

**SOUTH MIDDLETON SCHOOL DISTRICT**

**FINANCIAL REPORT**

**JUNE 30, 2009**

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### SUPPLEMENTARY INFORMATION

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2009, which collectively comprise the South Middleton School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Middleton School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2009, on our consideration of the South Middleton School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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  
September 25, 2009

**SOUTH MIDDLETON SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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, 2009. Comparative financial information for fiscal year ended June 30, 2008, is also presented in this report to show changes in the financial position of the District from 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 2008-2009, the School Board adopted a General Fund Budget with a real estate tax millage rate of 11.38 mills, a no mill increase from the 2007-08 year. Actual year end expenditures were \$148,774 more than budgeted due to transfer of funds to the District's Capital Reserve Account. Revenues were above budget by \$175,267 due mainly to increased Earned Income taxes and local Real Estate taxes. The variance with the final budget was a favorable net of \$26,493.

The Ecker Field project, which began in November of 2008, was completed in April of the 2008-09 school year. Total cost of construction for this project was \$1,854,000. This project included new and replacement bleachers, new field lighting and an artificial surface playing field. In the summer of 2009, the District undertook construction projects including \$98,000 for a new playground, \$80,000 for security cameras, and \$380,000 of renovation projects at Boiling Springs High School, Iron Forge Educational Center and Rice Elementary that were completed in September of 2009.

The Cafeteria Fund experienced a net change in assets of (\$10,678) in 2008-09 year. This loss was due primarily to a depreciation expense of \$28,422; otherwise the proprietary fund remained stable.

The Capital Reserve Fund closed the year with a reserved fund balance of \$2,197,737, an increase of \$940,591. A total of \$350,000 was transferred to the Construction fund during the year for ongoing projects. In addition, \$1,500,000 was transferred from the General fund to underwrite the cost of future projects.

**Overview of the Financial Statements**

These financial statements consist of three sections: Management's Discussion and Analysis (this section), the basic financial statements, and other 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 Assets 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 individual funds of the District and provide a more detailed presentation of the District's operations. The governmental funds 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 Reconciliations, the Statement of Revenues, and Changes in Fund Balances. These Reconciliations and 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 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 Assets includes all of the District's assets and liabilities utilizing the full accrual basis of accounting. The Statement of Activities accounts 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 assets and changes in them. The District's net assets represent the difference between the District's assets and liabilities. The District's net assets are one way to measure the District's financial position, or financial health over time. Increases or decreases in the District's net assets 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 the performance of the students. 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, and 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 staff, students and visitors to help it 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 readily be 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 proprietary fund.

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Assets and Statement of Activities

The District's total net assets were \$15,182,398 on June 30, 2009, which includes \$14,778,196 in Governmental Activities and \$404,202, in Business Activities (cafeteria). Net assets increased by \$1,320,940 in 2008-09, an 8.9% increase. Of this increase, \$1,331,608 was in Governmental Funds, while Business Funds (cafeteria) decreased by \$10,678. The increase in net assets for Governmental Activities funds is a combination of capital assets gains due to capital improvements in the District, governmental fund balance decreases due to expenditures in capital assets, coupled with the decrease in long term debt due to repayment of a portion of the debt. For the first time as required by GASB 45, the District was required to show on its financial statements a liability of \$46,234 for post-employment benefit obligations. The slight decrease in net assets in the Business Activities is due to depreciation related to equipment in the Cafeteria Fund.

### Statement of Net Assets

	Governmental Activities		Business Activities		Total Activities	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
Current and Other Assets	\$ 12,617,140	\$ 14,136,562	\$ 330,395	\$ 321,046	\$ 12,947,535	\$ 14,457,608
Capital Assets	31,247,774	30,242,909	89,909	110,548	31,337,683	30,353,457
<b>Total assets</b>	<b>\$ 43,864,914</b>	<b>\$ 44,379,471</b>	<b>\$ 420,304</b>	<b>\$ 431,594</b>	<b>\$ 44,285,218</b>	<b>\$ 44,811,065</b>
Current and Other Liabilities	\$ 3,683,136	\$ 3,856,231	\$ 16,102	\$ 16,714	\$ 3,699,238	\$ 3,872,945
Long-Term Liabilities (originally stated)	25,403,582	27,076,662	-	-	25,403,582	27,076,662
<b>Total liabilities</b>	<b>29,086,718</b>	<b>30,932,893</b>	<b>16,102</b>	<b>16,714</b>	<b>29,102,820</b>	<b>30,949,607</b>
Invested in Capital Assets - net of related debt	4,489,652	3,394,543	89,909	110,548	4,579,561	3,505,091
Unrestricted	10,288,544	10,052,035	314,293	304,332	10,602,837	10,356,367
<b>Total net assets</b>	<b>14,778,196</b>	<b>13,446,578</b>	<b>404,202</b>	<b>414,880</b>	<b>15,182,398</b>	<b>13,861,458</b>
<b>Total liabilities and net assets</b>	<b>\$ 43,864,914</b>	<b>\$ 44,379,471</b>	<b>\$ 420,304</b>	<b>\$ 431,594</b>	<b>\$ 44,285,218</b>	<b>\$ 44,811,065</b>



