

SOUTH MIDDLETON SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2013

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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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Middleton School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, South Middleton School District has implemented a reporting model to account for deferred inflows of resources, deferred outflows of resources, and net position as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions on these statements are 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, on our consideration of the South Middleton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Middleton School District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania
November 1, 2013

**SOUTH MIDDLETON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013. Comparative financial information for fiscal year ended June 30, 2012, 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 2012-2013, the School Board adopted a General Fund Budget with a real estate tax millage rate of 8.924 mills which represented a zero increase from the 2011-2012 year.

On June 17, 2013, the District passed its 2013-14 budget. The budget represented revenues over expenditures of \$97,817 when one time capital reserve transfers of \$415,419 and the \$500,000 unfunded budgetary reserve are considered.

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 operates a food service operation and charges fees to students, staff, and visitors to help cover the costs of the food service operation.

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

The District's total net position was \$15,749,694 on June 30, 2013, which includes \$15,494,334 in Governmental Activities and \$255,360, in Business Activities (cafeteria). Net position increased by \$819,946 in 2012-13. Governmental Funds showed an increase in net position of \$923,158, while Business Funds (cafeteria) decreased by \$103,212. As stated in GASB 34, the District is required to record on its financial statements a liability of \$291,930 for post-employment benefit obligations. The decrease in net position in the Business Activities is due in part to the payout of employee benefit obligations. This payout occurred when the district terminated employment with cafeteria employees when entering into a contracted service for cafeteria management.

Statement of Net Position

	Governmental Activities		Business Activities		Total Activities	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Current assets	\$10,503,054	\$ 9,520,494	\$ 228,010	\$ 319,934	\$10,731,064	\$ 9,840,428
Capital assets	28,207,760	29,791,187	20,014	35,355	28,227,774	29,826,542
Total assets	\$38,710,814	\$39,311,681	\$ 248,024	\$ 355,289	\$38,958,838	\$39,666,970
Deferred outflows of resources	\$ 157,991	\$ -	\$ -	\$ -	\$ 157,991	\$ -
Current liabilities	\$ 2,859,063	\$ 4,116,081	\$ (7,336)	\$ (3,283)	\$ 2,851,727	\$ 4,112,798
Long-term liabilities (originally stated)	20,515,408	20,341,125	-	-	20,515,408	20,341,125
Total liabilities	\$23,374,471	\$24,457,206	\$ (7,336)	\$ (3,283)	\$23,367,135	\$24,453,923
Net investment in capital assets	\$ 8,628,054	\$ 8,369,520	\$ 20,014	\$ 35,355	\$ 8,648,068	\$ 8,404,875
Unrestricted	6,866,280	6,484,955	235,346	323,217	7,101,626	6,808,172
Total net position	\$15,494,334	\$14,854,475	\$ 255,360	\$ 358,572	\$15,749,694	\$15,213,047

Statement of Activities

	Governmental Activities		Business Activities		Total Activities	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Program Revenues						
Charges for services	\$ 598,042	\$ 550,813	\$ 409,893	\$ 475,594	\$ 1,007,935	\$ 1,026,407
Operating grants and contributions	4,259,581	4,052,564	250,308	240,236	4,509,889	4,292,800
Total program revenues	4,857,623	4,603,377	660,201	715,830	5,517,824	5,319,207
General Revenues						
Taxes	20,810,291	19,951,008	-	-	20,810,291	19,951,008
General subsidies	4,003,362	4,003,362	-	-	4,003,362	4,003,362
Investment earnings	43,317	49,969	380	584	43,697	50,553
Other local revenue	369,891	(41,259)	-	-	369,891	(41,259)
Total general revenues	25,226,861	23,963,080	380	584	25,227,241	23,963,664
Total revenues	30,084,484	28,566,457	660,581	716,414	30,745,065	29,282,871
Total Expenses	29,028,857	28,759,166	896,262	861,985	29,925,119	29,621,151
Excess (deficiency) before transfers	1,055,627	(192,709)	(235,681)	(145,571)	819,946	(338,280)
Transfers between activities	(132,469)	(113,236)	132,469	113,236	-	-
Changes in net position- operations	923,158	(305,945)	(103,212)	(32,335)	819,946	(338,280)
Net position - beginning	14,854,475	15,160,420	358,572	390,907	15,213,047	15,551,327
Prior period adjustment	(283,299)	-	-	-	(283,299)	-
Net position - beginning as restated	14,571,176	15,160,420	358,572	390,907	14,929,748	15,551,327
Net position - ending	\$ 15,494,334	\$ 14,854,475	\$ 255,360	\$ 358,572	\$ 15,749,694	\$ 15,213,047

Fund Balances

The District's General Fund Balance increased by \$310,260 in the 2012-13 year. This planned increase in the fund balance is intended to be used to reduce the budget deficit for the 2013-14 fiscal year. This budgeting technique is referred to as a "rolling two year budget" and is the School Board's progressive approach to address major future increases in Health Care and Retirement costs in future years.

