,205,000	
Amortization of charges for bond refundings	(7,242)	
Amortization of bond premiums and discounts - net	<u>255,172</u>	<u>2,452,930</u>

Changes in net position of governmental activities	<u>\$ 1,998,245</u>
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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, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 24,693,047	\$ 24,693,047	\$ 25,971,419	\$ 1,278,372
State sources	9,921,627	9,921,627	10,372,981	451,354
Federal sources	198,177	198,177	256,134	57,957
Total revenues	34,812,851	34,812,851	36,600,534	1,787,683
Expenditures				
Instructional	19,337,017	19,229,609	19,083,891	145,718
Support services	10,342,731	10,291,991	10,892,900	(600,909)
Operation of noninstructional services	771,733	929,881	874,205	55,676
Debt service	3,445,084	3,445,084	3,430,084	15,000
Refund of prior year's receipts	-	-	5,295	(5,295)
Total expenditures	33,896,565	33,896,565	34,286,375	(389,810)
Excess of revenues over expenditures	916,286	916,286	2,314,159	1,397,873
Other Financing Sources (Uses)				
Interfund transfers out	(235,000)	(235,000)	(248,559)	(13,559)
Budgetary reserve	(288,578)	(288,578)	-	288,578
Total other financing uses	(523,578)	(523,578)	(248,559)	275,019
Net changes in fund balance	\$ 392,708	\$ 392,708	2,065,600	\$ 1,672,892
Fund Balances - July 1, 2017			3,461,337	
Fund Balances - June 30, 2018			<u>\$ 5,526,937</u>	

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE

June 30, 2018

Assets	
Cash and cash equivalents	\$ 18,527
Receivables	
Other	93
Inventories	1,194
Other capital assets, net of depreciation	5,750
Total assets	<u>\$ 25,564</u>
Liabilities	
Accounts payable	\$ 18,747
Due to other funds	106
Unearned revenues	25,669
Total liabilities	<u>\$ 44,522</u>
Net Position	
Net investment in capital assets	\$ 5,750
Unrestricted	(24,708)
Total net position	<u>\$ (18,958)</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, 2018**

Operating Revenues	
Food service revenue	\$ 474,480
Operating Expenses	
Other purchased services	742,513
Supplies	72,644
Depreciation	2,873
Total operating expenses	<u>818,030</u>
Operating loss	(343,550)
Nonoperating Revenues	
Investment earnings	333
State sources	20,028
Federal sources	306,624
Total nonoperating revenues	<u>326,985</u>
Interfund Transfer In	<u>18,065</u>
Changes in net position	1,500
Net Position - July 1, 2017	<u>(20,458)</u>
Net Position - June 30, 2018	<u>\$ (18,958)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2018**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 470,413
Cash payments for goods and services	(785,760)
Net cash used in operating activities	<u>(315,347)</u>
Cash Flows From Noncapital Financing Activities	
State sources	20,621
Federal sources	263,473
Transfers	18,065
Net cash provided by noncapital financing activities	<u>302,159</u>
Cash Flows From Investing Activities	
Investment earnings	<u>333</u>
Net decrease in cash and cash equivalents	(12,855)
Cash and Cash Equivalents:	
July 1, 2017	<u>31,382</u>
June 30, 2018	<u>\$ 18,527</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (343,550)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,873
Value of donated commodities used	51,137
Changes in assets and liabilities:	
(Increase) decrease in:	
Other accounts receivable	9,485
Inventories	22,545
(Decrease) increase in:	
Accounts payable	(19,480)
Internal balances	(34,290)
Unearned revenues	(4,067)
Net cash used in operating activities	<u>\$ (315,347)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	<u>Agency Fund</u>	Private-Purpose	
	Student Activities	Trust Fund	Total
Assets			
Cash and cash equivalents	\$ 214,378	\$ 113,507	\$ 327,885
Accounts receivable	1,180	-	1,180
Total assets	<u>\$ 215,558</u>	<u>\$ 113,507</u>	<u>\$ 329,065</u>
Liabilities			
Due to student groups	\$ 186,012	\$ -	\$ 186,012
Due to other funds	29,546	-	29,546
Total liabilities	<u>\$ 215,558</u>	<u>\$ -</u>	<u>\$ 215,558</u>
Net Position			
Held in trust for private purposes	\$ -	\$ 113,507	\$ 113,507
Total net position	<u>\$ -</u>	<u>\$ 113,507</u>	<u>\$ 113,507</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2018**