## Statement of Activities

	Governmental Activities		Business Activities		Total Activities	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
<b>Program Revenues</b>						
Charges for services	\$ 612,190	\$ 609,681	\$ 485,934	\$ 485,998	\$ 1,098,124	\$ 1,095,679
Operating grants and contributions	3,882,456	4,003,996	204,937	196,597	4,087,393	4,200,593
<b>Total program revenues</b>	<b>4,494,646</b>	<b>4,613,677</b>	<b>690,871</b>	<b>682,595</b>	<b>5,185,517</b>	<b>5,296,272</b>
<b>General Revenues</b>						
Taxes	18,257,592	18,799,898	-	-	18,257,592	18,799,898
General subsidies	4,003,362	3,807,606	-	-	4,003,362	3,807,606
Investment earnings	348,556	489,210	2,251	5,826	350,807	495,036
Other local revenue	81,013	6,241	-	-	81,013	6,241
<b>Total general revenues</b>	<b>22,690,523</b>	<b>23,102,955</b>	<b>2,251</b>	<b>5,826</b>	<b>22,692,774</b>	<b>23,108,781</b>
<b>Total revenues</b>	<b>27,185,169</b>	<b>27,716,632</b>	<b>693,122</b>	<b>688,421</b>	<b>27,878,291</b>	<b>28,405,053</b>
<b>Total Expenses</b>	<b>25,759,033</b>	<b>24,959,514</b>	<b>798,318</b>	<b>809,951</b>	<b>26,557,351</b>	<b>25,769,465</b>
<b>Excess (deficiency) before transfers</b>	<b>1,426,136</b>	<b>2,757,118</b>	<b>(105,196)</b>	<b>(121,530)</b>	<b>1,320,940</b>	<b>2,635,588</b>
Transfers between activities	(94,518)	(92,290)	94,518	92,290	-	-
Change in net asset - operations	1,331,618	2,664,828	(10,678)	(29,240)	1,320,940	2,635,588
Prior period adjustments	-	-	-	-	-	-
<b>Changes in net assets</b>	<b>\$ 1,331,618</b>	<b>\$ 2,664,828</b>	<b>\$ (10,678)</b>	<b>\$ (29,240)</b>	<b>\$ 1,320,940</b>	<b>\$ 2,635,588</b>

## Fund Balances

On June 30, 2009, the District's Governmental Fund Balances were \$10,690,601, which is a decrease of \$1,273,183 from June 30, 2008. The General Fund's decrease of \$561,240, or 6.21%, in part is due to a June 2009 transfer of \$1,500,000 to the Capital Reserve Fund of the District for future capital projects. Subsequently the Capital Reserve Fund showed an increase in its fund balance. The Capital Projects Fund represents the largest change in fund balance, showing a decrease of \$1,649,086 which reflects expenditures during the year on the Ecker Field project. The construction itself is treated differently for accounting purposes and not considered a portion of fund balance. The building value is accounted for as capital assets and will be discussed below.

### Governmental Fund Balances (Deficit)

	6/30/2009	6/30/2008	Change	% Change
General Fund	\$ 8,614,548	\$ 9,175,788	\$ (561,240)	-6.12%
Capital Reserve Fund	2,197,737	1,257,146	940,591	72.82%
Capital Projects Fund	(114,771)	1,534,315	(1,649,086)	-107.48%
Athletic Fund	(6,913)	(3,465)	(3,448)	99.51%
<b>Total Governmental Fund Balances</b>	<b>\$ 10,690,601</b>	<b>\$ 11,963,784</b>	<b>\$ (1,273,183)</b>	<b>-10.64%</b>

### 2008-09 General Fund Balances

For the 2008-09 fiscal year, the net of excess revenue over expenditures was \$26,493 (.097% compared to budgeted expenditures) when compared to the approved budget. Actual revenue exceeded the budget by \$175,267 (.65%) and actual expenditures exceeded the budget by \$148,744 (.54%). The over expenditure is related partially to a \$1,500,000 transfer to the District's Capital Reserve fund.

### 2008-09 General Fund Budget

Total Revenues	\$ 26,972,408	\$ 27,147,675	\$ 175,267
Total Expenditures and Other Financing	27,560,141	27,708,915	148,774
<b>Net Changes in Fund Balances</b>	<b>\$ (587,733)</b>	<b>(561,240)</b>	<b>\$ 26,493</b>
<b>Beginning Fund Balance</b>		<b>9,175,788</b>	
<b>General Fund Balance - June 30, 2009</b>		<b>\$ 8,614,548</b>	

## Capital Assets

On June 30, 2009, the District recorded \$31,337,683 in Governmental Activities Capital Assets, which represents an increase of \$984,226 or 3.24% from the previous fiscal year. The increase is primarily attributed to the renovation of the Ecker Field project.

### Capital Assets (net of depreciation)

	6/30/2009	6/30/2008	Change
<b>Governmental Activities</b>			
Bond issuance costs	\$ 353,872	\$ 382,681	\$ (28,809)
Construction-in-progress	-	64,329	(64,329)
Land and site improvements	2,066,513	1,155,690	910,823
Buildings and improvements	27,484,665	27,210,885	273,780
Furniture and equipment	1,342,724	1,429,324	(86,600)
<b>Total Governmental Capital Assets</b>	<b>31,247,774</b>	<b>30,242,909</b>	<b>1,004,865</b>
<b>Business Activities</b>			
<b>Total Business Capital Assets</b>	<b>89,909</b>	<b>110,548</b>	<b>(20,639)</b>
<b>Total Capital Assets</b>	<b>\$ 31,337,683</b>	<b>\$ 30,353,457</b>	<b>\$ 984,226</b>

## Long-Term Liabilities

Bonds payable at June 30, 2009, were \$26,275,000 compared with \$28,000,000 at June 30, 2008 a 6.1% decrease. Just over \$1.72 million of existing bonds were repaid during the 2008-09 fiscal year. A similar amount is scheduled to be repaid in 2009-10. Although no new debt was issued in 2008-09 the District's 2001 issue and a portion of the District's 2003 issue were refinanced. This refinancing yielded an economic gain of \$262,654 to the District.

Reserve for Compensated Absences is reported under long-term liabilities. 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, under the Pennsylvania School Code, employees are granted sick days annually, with all unused sick days accumulating in subsequent years. Upon retirement from the School District, employees are reimbursed based on their accumulated sick days, or a portion thereof, multiplied by an amount pre-established per the employment contract. The total liability for accrued vacation and sick leave at June 30, 2009, has been reflected in the Statement of Net Assets and totals \$787,869, for year ended June 30, 2009. This represents an increase of \$51,207 from June 30, 2008.

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

The District has seen near stagnate student enrollment over the last few years. New housing developments are planned in the District and could increase student enrollment. Although the recent downturn in the national economy has shown affects to local real estate sales and values in the District to date, the District has been relatively insulated from the disastrous economic issues that are being felt in other areas of the country. The Common Level Ratio, an assessment to market ratio in Cumberland County, has remained steady at 79.3% from the previous year.