Revenues are shown to be under budgeted by (\$171,094); however refunds from prior year health insurance premiums in the amount of \$359,616 were included in the revenue budget and posted under other financing sources. With the addition of that refund along with minor other financing sources, planned revenues show an increase in the amount of \$189,410. The district also had an increase in Earned Income Tax collections over the 2011-12 year. Some of this increase may be attributable to the changes enacted with Act 32. Initial returns for the 2013-14 school year are trending to indicate that this increase in Earned Income Tax may be a one-time phenomenon related to the implementation of Act 32 but at this time it is too early to make accurate projections.

It is important to note that debt service payments were budgeted as a transfer, however it was determined that they would be reported as an expenditure. This change in procedure gives the appearance that expenditures were under budgeted while transfers were over budgeted.

The Cafeteria Fund experienced a change in net position of (\$103,212) in the 2012-2013 year. The decrease in net position is due in part to the payout of employee benefit obligations. This payout occurred when the district terminated employment with cafeteria employees and contracted future cafeteria service with a cafeteria management company. This contract with ARAMARK Food Service Management Company is guaranteed by ARAMARK to show a profit in excess of \$30,000 in the food Service program in the 2013-14 year.

The Capital Projects Fund closed the year with a restricted fund balance of (\$23,703), a decrease of \$27,869. The deficit was funded in the 2013-14 budget and was due to the early implementation of summer projects that were budgeted for the 2013-14 year.

Governmental Fund Balances

	6/30/2013	6/30/2012	Change	% Change
General Fund, including Athletics	\$ 7,332,623	\$ 7,022,363	\$ 310,260	4.42%
Capital Projects Fund	(23,703)	4,166	(27,869)	-668.96%
Total Governmental Fund Balances	\$ 7,308,920	\$ 7,026,529	\$ (282,391)	-4.02%

2012-13 General Fund Balances

	Budget	Actual	Difference
Total Revenues	\$ 29,793,176	\$ 29,982,586	\$ 189,410
Total Expenditures excluding transfer	26,724,706	29,410,921	(2,686,215)
Change in Fund Balances excluding Capital Projects transfer	3,068,470	571,665	(2,496,805)
Transfers (Capital Projects, Cafeteria and Bond Refinancing)	(3,185,798)	(261,405)	2,924,393
Net Changes in Fund Balances	\$ (117,328)	310,260	\$ 427,588
General Fund Balance - June 30, 2012		7,022,363	
General Fund Balance - June 30, 2013		\$ 7,332,623	

Capital Assets

On June 30, 2013, the District recorded \$28,227,774 in Governmental Activities Capital Assets, which represents a decrease of \$1,315,469 or 4.6% from the previous fiscal year. This decrease is based on the depreciation of capital assets during the year.

Capital Assets (net of depreciation)

	6/30/2013	6/30/2012	Change
Governmental Activities			
Land and site improvements	\$ 2,381,097	\$ 2,562,296	\$ (181,199)
Buildings and improvements	24,587,529	25,561,412	(973,883)
Furniture and equipment	1,239,134	1,384,180	(145,046)
Total Governmental Capital Assets	28,207,760	29,507,888	(1,300,128)
Business Activities			
Total Business Capital Assets	20,014	35,355	(15,341)
Total Capital Assets	\$ 28,227,774	\$ 29,543,243	\$ (1,315,469)

Long-Term Liabilities

Bonds payable at June 30, 2013, were \$19,350,000 compared with \$21,200,000 at June 30, 2012, an 8.7% decrease. A total of \$1,850,000 of existing bonds was repaid during the 2012-13 fiscal year. A scheduled amount of \$1,910,000 will be repaid in 2013-14.

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 at June 30, 2013, is reflected in the Statement of Net Position and totals \$769,080. This represents a decrease of \$57,942 from June 30, 2012.

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 a maximum of 2.1% for the 2014-15 fiscal year. The District raised taxes for the 2013-14 year by 0.937%.