Additions	
Contributions	\$ 7,170
Investment earnings	444
Total additions	<u>7,614</u>
Deductions	
Scholarships and awards	<u>10,140</u>
Total deductions	<u>10,140</u>
Changes in net position	(2,526)
Net Position - July 1, 2017	<u>116,033</u>
Net Position - June 30, 2018	<u>\$ 113,507</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budget and Budgetary Accounting

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

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

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

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

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

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

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2018. 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, 2017 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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

As of July 1, 2017, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Implementation of GASB No. 75 requires the District to recognize the liability and deferred inflows and outflows of resources resulting from a proportionate share of the net OPEB liability relating to the PSERS Plan and of the total OPEB liability relating to the District's Single Employer Plan as of June 30, 2017. This has resulted in a total decrease in the District's net position of \$3,456,137 as of July 1, 2017.

The balance of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2018, are as follows:

	Governmental Activities
<hr/>	
OPEB Liabilities	
District's Single Employer Plan	\$ 2,233,990
PSERS Cost Sharing Plan	2,188,000
Total	<u>\$ 4,421,990</u>
Deferred Outflows of Resources	
District's Single Employer Plan	\$ 219,723
PSERS Cost Sharing Plan	114,000
Total	<u>\$ 333,723</u>
Deferred Inflows of Resources	
District's Single Employer Plan	\$ -
PSERS Cost Sharing Plan	114,000
Total	<u>\$ 114,000</u>

Additional disclosures related to other post-employment benefits of the District's Single Employer Plan and PSERS Cost Sharing Plan are in Note 10 and Note 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 services lives of active and inactive members.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balance:

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

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

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

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

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

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

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

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 13, 2018, the date that the financial statements were available to be issued.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2018, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 244,762	\$ 244,762	F&M Trust
Insured (FDIC)	250,000	250,000	M&T Bank
Uninsured, collateralized in accordance with Act 72	3,507,395	3,798,862	M&T Bank
	<u>\$ 4,002,157</u>	<u>\$ 4,293,624</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

Note 2. Deposits and Investments (Continued)

Investments

As of June 30, 2018, 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	80 days	AAAm	\$ 2,412
Pennsylvania Local Government Investment Trust (PLGIT)			
PLGIT - Class Shares	85 days	AAAm	3,447,693
PLGIT - I-Class Shares	85 days	AAAm	26
Pennsylvania Treasurer's INVEST Daily Program	53 days	AAAm	705,479
			<u>\$ 4,155,610</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 Shares, PLGIT - ARM Series, and Pennsylvania Treasurer's INVEST Daily Program, at amortized cost

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Portfolio Assets (Continued)

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

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

Weighted-Average Maturity

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

Interest-Rate Risk

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

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

A summary of the taxes receivable and related accounts at June 30, 2018, is as follows:

	Amount
Uncollected taxes	\$ 1,039,488
Estimated uncollectible taxes	<u>(11,040)</u>
 Taxes Receivable - Net	 <u><u>\$ 1,028,448</u></u>
 Taxes to be collected within 60 days	 \$ 784,798
Deferred inflows of resources - delinquent property taxes	<u>243,650</u>
 Taxes Receivable - Net	 <u><u>\$ 1,028,448</u></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 2017-2018 is as follows:

July 1, 2017	Tax Levy Date
Through August 31, 2017	2% Discount
Through October 31, 2017	Face Payment Period
November 1, 2017	10% Penalty Period
January 1, 2018	Interim Tax-Levy Date

The School District's tax rate for all purposes in 2017-2018 was 10.2484 mills (\$10.2484 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

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2018, are as follows:

	Due from other funds	Due to other funds
<hr/>		
Governmental Funds		
General Fund	\$ 42,349	\$ -
Capital Projects Fund	-	12,697
Proprietary Funds		
Food Service	-	106
Fiduciary Funds		
Student Activities	-	29,546
	<hr/>	<hr/>
	\$ 42,349	\$ 42,349
	<hr/> <hr/>	<hr/> <hr/>

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

Operating transfers between funds at June 30, 2018, are as follows:

	Transfers in	Transfers out
<hr/>		
Governmental Funds		
General Fund	\$ -	\$ 248,559
Capital Projects Fund	235,000	4,506
Proprietary Funds		
Food Service	18,065	-
	<hr/>	<hr/>
	\$ 253,065	\$ 253,065
	<hr/> <hr/>	<hr/> <hr/>

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, 2018, was as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Construction-in-progress	\$ 1,705,744	\$ -	\$ 1,705,744	\$ -
Total capital assets not being depreciated	1,705,744	-	1,705,744	-
Capital assets being depreciated				
Land and site improvements	4,551,452	-	-	4,551,452
Buildings and building improvements	65,780,091	4,457,016	-	70,237,107
Furniture and equipment	6,694,464	241,120	-	6,935,584
Total capital assets being depreciated	77,026,007	4,698,136	-	81,724,143
Less accumulated depreciation				
Land and site improvements	2,122,385	177,268	-	2,299,653
Buildings and building improvements	21,588,469	1,568,165	-	23,156,634
Furniture and equipment	4,605,152	233,587	-	4,838,739
Total accumulated depreciation	28,316,006	1,979,020	-	30,295,026
Total capital assets being depreciated - net	48,710,001	2,719,116	-	51,429,117
Total Governmental Activities, Capital Assets - Net	\$50,415,745	\$ 2,719,116	\$ 1,705,744	\$51,429,117
Business-Type Activities				
Furniture and equipment	\$ 534,773	\$ -	\$ -	\$ 534,773
Total Business-Type Activities Capital Assets	534,773	-	-	534,773
Less accumulated depreciation				
Furniture and equipment	526,150	2,873	-	529,023
Business-Type Activities, Capital Assets - Net	\$ 8,623	\$ (2,873)	\$ -	\$ 5,750

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

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

	Amount
Governmental Activities	
Instruction	\$ 1,358,125
Instructional student support	197,878
Administration and financial support	227,351
Operation and maintenance of plant services	114,363
Student activities	72,540
Transportation	8,763
Total Governmental Activities	<u>1,979,020</u>
Business-Type Activities	
Food Service	2,873
Total School District	<u>\$ 1,981,893</u>

Note 7. Long-Term Obligations

During the fiscal year ended June 30, 2018, long-term obligations changed as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018	Due within one year
General Obligation Bonds					
Series of 2014	\$ 9,980,000	\$ -	\$ (5,000)	9,975,000	\$ 5,000
Series of 2015	9,985,000	-	(5,000)	9,980,000	5,000
Series A of 2016	8,950,000	-	(5,000)	8,945,000	5,000
Series B of 2016	11,135,000	-	(2,190,000)	8,945,000	2,245,000
Total General Obligation Bonds	<u>40,050,000</u>	-	<u>(2,205,000)</u>	37,845,000	2,260,000
Unamortized bond premiums/(discounts)	1,050,285	-	(255,172)	795,113	-
Total Long-Term Debt	<u>41,100,285</u>	-	<u>(2,460,172)</u>	38,640,113	2,260,000
Other Long-Term Obligations					
Compensated absences	932,634	-	(187,370)	745,264	-
Total Other Long-Term Obligations	<u>932,634</u>	-	<u>(187,370)</u>	745,264	-
Total Long-Term Obligations	<u>\$ 42,032,919</u>	\$ -	<u>\$ (2,647,542)</u>	\$ 39,385,377	\$ 2,260,000

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

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

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

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

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

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
2018-2019	\$ 2,260,000	\$ 1,169,264	\$ 3,429,264
2019-2020	2,340,000	1,088,836	3,428,836
2020-2021	2,435,000	993,676	3,428,676
2021-2022	1,165,000	907,201	2,072,201
2022-2023	2,120,000	855,305	2,975,305
2023-2028	7,035,000	3,797,099	5,917,099
2029-2033	8,050,000	2,782,143	9,817,143
2034-2038	8,695,000	1,474,577	9,524,577
2038-2041	3,745,000	151,298	8,846,298
	<u>\$ 37,845,000</u>	<u>\$ 13,219,399</u>	<u>\$ 49,439,399</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Compensated Absences

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

Note 8. Affiliates

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

Total payments of \$354,205 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, 2018.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans

Plan Description

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

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

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, 2018 was 32.57% 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 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and .83% 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, 2018, was \$4,274,328, and is equal to the required contribution for the year. For the year ended June 30, 2018, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$2,196,760.