Pennsylvania's Act 1 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 related to a national salary index and the Consumer Price index both of which have been flat in the recent year.

In the 2009-10 budget, the District designated \$5,475,788 of its fund balance for future retirement and insurance costs. In 2013 the Pennsylvania State Employees Retirement System estimates that the percentage cost of contribution based on employees salaries will increase to over 16%. This will increase the cost of District paid retirement costs by 3.5 times. As an effective business practice, the Board has designated fund balance to buffer the effects of this increase.

## **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, 4 Forge Road, Boiling Springs, PA 17007, (717) 258-6484.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2009**

<b>ASSETS</b>	Governmental Activities	Business-Type Activities	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 4,054,494	\$ 265,190	\$ 4,319,684
Investments	6,372,716	-	6,372,716
Receivables			
Taxes - net	1,213,547	-	1,213,547
Federal subsidies	466,644	-	466,644
State subsidies	216,208	-	216,208
Other	75,334	-	75,334
Due from other governments	189,102	-	189,102
Internal balances	-	1,674	1,674
Inventories	29,095	63,531	92,626
<b>Total current assets</b>	<b>12,617,140</b>	<b>330,395</b>	<b>12,947,535</b>
<b>Noncurrent Assets</b>			
Bond issuance costs - net	353,872	-	353,872
Land and site improvements - net	2,066,513	-	2,066,513
Building and building improvements - net	27,484,665	-	27,484,665
Furniture and equipment - net	1,342,724	89,909	1,432,633
<b>Total noncurrent assets</b>	<b>31,247,774</b>	<b>89,909</b>	<b>31,337,683</b>
<b>Total assets</b>	<b>\$ 43,864,914</b>	<b>\$ 420,304</b>	<b>\$ 44,285,218</b>

See Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current Liabilities			
Accounts payable	\$ 224,977	\$ -	\$ 224,977
Internal balances	1,674	-	1,674
Due to other governments	14,365	-	14,365
Current portion of long-term debt	1,720,000	-	1,720,000
Accrued salaries and benefits	1,318,718	29	1,318,747
Accrued payroll withholdings	20,926	-	20,926
Accrued interest payable	380,099	-	380,099
Deferred revenues	2,377	16,073	18,450
	<hr/>		
<b>Total current liabilities</b>	3,683,136	16,102	3,699,238
	<hr/>		
Noncurrent Liabilities			
Long-term debt - net of current portion	24,569,479	-	24,569,479
Compensated absences	787,869	-	787,869
Other post employment benefit obligations	46,234	-	46,234
<b>Total noncurrent liabilities</b>	25,403,582	-	25,403,582
	<hr/>		
<b>Total liabilities</b>	29,086,718	16,102	29,102,820
	<hr/>		
Net Assets			
Invested in capital assets - net of related debt	4,489,652	89,909	4,579,561
Unrestricted	10,288,544	314,293	10,602,837
<b>Total net assets</b>	14,778,196	404,202	15,182,398
	<hr/>		
<b>Total liabilities and net assets</b>	\$ 43,864,914	\$ 420,304	\$ 44,285,218
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**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 15,432,918	\$ 564,752	\$ 2,760,270	\$ -	\$ (12,107,896)	\$ -	\$ (12,107,896)
Instructional student support	2,464,206	-	156,184	-	(2,308,022)	-	(2,308,022)
Administration and financial support	2,855,588	-	123,837	-	(2,731,751)	-	(2,731,751)
Operation and maintenance of plant services	2,331,825	4,757	68,892	-	(2,258,176)	-	(2,258,176)
Pupil transportation	1,091,728	-	526,476	-	(565,252)	-	(565,252)
Student activities	650,593	42,681	17,835	-	(590,077)	-	(590,077)
Community services	2,151	-	-	-	(2,151)	-	(2,151)
Interest on long-term debt	930,024	-	228,962	-	(701,062)	-	(701,062)
<b>Total governmental activities</b>	<b>25,759,033</b>	<b>612,190</b>	<b>3,882,456</b>	<b>-</b>	<b>(21,264,387)</b>	<b>-</b>	<b>(21,264,387)</b>
<b>Business-Type activities:</b>							
Food Service	798,318	485,934	204,937	-	-	(107,447)	(107,447)
<b>Total school district</b>	<b>\$ 26,557,351</b>	<b>\$ 1,098,124</b>	<b>\$ 4,087,393</b>	<b>\$ -</b>	<b>\$ (21,264,387)</b>	<b>\$ (107,447)</b>	<b>\$ (21,371,834)</b>
<b>General Revenues:</b>							
Property taxes, levied for general purposes, net					\$ 14,400,616	\$ -	\$ 14,400,616
Public Utility Realty, Transfer, Earned Income, and Per Capita for General Purposes, Net					3,856,976	-	3,856,976
Grants subsidies and contributions not restricted					4,003,362	-	4,003,362
Investment earnings					348,556	2,251	350,807
Miscellaneous income					81,013	-	81,013
Transfers					(94,518)	94,518	-
<b>Total general revenues and transfers</b>					<b>22,596,005</b>	<b>96,769</b>	<b>22,692,774</b>
<b>Changes in net assets</b>					<b>1,331,618</b>	<b>(10,678)</b>	<b>1,320,940</b>
<b>Net assets - July 1, 2008</b>					<b>13,446,578</b>	<b>414,880</b>	<b>13,861,458</b>
<b>Net assets - June 30, 2009</b>					<b>\$ 14,778,196</b>	<b>\$ 404,202</b>	<b>\$ 15,182,398</b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2009**

	General Fund	Capital Reserve Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,353,770	\$ 697,307
Investments	4,859,049	1,500,430
Receivables		
Taxes - net	1,213,547	-
Federal subsidies	466,644	-
State subsidies	216,208	-
Other	75,334	-
Due from other governments	189,102	-
Due from other funds	12,120	-
Inventories	29,095	-
<b>Total assets</b>	<b>\$ 10,414,869</b>	<b>\$ 2,197,737</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 98,093	\$ -
Due to other funds	2,340	-
Due to other governments	14,365	-
Accrued salaries and benefits	1,318,718	-
Accrued payroll withholdings	20,926	-
Deferred revenues	345,879	-
<b>Total liabilities</b>	<b>1,800,321</b>	<b>-</b>
Fund Balances (Deficit)		
Reserved for		
Capital reserve	-	2,197,737
Capital projects	-	-
Unreserved	8,614,548	-
<b>Total fund balances (deficit)</b>	<b>8,614,548</b>	<b>2,197,737</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,414,869</b>	<b>\$ 2,197,737</b>

See Notes to Financial Statements.