The District entered into an agreement with the bargaining unit (South Middleton Education Association) for District teaching professionals on June 3, 2013. This agreement included, for the first time, a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The current agreement began July 1, 2012, and runs through June 30, 2015.

In June of 2011, the District approved and submitted to the Pennsylvania Department of Education (PDE) a "Plancon A" submission for renovations and additions to the Iron Forge Educational Center, the District's current grade 4 and 5 school building. Subsequently, the project has been approved by PDE. These renovations propose revitalizing the building as well as adding the District's 3rd grade to the building. On October 7, 2013, the District entered into a contract with Crabtree Rohrbaugh Architectural firm for renovations and construction of Iron Forge Elementary School. The district intends to construct the project by wrapping the debt around existing debt structure and by using portions of fund balance to offset future tax increases. It is the district's hope that the construction of the project will have minimum, if any effects on the districts tax rate. Tentative completion of the project is scheduled for August of 2016.

Contacting the District's Financial Management

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

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,047,114	\$ 194,415	\$ 1,241,529
Investments	6,417,427	-	6,417,427
Receivables	3,015,999	-	3,015,999
Inventories	22,514	33,595	56,109
Capital assets			
Land and site improvements - net	2,381,097	-	2,381,097
Other capital assets, net of depreciation	25,826,663	20,014	25,846,677
Total capital assets	28,207,760	20,014	28,227,774
Total assets	\$ 38,710,814	\$ 248,024	\$ 38,958,838
Deferred Outflows of Resources			
Deferred amounts on refunding debt	\$ 157,991	\$ -	\$ 157,991
Liabilities			
Accounts payable and accrued expenses	\$ 2,799,749	\$ -	\$ 2,799,749
Internal balances	26,164	(26,164)	-
Unearned revenues	33,150	18,828	51,978
Long-term liabilities			
Due within one year	1,910,000	-	1,910,000
Due in more than 1 year	18,605,408	-	18,605,408
Total long-term liabilities	20,515,408	-	20,515,408
Total liabilities	\$ 23,374,471	\$ (7,336)	\$ 23,367,135
Net Position			
Net investment in capital assets	\$ 8,628,054	\$ 20,014	\$ 8,648,068
Unrestricted	6,866,280	235,346	7,101,626
Total net position	\$ 15,494,334	\$ 255,360	\$ 15,749,694

See Notes Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

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	\$ 18,287,933	\$ 521,195	\$ 3,038,310	\$ -	\$ (14,728,428)	\$ -	\$ (14,728,428)
Instructional student support	2,331,889	-	204,730	-	(2,127,159)	-	(2,127,159)
Administration and financial support	3,272,667	-	216,053	-	(3,056,614)	-	(3,056,614)
Operation and maintenance of plant services	2,455,621	10,050	101,364	-	(2,344,207)	-	(2,344,207)
Pupil transportation	1,339,084	-	503,067	-	(836,017)	-	(836,017)
Student activities	689,817	66,797	46,554	-	(576,466)	-	(576,466)
Community services	2,660	-	-	-	(2,660)	-	(2,660)
Interest on long-term debt	649,186	-	149,503	-	(499,683)	-	(499,683)
Total governmental activities	29,028,857	598,042	4,259,581	-	(24,171,234)	-	(24,171,234)
Business-type activities:							
Food service	896,262	409,893	250,308	-	-	(236,061)	(236,061)
Total School District	\$ 29,925,119	\$ 1,007,935	\$ 4,509,889	\$ -	\$ (24,171,234)	\$ (236,061)	\$ (24,407,295)
General Revenues (Expenses):							
Property taxes levied for general purposes, net					\$ 15,890,559	\$ -	\$ 15,890,559
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net					4,919,732	-	4,919,732
Grants, subsidies and contributions not restricted					4,003,362	-	4,003,362
Investment earnings					43,317	380	43,697
Miscellaneous income					369,891	-	369,891
Transfers					(132,469)	132,469	-
Total general revenues and transfers					25,094,392	132,849	25,227,241
Changes in net position					923,158	(103,212)	819,946
Net position - July 1, 2012, as previously stated					14,854,475	358,572	15,213,047
Prior period adjustment (see note 7)					(283,299)	-	(283,299)
Net position - July 1, 2012, as restated					14,571,176	358,572	14,929,748
Net position - June 30, 2013					\$ 15,494,334	\$ 255,360	\$ 15,749,694