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

At June 30, 2018, the District reported a liability of \$53,043,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the District's proportion was .1074 percent, which was a decrease of .0005 from its proportion measured as of June 30, 2016.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$5,287,000. At June 30, 2018, 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	\$ 553,000	\$ 321,000
Changes in assumptions	1,441,000	-
Net difference between projected and actual investment earnings	1,229,000	-
Changes in proportion	441,000	1,207,000
Difference between employer contributions and proportionate share of total contributions	89,000	31,000
Contributions subsequent to the measurement date	4,274,000	-
	<u>\$ 8,027,000</u>	<u>\$ 1,559,000</u>

\$4,274,000 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, 2019. 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
2019	\$ 493,000
2020	1,324,000
2021	604,000
2022	(223,000)
2023	(3,000)
Thereafter	(1,000)
	<u>\$ 2,194,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017, 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

Note 9. Defined-Benefit Pension Plans (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0%)	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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%
District's proportionate share of the net pension liability	\$ 65,292,000	\$ 53,043,000	\$ 42,702,000

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.

Plan Payables

At June 30, 2018, the District has payables to the PSERS pension plan of \$1,786,608. This total is composed of staff payroll accruals for retirement contributions.

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
I. ALL GROUPS	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>Notes:</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

For the year ended June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	32
Inactive employees entitled to but not yet received benefit payments	-
Active employees	255
	287

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

At June 30, 2018, the District reported a liability of \$2,233,990 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016. The OPEB liability is composed of the following:

	Amount
Total OPEB Liability, beginning	\$ 2,036,050
Changes for the year	
Service cost	160,579
Interest	53,095
Changes in assumptions	102,939
Estimated benefit payments	(118,673)
Net Changes	197,940
Total OPEB Liability, ending	\$ 2,233,990

For the year ended June 30, 2018, the District recognized OPEB expense of \$222,252. At June 30, 2018, 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
Changes in assumptions	\$ 94,361	\$ -
Benefit payments subsequent to the measurement date	125,362	-
	\$ 219,723	\$ -

Of the total amount reported as deferred outflows of resources related to OPEB, \$125,362 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, 2019. 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
2019	\$ 8,578
2020	8,578
2021	8,578
2022	8,578
2023	8,578
Thereafter	51,471
	\$ 94,361

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, 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 - 3.13%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at 7/1/2017.
- Health Care Cost Trend Rate - 6.0% in 2017, and 5.5% in 2018-2023. Rates gradually decrease from 5.4% in 2024 to 3.9% 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.

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 3.13%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage higher (4.13%) than the current discount rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
Total OPEB liability	\$ 2,397,616	\$ 2,233,990	\$ 2,079,542

The discount rate used to measure the total OPEB liability increased from 2.49% as of July 1, 2016 to 3.13% as of July 1, 2017.

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 3.9%), 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	\$ 1,968,503	\$ 2,233,990	\$ 2,552,438

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

System Administration

The administrative staff of the Pennsylvania Public School Employees' Retirement System (PSERS or the System) administers a defined benefit pension plan, and two postemployment 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 postemployment 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, 2017, 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

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, 2018 was 0.83% 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 \$111,774 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$2,188,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the District's proportion was .1074 percent, which was a decrease of .0005 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,000. At June 30, 2018, 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
Changes in assumptions	\$ -	\$ 102,000
Changes in proportion	-	9,000
Net difference between projected and actual investment earnings	2,000	-
Difference between employer contributions and proportionate share of total contributions	-	3,000
Contributions subsequent to the measurement date	112,000	-
	<u>\$ 114,000</u>	<u>\$ 114,000</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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)

\$112,000 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2019	\$ (19,000)
2020	(19,000)
2021	(19,000)
2022	(19,000)
2023	(18,000)
Thereafter	(18,000)
	<u>\$ (112,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - 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%

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	<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, 2017.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.13%. 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 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, 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 increased from 2.71% as of June 30, 2016 to 3.13% as of June 30, 2017.

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 3.13%, 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 (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ 2,487,000	\$ 2,188,000	\$ 1,940,000

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% and 8%) 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
District's proportionate share of the net OPEB liability	\$ 2,188,000	\$ 2,188,000	\$ 2,189,000

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.

Plan Payables

At June 30, 2018, the District has payables to the OPEB plan of \$44,885.

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.