Debt Service Fund	Non-Major Governmental Funds		Total Governmental Funds
	Capital Projects Fund	Athletic Fund	
\$ -	\$ -	\$ 3,417	\$ 4,054,494
-	13,237	-	6,372,716
-	-	-	1,213,547
-	-	-	466,644
-	-	-	216,208
-	-	-	75,334
-	-	-	189,102
-	-	-	12,120
-	-	-	29,095
<u>\$ -</u>	<u>\$ 13,237</u>	<u>\$ 3,417</u>	<u>\$ 12,629,260</u>
\$ -	\$ 126,884	\$ -	\$ 224,977
-	1,124	10,330	13,794
-	-	-	14,365
-	-	-	1,318,718
-	-	-	20,926
-	-	-	345,879
-	128,008	10,330	1,938,659
-	-	-	2,197,737
-	(114,771)	-	(114,771)
-	-	(6,913)	8,607,635
-	(114,771)	(6,913)	10,690,601
<u>\$ -</u>	<u>\$ 13,237</u>	<u>\$ 3,417</u>	<u>\$ 12,629,260</u>

**SOUTH MIDDLETON SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2009**

<b>Total Fund Balances - Governmental Funds</b>	\$ 10,690,601
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>	
<p>Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$48,972,914, and the accumulated depreciation is \$18,079,012.</p>	30,893,902
<p>Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred revenues in the funds.</p>	343,502
<p>Governmental funds report bond issuance costs as expenditures. However, in the Statement of Activities the cost of the issuance is allocated over the life of the debt issue. This is the amount by which bond issuance costs exceeds accumulated amortization.</p>	353,872
<p>Long-term liabilities, including bonds payable, compensated absences, and other post employment benefits, are not due and payable in the current period, and therefore are not reported as liabilities in the funds.</p>	
<p>Long-term liabilities at year-end consist of:</p>	
Bonds payable	(26,275,000)
Accrued interest	(380,099)
Bond issuance premium	(149,544)
Refunding loss	135,065
Other post employment benefit obligation	(46,234)
Compensated absences	(787,869)
	(27,503,681)
<b>Total net assets - governmental activities</b>	<b>\$ 14,778,196</b>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2009**

	General Fund	Capital Reserve Fund
<b>Revenues</b>		
Local sources	\$ 19,261,856	\$ 24,133
State sources	7,762,494	-
Federal sources	123,325	-
<b>Total revenues</b>	<u>27,147,675</u>	<u>24,133</u>
<b>Expenditures</b>		
Instructional	14,524,873	-
Support services	8,299,707	-
Noninstructional services	383,640	-
Capital outlay	2,000	233,542
Debt service		
Principal	-	-
Interest	-	-
<b>Total expenditures</b>	<u>23,210,220</u>	<u>233,542</u>
<b>Excess (deficiency) of revenues over expenditures</b>	3,937,455	(209,409)
<b>Other Financing Sources (Uses)</b>		
Bond proceeds	-	-
Interfund transfers in	-	1,500,000
Interfund transfers out	(4,498,695)	(350,000)
Refunding of bonds	-	-
<b>Total other financing sources (uses)</b>	<u>(4,498,695)</u>	<u>1,150,000</u>
<b>Net changes in fund balances</b>	(561,240)	940,591
Fund Balances - July 1, 2008	9,175,788	1,257,146
Fund Balances - June 30, 2009	<u>\$ 8,614,548</u>	<u>\$ 2,197,737</u>

See Notes to Financial Statements.

Debt Service Fund	Non-Major Governmental Funds		Total Governmental Funds
	Capital Projects Fund	Athletic Fund	
\$ -	\$ 20,208	\$ 42,976	\$ 19,349,173
-	-	-	7,762,494
-	-	-	123,325
-	20,208	42,976	27,234,992
-	-	-	14,524,873
115,980	-	-	8,415,687
-	-	237,424	621,064
-	2,019,294	-	2,254,836
1,660,000	-	-	1,660,000
1,028,245	-	-	1,028,245
2,804,225	2,019,294	237,424	28,504,705
(2,804,225)	(1,999,086)	(194,448)	(1,269,713)
9,731,048	-	-	9,731,048
2,713,177	350,000	191,000	4,754,177
-	-	-	(4,848,695)
(9,640,000)	-	-	(9,640,000)
2,804,225	350,000	191,000	(3,470)
-	(1,649,086)	(3,448)	(1,273,183)
-	1,534,315	(3,465)	11,963,784
\$ -	\$ (114,771)	\$ (6,913)	\$ 10,690,601

**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, 2009**

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**Net change in fund balances - total governmental funds** \$ (1,273,183)

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 cost 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	2,425,334	
Less depreciation expense	(1,391,660)	1,033,674

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 tax revenues decreased by this amount this year. (49,822)

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. 98,219

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (97,441)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect 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.