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Non-Major Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,027,840	\$ 19,274	\$ 1,047,114
Investments	6,416,970	457	6,417,427
Receivables			
Taxes - net	1,569,889	-	1,569,889
Federal subsidies	530,524	-	530,524
State subsidies	871,172	-	871,172
Other	1,577	-	1,577
Due from other governments	42,837	-	42,837
Inventories	22,514	-	22,514
Total assets	\$ 10,483,323	\$ 19,731	\$ 10,503,054
Liabilities			
Accounts payable	\$ 256,682	\$ 43,434	\$ 300,116
Due to other funds	26,164	-	26,164
Due to other governments	188,786	-	188,786
Accrued salaries and benefits	2,168,725	-	2,168,725
Accrued payroll withholdings	37,428	-	37,428
Unearned revenues	33,150	-	33,150
Total liabilities	2,710,935	43,434	2,754,369
Deferred Inflows of Resources			
Delinquent property taxes	439,765	-	439,765
Fund Balances			
Non-spendable fund balance for:			
Inventories	22,514	-	22,514
Restricted for:			
Capital projects	-	(23,703)	(23,703)
Committed fund balance for:			
Future retirement, insurance increases, future capital projects, and for instructional resources	4,679,841	-	4,679,841
Unassigned	2,630,268	-	2,630,268
Total fund balances (deficit)	7,332,623	(23,703)	7,308,920
Total liabilities, deferred inflows and fund balances (deficit)			
	\$ 10,483,323	\$ 19,731	\$ 10,503,054

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION June 30, 2013

Total Fund Balances - Governmental Funds	\$ 7,308,920
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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 \$52,162,996, and the accumulated depreciation is \$23,955,236. 28,207,760

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. 439,765

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. 157,991

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

Long-term liabilities at year-end consist of:

Bonds payable	(19,350,000)	
Accrued interest	(104,694)	
Bond-issuance premium	(104,398)	
Compensated absences	(769,080)	
Other post-employment benefit obligations	(291,930)	(20,620,102)

Total net position - governmental activities	<u>\$ 15,494,334</u>
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See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	General Fund	Non-Major Capital Projects Fund	Total Governmental Funds
Revenues			
Local sources	\$ 21,359,139	\$ 1,065	\$ 21,360,204
State sources	8,092,087	-	8,092,087
Federal sources	170,856	-	170,856
Total revenues	29,622,082	1,065	29,623,147
Expenditures			
Instructional	17,144,236	-	17,144,236
Support services	9,135,013	-	9,135,013
Noninstructional services	671,508	-	671,508
Capital outlay	-	157,870	157,870
Debt service			
Principal	1,850,000	-	1,850,000
Interest	610,164	-	610,164
Total expenditures	29,410,921	157,870	29,568,791
Excess (deficiency) of revenues over expenditures	211,161	(156,805)	54,356
Other Financing Sources (Uses)			
Interfund transfers in	-	128,936	128,936
Interfund transfers out	(261,405)	-	(261,405)
Refund of prior years' expense	360,504	-	360,504
Total other financing sources	99,099	128,936	228,035
Net changes in fund balances	310,260	(27,869)	282,391
Fund Balances - July 1, 2012	7,022,363	4,166	7,026,529
Fund Balances (Deficit) - June 30, 2013	\$ 7,332,623	\$ (23,703)	\$ 7,308,920

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, 2013

Net change in fund balances - total governmental funds	\$	282,391
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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 depreciation exceeds capital outlays in the period.

Capital outlays	366,679	
Less depreciation expense	(1,666,807)	(1,300,128)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflow of resources decreased by this amount this year. 101,033

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 change in interest costs in the Statement of Activities over the amount due is shown here. (37,462)

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. (8,253)

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

Repayment of long-term debt	1,850,000	
Amortization of premium on bonds	35,577	1,885,577

Change in net position - governmental activities	\$	<u>923,158</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, 2013**