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,	2018	2017	2016	2015
District's proportion of the net pension liability	0.1074%	0.1079%	0.1114%	0.1088%
District's proportionate share of the net pension liability	<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>\$ 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	371.02%	382.82%	336.55%	310.13%
Plan fiduciary net position as a percentage of the total pension liability	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,	2018	2017	2016	2015
Contractually required contribution	\$ 4,274,328	\$ 4,077,743	\$ 3,502,861	\$ 2,869,996
Contributions in relation to the contractually required contribution	(4,274,328)	(4,077,743)	(3,502,861)	(2,869,996)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 13,453,282	\$ 14,297,856	\$ 13,977,367	\$ 14,347,111
Contributions as a percentage of covered payroll	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
SCHEDULES OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -
DISTRICT'S SINGLE EMPLOYER PLAN**

Year Ended June 30, 2018

Total OPEB liability	
Service cost	\$ 160,579
Interest	53,095
Changes in assumptions	102,939
Benefit payments	<u>(118,673)</u>
Net change in total OPEB liability	197,940
Total OPEB Liability - beginning	<u>2,036,050</u>
Total OPEB Liability - ending	<u><u>\$ 2,233,990</u></u>
District's covered payroll	<u><u>\$ 12,700,218</u></u>
Total OPEB Liability as a percentage of covered payroll	17.59%

Notes to Schedule:

Changes in assumptions: The discount rate changes from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

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, 2018**

District's proportion of the net OPEB liability	0.1074%
District's proportionate share of the net OPEB liability	<u>\$ 2,188,000</u>
District's covered payroll	<u>\$ 14,296,498</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	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, 2018**

Contractually required contribution	\$ 111,774
Contributions in relation to the contractually required contribution	(111,774)
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	<u>\$ 13,453,282</u>
Contributions as a percentage of covered payroll	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, 2018, 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 13, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Camp Hill, Pennsylvania
December 13, 2018

**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, 2018. 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, 2018.

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 & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
December 13, 2018

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I -- Summary of Auditor's Results

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, 2018**

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
	IDEA - Special Education Cluster
84.027	Special Education - Grants to States
84.173	Special Education - Early Intervention
	Child Nutrition Cluster
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

Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

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, 2018

	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 7/1/2017	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2018	Provided to Subrecipients
U.S. Department of Education										
Passed through the Pennsylvania Department of Education										
Title I - Grants to Local Educational Agencies	84.010	013-170397	16-17	\$ 219,863	\$ 150,797	\$ 150,797	\$ -	\$ -	\$ -	\$ -
Title I - Grants to Local Educational Agencies	84.010	013-180397	17-18	\$ 195,778	182,348	-	195,778	195,778	13,430	-
					<u>333,145</u>	<u>150,797</u>	<u>195,778</u>	<u>195,778</u>	<u>13,430</u>	<u>-</u>
Title II - Supporting Effective Instruction State Grants	84.367	020-170397	16-17	\$ 29,174	20,102	20,102	-	-	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-180397	17-18	\$ 50,356	46,900	-	50,356	50,356	3,456	-
					<u>67,002</u>	<u>20,102</u>	<u>50,356</u>	<u>50,356</u>	<u>3,456</u>	<u>-</u>
Title IV - Student Support and Academic Enrichment Program	84.424	144-180397	17-18	\$ 10,000	6,429	-	10,000	10,000	3,571	-
					<u>406,576</u>	<u>170,899</u>	<u>256,134</u>	<u>256,134</u>	<u>20,457</u>	<u>-</u>
Passed through the Capital Area Intermediate Unit										
Special Education Cluster										
Special Education - Grants to States	84.027	N/A	16-17	\$ 392,123	125,345	125,345	-	-	-	-
Special Education - Grants to States	84.027	N/A	17-18	\$ 369,118	208,950	-	369,118	369,118	160,168	-
					<u>334,295</u>	<u>125,345</u>	<u>369,118</u>	<u>369,118</u>	<u>160,168</u>	<u>-</u>
Special Education - Preschool Grants	84.173	N/A	16-17	\$ 3,502	2,642	2,642	-	-	-	-
Special Education - Preschool Grants	84.173	N/A	17-18	\$ 3,588	-	-	3,588	3,588	3,588	-
					<u>2,642</u>	<u>2,642</u>	<u>3,588</u>	<u>3,588</u>	<u>3,588</u>	<u>-</u>
Total Special Education Cluster					<u>336,937</u>	<u>127,987</u>	<u>372,706</u>	<u>372,706</u>	<u>163,756</u>	<u>-</u>
Title III - English Language Acquisition State Grants	84.365	N/A	17-18	\$ 5,118	-	-	5,118	5,118	5,118	-
Total passed through the Capital Area Intermediate Unit					<u>336,937</u>	<u>127,987</u>	<u>377,824</u>	<u>377,824</u>	<u>168,874</u>	<u>-</u>
Passed through the Berks County Intermediate Unit										
Early Childhood Education Community Innovation Zone Grant	84.413	N/A	17-18	\$ 75,000	75,000	-	75,000	75,000	-	-
Early Childhood Education Community Innovation Zone Grant	84.413	N/A	17-18	\$ 10,000	10,000	-	10,000	10,000	-	-
Total passed through the Berks County Intermediate Unit					<u>85,000</u>	<u>-</u>	<u>85,000</u>	<u>85,000</u>	<u>-</u>	<u>-</u>
Passed through the Northwest Tri-County Intermediate Unit										
Race to the Top - Early Learning Challenge	84.412	N/A	17-18	\$ 6,000	6,000	-	6,000	6,000	-	-
Total U.S. Department of Education					<u>834,513</u>	<u>298,886</u>	<u>724,958</u>	<u>724,958</u>	<u>189,331</u>	<u>-</u>