Issuance of long-term debt and related premium	(9,731,048)	
Repayment of long-term debt	11,300,000	
Payment of bond issuance costs and other items	112,471	
Amortization of bond issuance costs	(61,252)	1,620,171

**Changes in net assets of governmental activities** \$ 1,331,618

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, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 18,657,027	\$ 18,657,027	\$ 19,261,856	\$ 604,829
State appropriations	8,175,106	8,175,106	7,762,494	(412,612)
Federal appropriations	140,275	140,275	123,325	(16,950)
<b>Total revenues</b>	<b>26,972,408</b>	<b>26,972,408</b>	<b>27,147,675</b>	<b>175,267</b>
<b>Expenditures</b>				
Instructional	15,028,738	15,102,737	14,524,873	577,864
Support services	8,893,907	8,937,907	8,299,707	638,200
Noninstructional services	401,018	401,018	383,640	17,378
Capital outlay	-	2,000	2,000	-
<b>Total expenditures</b>	<b>24,323,663</b>	<b>24,443,662</b>	<b>23,210,220</b>	<b>1,233,442</b>
<b>Excess of revenues over expenditures</b>	<b>2,648,745</b>	<b>2,528,746</b>	<b>3,937,455</b>	<b>1,408,709</b>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in	-	-	-	-
Interfund transfers out	(3,111,478)	(3,111,478)	(4,498,695)	(1,387,217)
Budgetary reserve	(125,000)	(5,001)	-	5,001
<b>Total other financing uses</b>	<b>(3,236,478)</b>	<b>(3,116,479)</b>	<b>(4,498,695)</b>	<b>(1,382,216)</b>
<b>Net change in fund balances</b>	<b>\$ (587,733)</b>	<b>\$ (587,733)</b>	<b>(561,240)</b>	<b>\$ 26,493</b>
Fund Balances - July 1, 2008			9,175,788	
Fund Balances - June 30, 2009			<u>\$ 8,614,548</u>	

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

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

**June 30, 2009**

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<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 265,190
Internal balances	1,674
Inventories	63,531
<b>Total current assets</b>	<u>330,395</u>
 Noncurrent Assets	
Furniture and equipment - net	89,909
<b>Total assets</b>	<u>\$ 420,304</u>
 <b>LIABILITIES AND NET ASSETS</b>	
Liabilities - all current	
Accrued salaries and benefits	\$ 29
Deferred revenues	16,073
<b>Total liabilities</b>	<u>16,102</u>
 Net Assets	
Invested in capital assets	89,909
Unrestricted	314,293
<b>Total net assets</b>	<u>404,202</u>
 <b>Total liabilities and net assets</b>	<u>\$ 420,304</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUND - FOOD SERVICE  
Year Ended June 30, 2009**

Operating Revenues	
Food service revenues	\$ 485,934
Operating Expenses	
Food and milk	310,494
Labor, taxes and benefits	428,789
Supplies	634
Trash removal	11,817
Equipment repairs and maintenance	10,566
Travel and other	7,596
Depreciation	28,422
<b>Total operating expenses</b>	<b>798,318</b>
<b>Operating loss</b>	<b>(312,384)</b>
Nonoperating Revenues	
Investment earnings	2,251
State sources	39,426
Federal sources	165,511
<b>Total nonoperating revenues</b>	<b>207,188</b>
Operating Transfer In	94,518
<b>Changes in net assets</b>	<b>(10,678)</b>
Net Assets - July 1, 2008	414,880
Net Assets - June 30, 2009	<u>\$ 404,202</u>

See Notes to Financial Statements.



**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND - FOOD SERVICE  
 Year Ended June 30, 2009**

<hr/>	
Cash Flows From Operating Activities	
Cash received from users	\$ 488,523
Cash payments for goods and services	(310,992)
Cash payments to employees for services	(428,760)
<b>Net cash used in operating activities</b>	<u>(251,229)</u>
Cash Flows From Noncapital Financing Activities	
Operating transfer in	94,518
State subsidies	39,872
Federal subsidies	126,041
<b>Net cash provided by noncapital financing activities</b>	<u>260,431</u>
Cash Flows From Investing Activities	
Investment income	2,251
Purchase of fixed assets	(7,783)
<b>Net cash used in investing activities</b>	<u>(5,532)</u>
<b>Net increase in cash and cash equivalents</b>	3,670
Cash and Cash Equivalents:	
July 1, 2008	261,520
June 30, 2009	<u>\$ 265,190</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (312,384)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	28,422
Value of donated commodities used	41,638
Changes in assets and liabilities:	
(Increase) decrease in:	
Inventories	(6,619)
(Decrease) increase in:	
Due to other funds	(4,904)
Deferred revenues	2,589
Accrued salaries and benefits	29
<b>Net cash used in operating activities</b>	<u>\$ (251,229)</u>

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2009**

	Agency <u>Student Activities</u>	Private Purpose Trust Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 107,195	\$ 108,294	\$ 215,489
<b>LIABILITIES</b>			
Due to student groups	\$ 107,195	\$ -	\$ 107,195
<b>NET ASSETS</b>			
Held in trust for private purpose trust funds	-	108,294	108,294
	<u>\$ 107,195</u>	<u>\$ 108,294</u>	<u>\$ 215,489</u>
<b>Total liabilities and net assets</b>			

See Notes to Financial Statements.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
PRIVATE PURPOSE TRUST FUND  
Year Ended June 30, 2009**

Additions	
Contributions	\$ 16,177
Investment earnings	1,300
<b>Total additions</b>	<u>17,477</u>
Deductions	
Scholarships and awards	<u>7,078</u>
<b>Changes in net assets</b>	10,399
Net Assets - July 1, 2008	97,895
Net Assets - June 30, 2009	<u>\$ 108,294</u>

See Notes to Financial Statements.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

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

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

#### A. Reporting Entity

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

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

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

The government-wide financial statements (i.e., the Statement of Net Assets 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 segment is 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 funds, proprietary funds, and the 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.

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 a liability is 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 assets (total assets less total liabilities) 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 expense against current operations and accumulated depreciation is reported on the Statement of Net Assets.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they 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 tax and per capita, 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 Reserve Fund (Section 2932 is authorized by P.L. 145, Act of April 30, 1943, known as Section 2932 School Laws of Pennsylvania) accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, and (2) surplus monies in the General Fund of the School District at the end of any fiscal year. This fund is included in the financial statements as a Special Revenue Fund.

The Debt Service Fund accounts for accumulation of resources for, and the payment of long-term debt principal, interest and related costs.

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

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

Additionally, the District reports the following Non-Major governmental funds:

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Athletic Fund is authorized by Section 511 of the Public School Code of 1949 to account for certain revenues and expenditures of athletic activities. The fund accounts for gate receipts and other revenues from athletic events and certain budgeted costs of the District's athletic program.

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 ongoing 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 nonoperating 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, whose sole purpose is to provide annual scholarships to particular students as prescribed by donor stipulations.