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 21,603,625	\$ 21,603,625	\$ 21,359,139	\$ (244,486)
State sources	8,015,020	8,015,020	8,092,087	77,067
Federal sources	174,531	174,531	170,856	(3,675)
Total revenues	29,793,176	29,793,176	29,622,082	(171,094)
Expenditures				
Instructional	17,201,187	17,201,187	17,144,236	56,951
Support services	8,859,654	8,859,654	9,135,013	(275,359)
Noninstructional services	663,865	663,865	671,508	(7,643)
Debt service				
Principal	-	-	1,850,000	(1,850,000)
Interest	-	-	610,164	(610,164)
Total expenditures	26,724,706	26,724,706	29,410,921	(2,686,215)
Excess of revenues over expenditures	3,068,470	3,068,470	211,161	(2,857,309)
Other Financing Sources (Uses)				
Transfers out	(2,685,798)	(2,685,798)	(261,405)	2,424,393
Refund of prior years' expense	-	-	360,504	360,504
Budgetary reserve	(500,000)	(500,000)	-	500,000
Total other financing sources (uses)	(3,185,798)	(3,185,798)	99,099	3,284,897
Net changes in fund balances	\$ (117,328)	\$ (117,328)	310,260	\$ 427,588
Fund Balances - July 1, 2012			<u>7,022,363</u>	
Fund Balances - June 30, 2013			<u>\$ 7,332,623</u>	

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE

June 30, 2013

Assets

Cash and cash equivalents	\$ 194,415
Internal balances	26,164
Inventories	33,595
Other capital assets, net of depreciation	20,014
Total assets	<u><u>\$ 274,188</u></u>

Liabilities

Unearned revenues	<u><u>\$ 18,828</u></u>
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Net Position

Net investment in capital assets	\$ 20,014
Unrestricted	<u>235,346</u>
Total net position	<u><u>\$ 255,360</u></u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2013**

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Operating Revenues	
Food service revenues	\$ 409,893
Operating Expenses	
Food and milk	291,939
Labor, taxes and benefits	553,617
Supplies	9,167
Trash removal	9,566
Equipment repairs and maintenance	12,461
Travel and other	4,171
Depreciation	15,341
Total operating expenses	<u>896,262</u>
Operating loss	(486,369)
Nonoperating Revenues	
Investment earnings	380
State sources	44,606
Federal sources	205,702
Total nonoperating revenues	<u>250,688</u>
Operating Transfer In	<u>132,469</u>
Changes in net position	(103,212)
Net Position - July 1, 2012	358,572
Net Position - June 30, 2013	<u>\$ 255,360</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2013**

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Cash Flows From Operating Activities	
Cash received from users	\$ 410,714
Cash payments for goods and services	(270,658)
Cash payments to employees for services	(553,617)
Net cash used in operating activities	<u>(413,561)</u>
Cash Flows From Noncapital Financing Activities	
State sources	44,606
Federal sources	163,563
Operating transfer in	132,469
Net cash provided by noncapital financing activities	<u>340,638</u>
Cash Flows From Investing Activities	
Investment earnings	<u>380</u>
Net decrease in cash and cash equivalents	(72,543)
Cash and Cash Equivalents:	
July 1, 2012	266,958
June 30, 2013	<u>\$ 194,415</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (486,369)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	15,341
Value of donated commodities used	42,139
Changes in assets and liabilities:	
(Increase) decrease in:	
Internal balances	(4,874)
Inventories	19,381
Decrease in:	
Unearned revenues	821
Net cash used in operating activities	<u>\$ (413,561)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	Agency Fund	Private-Purpose Trust Fund	Total
	Student Activities		
Assets			
Cash and cash equivalents	\$ 103,601	\$ 113,179	\$ 216,780
Total assets	\$ 103,601	\$ 113,179	\$ 216,780
Liabilities			
Due to student groups	\$ 103,601	\$ -	\$ 103,601
Total liabilities	\$ 103,601	\$ -	\$ 103,601
Net Position			
Held in trust for private purposes	\$ -	\$ 113,179	\$ 113,179
Total net position	\$ 103,601	\$ 113,179	\$ 216,780

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2013**

Additions	
Contributions	\$ 11,762
Investment earnings	274
Total additions	<u>12,036</u>
Deductions	
Scholarships and awards	<u>15,663</u>
Changes in net position	(3,627)
Net Position - July 1, 2012	116,806
Net Position - June 30, 2013	<u>\$ 113,179</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 School District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance provided by the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

Investments: Investments are stated at fair value.

Allowances for Estimated Uncollectible Taxes:

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.

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.

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)

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2013. The inventory consisted of government-donated commodities which were valued at their estimated, fair-market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method.

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

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

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

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.