(Continued)

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2018

	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 7/1/2017	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2018	Provided to Subrecipients
U.S. Department of Agriculture										
Passed through the Pennsylvania Department of Education										
National School Lunch Program*	10.555	N/A	16-17	N/A	7,276	7,276	-	-	-	-
National School Lunch Program*	10.555	N/A	17-18	N/A	194,432	-	221,252	221,252	26,820	-
					<u>201,708</u>	<u>7,276</u>	<u>221,252</u>	<u>221,252</u>	<u>26,820</u>	<u>-</u>
School Breakfast Program*	10.553	N/A	16-17	N/A	710	710	-	-	-	-
School Breakfast Program*	10.553	N/A	17-18	N/A	29,774	-	34,235	34,235	4,461	-
					<u>30,484</u>	<u>710</u>	<u>34,235</u>	<u>34,235</u>	<u>4,461</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education					<u>232,192</u>	<u>7,986</u>	<u>255,487</u>	<u>255,487</u>	<u>31,281</u>	<u>-</u>
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program - Food Donations*	10.555	N/A	17-18	N/A	51,137	-	51,137	51,137	-	-
Total U.S. Department of Agriculture					<u>283,329</u>	<u>7,986</u>	<u>306,624</u>	<u>306,624</u>	<u>31,281</u>	<u>-</u>
Total Expenditures of Federal Awards					<u>\$ 1,117,842</u>	<u>\$ 306,872</u>	<u>\$ 1,031,582</u>	<u>\$ 1,031,582</u>	<u>\$ 220,612</u>	<u>\$ -</u>

*Programs in the Child Nutrition Cluster

National School Lunch Program	\$ 221,252
School Breakfast Program	34,235
National School Lunch Program - Food Donations	51,137
	<u>\$ 306,624</u>

See Notes to Schedule of Expenditures of Federal Awards.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2018. 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, 2018

Material Weaknesses in Internal Control

Finding 2017-001

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

Condition and context: The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has designated an employee responsible to prepare the financial records and the related audit support, to oversee the audit and the external CPA firm's drafting of the financial statements including note disclosures. The District has assumed responsibility for evaluating the adequacy and results of the financial statements. However, the District's staff was not able to prepare the financial records and related support to a level which did not require material adjustments.

Cause and effect: The District's Business Office did not possess sufficient training to process, record, and reconcile all transactions on a timely basis. This impacted their ability to prepare the final financial records for audit. The financial records required material adjustment in order for them to support financial statements prepared in accordance with GAAP.

Recommendations: The District's staff should adhere to strict monthly and annual closing schedules with defined roles and responsibilities, which would include monitoring of balance sheet and income statement accounts. Additionally, Business Office personnel would benefit from trainings related to financial documentation and audit preparation.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2018

Material Weaknesses in Internal Control (Continued)

Finding 2017-002

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

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

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2018

Compliance Findings

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

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

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

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

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

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

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