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### D. Budget and Budgetary Accounting

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

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.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; 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 effect of approved budget amendments.

#### E. Assets, Liabilities, and Net Assets or Equity

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

Investments: Investments are stated at fair value.

#### Allowances for Estimated Uncollectible Taxes and Deferred Revenues:

The allowance for estimated uncollectible taxes is based upon a historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Deferred revenues are based upon a historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

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



## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

##### E. Assets, Liabilities, and Net Assets or Equity (Continued)

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

A physical inventory of the Cafeteria Fund food and supplies was taken as of June 30, 2009. The inventory consisted of government donated commodities which were valued at estimated fair market value, and purchased commodities and supplies, both valued at costs 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 acquired by debt proceeds, in which case the asset is required to be capitalized. Management considers various factors in the capitalization of assets, including the asset's estimated useful life, cost, and the extent to which the asset is part of a larger capital project. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset 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 life of the asset or group of assets as determined by management.

Long-Term Obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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 actual 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 for 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 which would be available to employees if they would leave or retire from the School District and is adjusted for expected turnover rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. Those costs determined to be current year costs are reflected as a liability of the General Fund.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### E. Assets, Liabilities, and Net Assets or Equity (Continued)

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 classifies fund balances as follows:

#### Reserved

Reserve fund is used to denote that portion of the fund balance, which is not available for expenditure appropriation or is legally segregated for a specific purpose.

- Reserve for capital reserve represents that portion of fund balance legally restricted to capital projects
- Reserve for capital projects represents that portion of fund balance legally restricted to capital projects

#### Unreserved

- Designation is used to indicate intentions for financial resource utilization
- Undesignated is used to denote that portion of fund balance which is available for appropriations

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.

## **SOUTH MIDDLETON SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2. Deposits and Investments**

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

- U.S. Treasury Bills
- Short-term obligations of the U.S. Government or its agencies or its instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
  1. The Federal Deposit Insurance Corporation (FDIC), or
  2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
  3. The National Credit Union Share Insurance Fund (NCUSIF)

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

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

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

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

#### Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. As of June 30, 2009, \$4,687,843 of the District's total bank balances of \$5,187,843 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72	\$ 4,687,843

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 the pledgor of the assets.

#### Investments

As of June 30, 2009, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Values</u>
Pennsylvania Local Government Investment Trust (PLGIT)	34 days weighted avg	\$ 4,427,176
Pennsylvania School District Liquid Asset Fund (PSDLAF)	45 days weighted avg	1,506,607
Pennsylvania Treasurer's INVEST Program	46 days weighted avg	438,933
		<u>\$ 6,372,716</u>

#### Portfolio Assets

PLGIT - This fund invests in U.S. Treasury and agency securities and repurchase agreements secured by such obligations, as well as 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 securities, U.S. government securities, it 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.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

PA Treasurer's INVEST - This fund invests in U.S. treasury bills, notes, bonds, certificates of deposit and agency obligations. In order to provide adequate liquidity, PA Treasurer's Invest 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 when investments become due and payable, in years or months, weighted to reflect the dollar size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

#### Interest-Rate Risk

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

#### Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2009, the District's investments in PLGIT, PSDLAF, 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 70% of the District's total investments.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 3. Taxes Receivable, Deferred Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2009, are as follows:

	Amount
Uncollected taxes	\$ 1,224,318
Estimated uncollectible taxes	<u>10,771</u>
Taxes Receivable - Net	<u>\$ 1,213,547</u>
Taxes to be collected within 60 days	\$ 870,045
Deferred revenues - delinquent taxes	<u>343,502</u>
Taxes Receivable - Net	<u>\$ 1,213,547</u>
Deferred Revenues - General Fund	
Delinquent taxes	\$ 343,502
Retiree insurance premiums	2,377
Deferred Revenues - Proprietary Fund	
Deferred lunch revenues	<u>16,073</u>
Total Deferred Revenues	<u>\$ 361,952</u>

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Property Taxes

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2008-2009 is as follows:

July 1, 2008	tax levy date
Through August 31, 2008	2% discount
Through October 31, 2008	face payment period
November 1, 2008	10% penalty period
4th Monday, 2009	lien filing date
January 1, 2009	interim tax levy date

The School District tax rate for all purposes in 2008-2009 was 11.38 mills (\$11.38 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. Current tax collections for the School District were approximately 98% of the total tax levy.

### Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2009, are as follows:

Fund	Due from other funds	Due to other funds
General	\$ 12,120	\$ 2,340
Capital Projects	-	1,124
Athletic	-	10,330
Business-Type Activities - Food Service	1,674	-
	<u>\$ 13,794</u>	<u>\$ 13,794</u>

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Interfund Accounts (Continued)**

Operating transfers between funds at June 30, 2009, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 4,498,695
Capital Reserve Fund	1,500,000	350,000
Debt Service Fund	2,713,177	-
Capital Projects	350,000	-
Athletic Fund	191,000	-
Business-Type Activities - Food Service	94,518	-
	<u>\$ 4,848,695</u>	<u>\$ 4,848,695</u>

Transfers and payments within the District are substantially for purposes of subsidizing operating functions, funding capital projects and asset acquisition, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

**Note 6. Cafeteria Fund Inventory**

The composition of Cafeteria Fund inventory at June 30, 2009, is as follows:

	Amount
Materials and supplies	\$ 6,178
Purchased food	57,353
	<u>\$ 63,531</u>



**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7. General Fixed Assets**

Capital asset activity for the year ended June 30, 2009, was as follows:

	July 1, 2008	Increases	Decreases	June 30, 2009
<b>Governmental Activities</b>				
Land and site improvements	\$ 2,420,898	\$ 1,043,672	\$ -	\$ 3,464,570
Buildings and building improvements	39,189,977	1,248,030	-	40,438,007
Furniture and equipment	4,872,376	197,961	-	5,070,337
Construction-in-progress	64,329	-	64,329	-
<b>Total Governmental Activities</b>				
Capital Assets	46,547,580	2,489,663	64,329	48,972,914
<b>Less accumulated depreciation</b>				
Land and site improvements	1,265,208	132,849	-	1,398,057
Buildings and building improvements	11,979,092	974,250	-	12,953,342
Furniture and equipment	3,443,052	284,561	-	3,727,613
<b>Total Accumulated Depreciation</b>	16,687,352	1,391,660	-	18,079,012
<b>Governmental Activities, Capital Assets - Net</b>	<b>\$ 29,860,228</b>	<b>\$ 1,098,003</b>	<b>\$ 64,329</b>	<b>\$ 30,893,902</b>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 542,984	\$ 7,783	\$ -	\$ 550,767
<b>Total Business-Type Activities</b>				
Capital Assets	542,984	7,783	-	550,767
<b>Less accumulated depreciation</b>				
Furniture and equipment	432,436	28,422	-	460,858
<b>Business-Type Activities, Capital Assets - Net</b>	<b>\$ 110,548</b>	<b>\$ (20,639)</b>	<b>\$ -</b>	<b>\$ 89,909</b>

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Note 7. General Fixed Assets (Continued)

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

	Amount
Governmental Activities	
Instruction	\$ 964,703
Instructional student support	131,736
Administration and financial support	177,282
Operation and plant services	87,278
Student activities	30,661
Total Governmental Activities	<u>1,391,660</u>
Business-Type Activities	
Food Service	28,422
Total School District	<u>\$ 1,420,082</u>

### Note 8. Long-Term Obligations

Long-term obligations changed as follows:

	July 1, 2008	Increases	Decreases	June 30, 2009
General Obligation Bonds Payable				
General Obligation Bonds - Series of 2001	\$ 6,455,000	\$ -	\$ (6,455,000)	\$ -
General Obligation Bonds - Series of 2003	6,130,000	-	(4,800,000)	1,330,000
General Obligation Bonds - Series of 2006	9,920,000	-	(40,000)	9,880,000
General Obligation Bonds - Series A of 2006	5,495,000	-	(5,000)	5,490,000
General Obligation Bonds - Series of 2009	-	9,575,000	-	9,575,000
	<u>28,000,000</u>	<u>9,575,000</u>	<u>(11,300,000)</u>	<u>26,275,000</u>
Refunding loss, net of amortization	-	(135,065)	-	(135,065)
Bond issuance premium-net	-	149,544	-	149,544
Total Bonds Payable	<u>28,000,000</u>	<u>9,589,479</u>	<u>(11,300,000)</u>	<u>26,289,479</u>
Compensated Absences	736,662	51,207	-	787,869
Other post employment benefits	-	46,234	-	46,234
Total Long-Term Obligations	<u>\$ 28,736,662</u>	<u>\$ 9,686,920</u>	<u>\$(11,300,000)</u>	<u>\$ 27,123,582</u>

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 8. Long-Term Obligations (Continued)**

##### General Obligation Bonds - Series of 2001

During fiscal 2001-02, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2001 in the aggregate principal amount of \$8,470,000. The proceeds of the bonds were used to call the General Obligation Bonds, Series of 1998 and to pay the costs and expenses related to the foregoing and the issuance of such bonds. The bonds bear interest semi-annually with rates ranging from 2.10% to 4.10%. During the 2008-2009 fiscal year, these bonds were refunded.

##### General Obligation Bonds - Series of 2003

During fiscal 2002-03, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2003 in the aggregate principal amount of \$8,750,000. The proceeds of the bonds were used to: (1) advance refunding the School District's General Obligation Bonds - Series of 1998; and (2) pay the costs and expenses related to the foregoing and the issuance of such bonds. The interest rates for the 2003 Bond Issue varied from 1.20% to 4.10%. During the 2008-2009 fiscal year, these bonds were partially refunded. The bonds mature serially in the amounts ranging from \$655,000 to \$675,000 through November 15, 2010.

##### General Obligation Bonds - Series of 2006

During fiscal 2005-06, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2006 in the aggregate principal amount of \$10,000,000. The proceeds of the bonds were used to provide funds toward (1) advance refunding the School District's General Obligation Notes, Series A of 2004, and (2) pay all costs of issuance of the Bonds. The bonds bear interest semi-annually with rates ranging from 3.6% to 4.00%. The bonds mature serially in amounts ranging from \$20,000 to \$2,250,000 through October 1, 2019.

##### General Obligation Bonds - Series A of 2006

During fiscal 2005-06, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series A of 2006 in the aggregate principal amount of \$5,500,000. The proceeds of the bonds are to be used to provide funds toward (1) renovations to Boiling Springs High School; (2) renovations to the School District's athletic facilities, including Ecker Field; (3) advance refunding the School District's General Obligation Note, Series B of 2004; and pay all costs of issuance of the Bonds. The bonds bear interest semi-annually with rates ranging from 4.00% to 4.25%. The bonds mature serially in amounts ranging from \$5,000 to \$2,370,000 through October 1, 2021.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 8. 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 will be 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 pay all costs of issuance of the 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.

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
2009-2010	\$ 1,720,000	\$ 906,249	\$ 2,626,249
2010-2011	1,785,000	863,058	2,648,058
2011-2012	1,850,000	802,027	2,652,027
2012-2013	1,905,000	745,307	2,650,307
2013-2014	1,965,000	686,723	2,651,723
2014-2019	10,610,000	2,383,916	12,993,916
2019-2022	6,440,000	381,030	6,821,030
	<u>\$ 26,275,000</u>	<u>\$ 6,768,310</u>	<u>\$ 33,043,310</u>

##### Compensated Absences

Under the terms of the School District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contract and varies by employee classification. In addition, employees are granted sick days per school year and any unused sick days are permitted to be carried over to future years. Upon retirement from the School District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by an amount pre-established per 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 Assets.

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 9. 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 \$351,134 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, 2009.

#### **Note 10. Defined-Benefit Pension Plan**

##### Plan Description

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

Type of Plan: Governmental cost sharing multiple-employer 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 that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg PA 17108-0125. This publication is also available on the PSERS website at <http://www.psers.state.pa.us/publications/cafr/index.htm>.

##### Funding Policy

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

## SOUTH MIDDLETON SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 10. Defined-Benefit Pension Plan (Continued)

##### Contribution Rates

Member Contributions - Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) 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 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2009, the rate of employer's contribution was 4.76 percent of covered payroll.