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)

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

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

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

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.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

Implementation of New Accounting Principle: GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides financial reporting guidance for deferred outflow of resources and deferred inflows of resources. The requirements of this statement improve financial reporting by standardizing the presentation of deferred outflow and deferred inflow of resources and their effects on the government's net position. This standard was adopted for fiscal year ended June 30, 2013, by retroactively reformatting the financial statement presentation. The adoption of this Statement reclassified Net Assets to Net Position, and identified two new elements to make up a Statement of Net Position

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to properly classify previously reported assets and liabilities as deferred outflows or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. The Standard was issued in March 2012, and is effective for the period beginning after December 15, 2012. This Standard was adopted for year ended June 30, 2013.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 1, 2013, 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 its Instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
 3. The National Credit Union Share Insurance Fund (NCUSIF)

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

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

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

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. As of June 30, 2013, \$1,658,970 of the District's total bank balances of \$2,038,683 was exposed to custodial-credit risk as follows:

	Amount
<u>Uninsured and collateralized by assets maintained in conformity with Act 72</u>	<u>\$ 1,658,970</u>

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments

As of June 30, 2013, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Values</u>
Pennsylvania Local Government Investment Trust (PLGIT)	56 days weighted avg	\$ 5,719,668
Pennsylvania School District Liquid Asset Fund (PSDLAF)	51 days weighted avg	2,749
Pennsylvania Treasurer's INVEST Program	55 days weighted avg	694,984
		<u>\$ 6,417,401</u>

Portfolio Assets

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

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

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

Weighted-Average Maturity

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Interest-Rate Risk

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

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2013, the District's investments in PLGIT, PSDLAF, and PA INVEST, were rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in PLGIT represent 89% of the District's total investments.

Note 3. Taxes Receivable, Deferred Inflows, Unearned Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2013, is as follows:

	Amount
Uncollected taxes	\$ 1,588,123
Estimated uncollectible taxes	<u>18,234</u>
Taxes Receivable - Net	<u>\$ 1,569,889</u>
Taxes to be collected within 60 days	\$ 1,130,124
Deferred inflows of resources - delinquent property taxes	<u>439,765</u>
Taxes Receivable - Net	<u>\$ 1,569,889</u>
Deferred Inflows of Resources	
Delinquent taxes	\$ 439,765
Total deferred inflows of resources	<u>\$ 439,765</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 2012-2013 is as follows:

July 1, 2012	tax levy date
Through August 31, 2012	2% discount
Through October 31, 2012	face payment period
November 1, 2012	10% penalty period
4th Monday, 2012	lien filing date
January 1, 2013	interim tax-levy date

The School District tax rate for all purposes in 2012-2013 was 8.92 mills (\$8.92 per \$1,000 assessed valuation). Refunds on payments of prior-year taxes are classified as "Other Debt Service" items under the Commonwealth of Pennsylvania accounting system.

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2013, are as follows:

Fund	Due from other funds	Due to other funds
General	\$ -	\$ 26,164
Food Service	26,164	-
	<u>\$ 26,164</u>	<u>\$ 26,164</u>

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts (Continued)

Operating transfers between funds at June 30, 2013, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 261,405
Capital Reserve Fund	128,936	-
Business-Type Activities - Food Service	132,469	-
	<u>\$ 261,405</u>	<u>\$ 261,405</u>

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Governmental Activities				
Land and site improvements	\$ 4,548,369	\$ 16,701	\$ -	\$ 4,565,070
Buildings and building improvements	41,597,475	84,652	-	41,682,127
Furniture and equipment	5,894,573	265,326	244,100	5,915,799
Total Governmental Activities Capital Assets	52,040,417	366,679	244,100	52,162,996
Less accumulated depreciation				
Land and site improvements	1,986,073	197,900	-	2,183,973
Buildings and building improvements	16,036,063	1,058,535	-	17,094,598
Furniture and equipment	4,510,393	410,372	244,100	4,676,665
Total Accumulated Depreciation	22,532,529	1,666,807	244,100	23,955,236
Governmental Activities, Capital Assets - Net	\$ 29,507,888	\$ (1,300,128)	\$ -	\$ 28,207,760
Business-Type Activities				
Furniture and equipment	\$ 557,444	\$ -	\$ -	\$ 557,444
Total Business-Type Activities Capital Assets	557,444	-	-	557,444
Less accumulated depreciation				
Furniture and equipment	522,089	15,341	-	537,430
Business-Type Activities, Capital Assets - Net	\$ 35,355	\$ (15,341)	\$ -	\$ 20,014

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	\$ 1,155,740
Instructional student support	154,832
Administration and financial support	208,846
Operation and maintenance of plant services	97,984
Student activities	45,001
Transportation	4,404
Total Governmental Activities	<u>1,666,807</u>
Business-Type Activities	
Food Service	15,341
Total School District	<u>\$ 1,682,148</u>