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, 2009, 2008 and 2007, were \$635,225, \$869,412, and \$755,909, respectively, and are equal to the required contributions for the year.

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

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 staff and support staff who meet the following requirements. Employee must be of age 55 with 25 years of PSERS service, age 62 with 1 year of service, or 35 years of total PSERS service. Currently, the plan has approximately 360 members. The plan does not issue a separate stand-alone financial statement.

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

**SOUTH MIDDLETON SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 10. Defined-Benefit Pension Plan (Continued)**

Funding Progress - For the year ended June 30, 2009, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental care benefits through an actuarial valuation as of June 1, 2007. 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 ongoing 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	\$ 117,473
Less adjustment to the annual required contribution	-
Annual OPEB cost	<u>117,473</u>
Amounts contributed:	
Payments of current premiums and claims	(71,239)
Advance funding	-
Increase in net OPEB obligation	<u>46,234</u>
OPEB obligation - beginning of year	-
OPEB obligation - end of year	<u><u>\$ 46,234</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, 2009:	Amount
Annual OPEB cost	\$ 117,473
Percentage contributed	38.1%
Net OPEB obligation	\$ 46,234

Actuarial methods and assumptions - Actuarial valuations of an ongoing plan involve estimates of the value 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 the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the June 1, 2007 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include an annual health care cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after eight years. Both rates included a 4.5% inflation assumption. The UAAL is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

# SOUTH MIDDLETON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 11. Risk Management

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

### Note 12. Significant Commitments

As of June 30, 2009, the District had entered into the following significant contract commitments:

Vendor	Project	Amount
East Coast Contracting, Inc.	High School	\$ 380,700
ELY	Rice Play Ground	98,799
Stanley, Inc.	Security Cameras	79,558
		<u>\$ 559,057</u>



**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH MIDDLETON SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
 POST-EMPLOYMENT BENEFITS PLAN  
 Year Ended June 30, 2009**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ©</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
6/1/2007	\$ -	\$ 956,801	\$ 956,801	0.00%	\$ 11,567,812	8.27%

**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 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, 2009, which collectively comprise the South Middleton School District's basic financial statements and have issued our report thereon dated September 25, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered South Middleton School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Middleton School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Middleton School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Middleton School District's financial statements are free of 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*.

We noted certain matters that we reported to management of South Middleton School District in a separate letter dated September 25, 2009.

This report is intended solely for the information and use of the Board of School Directors, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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  
September 25, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of South Middleton School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of South Middleton School District's management. Our responsibility is to express an opinion on South Middleton School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about South Middleton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Middleton School District's compliance with those requirements.

In our opinion, South Middleton School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

### Internal Control over Compliance

The management of South Middleton School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered South Middleton School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Middleton School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of School Directors, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Camp Hill, Pennsylvania  
September 25, 2009

**SOUTH MIDDLETON SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

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

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**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, 2009**

Identification of the major program:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education - Grants to States

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

Auditee qualified as low-risk auditee?  X  Yes   No

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**Section II -- Financial Statement Findings**

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

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

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A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

There were no findings relating to the Federal awards as 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, 2009**

	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period
<b>U.S. Department of Education</b>				
Passed through the Pennsylvania Department of Education:				
Title I - Improving Basic Programs	I	84.010	013-070397	06-07
Title I - Improving Basic Programs	I	84.010	013-080397	07-08
Title I - Improving Basic Programs	I	84.010	013-090397	08-09
Title I - Academic Achievement Award	I	84.010	077-070397	06-07
Title I - Academic Achievement Award	I	84.010	077-090397	08-09
Title II - Improving Teacher Quality	I	84.367	020-070397	06-07
Title II - Improving Teacher Quality	I	84.367	020-080397	07-08
Title II - Improving Teacher Quality	I	84.367	020-090397	08-09
Title V - Innovative Education Program Strategies	I	84.298	011-080397	07-08
Passed through the Capital Area Intermediate Unit:				
Special Education - Grants to States	I	84.027	N/A	07-08
Special Education - Grants to States	I	84.027	N/A	08-09
<b>Total U.S. Department of Education</b>				
<b>U.S. Department of Agriculture</b>				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program	I	10.555	N/A	07-08
National School Lunch Program	I	10.555	N/A	08-09
Passed through the Pennsylvania Department of Agriculture:				
Food Donation (a)	I	10.550	N/A	08-09
<b>Total U.S. Department of Agriculture</b>				
<b>Total Expenditures of Federal Awards</b>				

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/08	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2009
\$ 71,985	\$ 37,549	\$ 37,549	\$ -	\$ -	\$ -
\$ 78,261	52,168	52,168	-	-	-
\$ 84,299	17,062	-	84,299	84,299	67,237
\$ 2,076	1,186	1,186	-	-	-
\$ 1,000	400	-	1,000	1,000	600
\$ 37,561	18,766	18,766	-	-	-
\$ 38,374	25,583	25,583	-	-	-
\$ 40,251	8,050	-	37,973	37,973	29,923
\$ 2,074	1,106	1,054	52	52	-
\$ 357,060	357,060	357,060	-	-	-
\$ 368,884	-	-	368,884	368,884	368,884
	518,930	493,366	492,208	492,208	466,644
N/A	2,168	2,168	-	-	-
N/A	123,873	-	123,873	123,873	-
N/A	41,638	-	41,638	41,638	-
	167,679	2,168	165,511	165,511	-
	\$ 686,609	\$ 495,534	\$ 657,719	\$ 657,719	\$ 466,644

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

**Year Ended June 30, 2009**

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Source Codes:

- D - Direct Funding
- I - Indirect Funding

Test of 25% Rule:

Total Federal Expenditures \$ 657,719

Program selected for testing major programs

IDEA \$ 368,884

\$ 368,884 / \$657,719 = 56.09%

See Note to Schedule of Expenditures of Federal Awards.

## **SOUTH MIDDLETON SCHOOL DISTRICT**

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

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

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School District's Federal award programs and presents transactions that would be included in the financial statements of the District presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

**SOUTH MIDDLETON SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2009**

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There were no prior year audit findings.