Note 7. Long-Term Obligations

Long-term obligations changed as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
General Obligation Bonds Payable				
General Obligation Bonds - Series of 2009	\$ 5,680,000	\$ -	\$ (1,845,000)	\$ 3,835,000
General Obligation Bonds - Series of 2011	15,520,000	-	(5,000)	15,515,000
	<u>21,200,000</u>	-	(1,850,000)	<u>19,350,000</u>
Bond-issuance premium - net	139,975	-	(35,577)	104,398
Total Bonds Payable	<u>21,339,975</u>	-	(1,885,577)	<u>19,454,398</u>
Compensated absences	827,022	-	(57,942)	769,080
Other post-employment benefits	225,735	66,195	-	291,930
Total Long-Term Obligations	<u>\$ 22,392,732</u>	<u>\$ 66,195</u>	<u>\$ (1,943,519)</u>	<u>\$ 20,515,408</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Bonds - Series of 2009

During fiscal 2008-09, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2009 in the aggregate principal amount of \$9,575,000. The proceeds of the bonds were used to: (1) refund the District's outstanding General Obligation Bonds, Series of 2001, (2) currently refund a portion of the School District's outstanding General Obligation Bonds, Series of 2003; and (3) pay all costs of issuance of the 2009 Bonds. The economic gain on the refunding of the 2001 and 2003 bonds was \$262,654. The bonds bear interest semi-annually with rates ranging from 2.00% to 3.00%. The bonds mature serially in amounts ranging from \$370,000 to \$1,905,000 through October 1, 2016.

General Obligation Bonds - Series of 2011

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

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

Years	General Obligation Debt		
	Principal	Interest	Total
2013-2014	\$ 1,910,000	\$ 610,164	\$ 2,520,164
2014-2015	1,985,000	553,814	2,538,814
2015-2016	2,050,000	497,363	2,547,363
2016-2017	2,145,000	433,608	2,578,608
2017-2018	2,225,000	372,603	2,597,603
2018-2022	9,035,000	919,462	9,954,462
	<u>\$ 19,350,000</u>	<u>\$ 3,387,014</u>	<u>\$ 22,737,014</u>

Prior Period Adjustment – GASB 65 Implementation

Implementation of GASB 65 recognizes cost of issuance as an expense, therefore the adoption of this statement resulted in a decrease of bond issuance cost and net position of \$229,850 as of July 1, 2012.

The unrealized loss on the bond refunding was reclassified from bonds payable to deferred inflows of resources. Beginning balances were changed to reflect this as of July 1, 2012.

The MD&A includes the changes as of and for the years ended June 30, 2012 and June 30, 2013.

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 \$302,822 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, 2013.

Note 9. Defined-Benefit Pension Plans

Plan Description

Name of Plan: The Public School Employees' Retirement System (the System)

Type of Plan: Governmental cost-sharing multiple-employer 401(a) defined benefit plan

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare-insurance premium assistance to qualifying annuitants

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535).

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the Publications page of the PSERS website, www.psers.state.pa.us.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, the District, and the Commonwealth.

Contribution Rates

Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the District's rate of contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare-insurance premium assistance

The School District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ration (as defined in Act 29 of 1994), which is at least one-half of the total School District's rate. The School District's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011, were \$1,694,243, \$1,190,094, and \$791,304, respectively, and are equal to the required contributions for said years.

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

Plan Description

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

Funding Policy

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

Funding Progress

For the year ended June 30, 2013, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of July 1, 2012. In accordance with GASB Statement No. 45, the valuation computes an annual, required contribution, which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded, actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 168,773
Interest on Net OPEB Obligation	10,158
Less adjustment to the annual required contribution	(13,858)
Annual OPEB cost	<u>165,073</u>
Amounts contributed:	
Payments of current premiums and claims	(98,878)
Advance funding	-
Increase in net OPEB obligation	<u>66,195</u>
OPEB obligation - beginning of year	<u>225,735</u>
OPEB obligation - end of year	<u><u>\$ 291,930</u></u>

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

For Fiscal Year Ended June 30, 2013:	Amount
Annual OPEB cost	\$ 165,073
Percentage contributed	59.9%
Net OPEB obligation	\$ 291,930

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

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

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

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

Note 10. Risk Management

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

Note 11. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH MIDDLETON SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 POST-EMPLOYMENT BENEFITS PLAN
 Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/1/2007	\$ -	\$ 956,801	\$ 956,801	0.00%	\$ 11,567,812	8.27%
7/1/2010	\$ -	\$ 1,109,317	\$ 1,109,317	0.00%	\$ 12,803,523	8.66%
7/1/2012	\$ -	\$ 1,391,535	\$ 1,391,535	0.00%	\$ 12,836,439	10.84%

SUPPLEMENTARY INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Middleton School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise South Middleton Area School District's basic financial statements, and have issued our report thereon dated November 1, 2013.

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

Camp Hill, Pennsylvania
November 1, 2013

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

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

Report on Compliance for Each Major Federal Program

We have audited South Middleton School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Middleton School District's major federal programs for the year ended June 30, 2013. South Middleton School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that 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, 2013.

Report on Internal Control Over Compliance

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

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

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

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

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

Camp Hill, Pennsylvania
November 1, 2013

**SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements
noted? ___ Yes X No

Federal Awards

Internal control over major programs:

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

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

- Any audit findings disclosed that are
 required to be reported in accordance
 with Section .510(a) of Circular A-133? ___ Yes X No

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education – Grants to States
84.173	Early Intervention – Special Education Preschool Grants
84.010	Title I – Improving Basic Programs

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

Auditee qualified as low-risk auditee? X Yes No

Section II -- Financial Statement Findings

A. 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 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 required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

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

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period
U.S. Department of Education				
Passed through the Pennsylvania Department of Education:				
Title II - Improving Teacher Quality	I	84.367	020-120397	11-12
Title II - Improving Teacher Quality	I	84.367	020-130397	12-13
Title I - Improving Basic Programs	I	84.010	013-120397	11-12
Title I - Improving Basic Programs	I	84.010	013-130397	12-13
Education Jobs Fund	I	84.410	140-139195	11-12
Passed through the Capital Area Intermediate Unit:				
Special Education - Grants to States	I	84.027	N/A	11-12
Special Education - Grants to States	I	84.027	N/A	12-13
Early Intervention - Special Education Preschool Grants	I	84.173	N/A	11-12
Early Intervention - Special Education Preschool Grants	I	84.173	N/A	12-13
Total U.S. Department of Education				
U.S. Department of Agriculture				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program	I	10.555	N/A	11-12
National School Lunch Program	I	10.555	N/A	12-13
Passed through the Pennsylvania Department of Agriculture:				
National School Lunch Program	I	10.555	N/A	12-13
Total U.S. Department of Agriculture				

Total Expenditures of Federal Awards

Restated Program or Annual Award	Total Received (Refunded) in Fiscal Year	Restated Accrued (Deferred) Revenue at 7/1/12	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/13
\$ 32,546	\$ 12,820	\$ 12,820	\$ -	\$ -	\$ -
\$ 32,108	10,774	-	32,108	32,108	21,334
\$ 129,031	49,859	49,859	-	-	-
\$ 138,748	47,620	-	138,748	138,748	91,128
\$ 4,277	-	4,277	-	-	4,277
\$ 399,013	161,521	161,521	-	-	-
\$ 408,332	-	-	408,332	408,332	408,332
\$ 2,956	2,956	2,956	-	-	-
\$ 1,317	-	-	1,317	1,317	1,317
	<u>285,550</u>	<u>231,433</u>	<u>580,505</u>	<u>580,505</u>	<u>526,388</u>
N/A	3,665	3,665	-	-	-
N/A	163,563	-	163,563	163,563	-
N/A	<u>42,139</u>	<u>-</u>	<u>42,139</u>	<u>42,139</u>	<u>-</u>
	<u>209,367</u>	<u>3,665</u>	<u>205,702</u>	<u>205,702</u>	<u>-</u>
	<u>\$ 494,917</u>	<u>\$ 235,098</u>	<u>\$ 786,207</u>	<u>\$ 786,207</u>	<u>\$ 526,388</u>

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2013

Source Codes:

- D - Direct Funding
- I - Indirect Funding

Test of 25% Rule:

Total Federal Expenditures	\$	786,207		
Programs selected for testing major programs				
Special Education - Grants to States		408,332		
Early Intervention - Special Education Preschool Grants		1,317		
Title I - Improving Basic Programs		<u>138,748</u>		
	\$	<u>548,397</u>	/	\$786,207 = <u>69.75%</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 (the "Schedule") includes the federal grant activity of South Middleton School District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the South Middleton School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the South Middleton School District.

Note 2. Significant Accounting Policies

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2013

There were no prior year's audit findings.