

SOUTH MIDDLETON SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the South Middleton School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the South Middleton School District, as of June 30, 2021, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 84 *Fiduciary Activities*, as of July 1, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 11 and the required supplementary information as listed in the Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

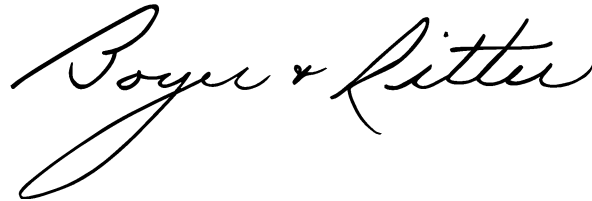
Other Information

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

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021, on our consideration of South Middleton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Middleton School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering South Middleton School District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania
December 15, 2021

**SOUTH MIDDLETON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

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, 2021. Comparative financial information for fiscal year ended June 30, 2020, is also presented in this report to show changes in the financial position of the District from the prior to current year. The purpose of this discussion is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements.

Financial Highlights

For fiscal year 2020-2021, the Board adopted a General Fund Budget with a real estate tax millage rate of 11.0966 mills which represented a 2.57% increase from the 2019-2020 year. In 2019-2020, the District approved a 2.42% tax increase, which represents a real estate tax millage rate of 10.8182.

On June 17, 2020, the District passed its 2020-2021 budget. The budget was balanced between revenues, expenditures and other financing sources.

Overview of the Financial Statements

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

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

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

Government-wide Statements Report the District as a Whole

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

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

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

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

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

Net Position and Statement of Activities

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

The results of this year's operations as a whole are reported in the Statement of Activities. Direct expenses are listed by program, and then offset by program revenues to determine net (expense) revenue and changes in net position. General revenues, such as taxes, state general subsidies, and investment earnings are then applied prior to transfers, and special items, to determine the change in net position. For the 2020-2021 fiscal year, the change in net position for governmental activities was an increase of \$867,312 and an increase of \$17,767 for business-type activities, for a net total increase of \$885,079. The District's implementation of GASB 84 created an additional increase in net position for governmental activities of \$206,033 for a total increase of \$1,073,345 and a total net increase of \$1,091,112. For the 2019-2020 fiscal year, the change in net position for governmental activities was an increase of \$3,710,461 and an increase of \$28,379 for business-type activities for a net total increase of \$3,738,840 as reflected in the chart below.

	Governmental Activities		Business-Type Activities		Total Activities	
	2021	2020	2021	2020	2021	2020
Current assets	\$ 12,740,271	\$ 13,740,394	\$ 81,645	\$ 142,295	\$ 12,821,916	\$ 13,882,689
Capital assets	47,781,114	48,702,338	-	640	47,781,114	48,702,978
Total assets	\$ 60,521,385	\$ 62,442,732	\$ 81,645	\$ 142,935	\$ 60,603,030	\$ 62,585,667
Deferred outflows of resources	\$ 7,913,969	\$ 5,637,074	\$ -	\$ -	\$ 7,913,969	\$ 5,637,074
Current liabilities	\$ 4,452,132	\$ 3,991,818	\$ 88,450	\$ 167,507	\$ 4,540,582	\$ 4,159,325
Long-term liabilities	84,757,060	84,890,151	-	-	84,757,060	84,890,151
Total liabilities	\$ 89,209,192	\$ 88,881,969	\$ 88,450	\$ 167,507	\$ 89,297,642	\$ 89,049,476
Deferred inflows of resources	\$ 4,220,353	\$ 5,265,373	\$ -	\$ -	\$ 4,220,353	\$ 5,265,373
Net investment in capital assets	\$ 15,913,179	\$ 15,263,837	\$ -	\$ 640	\$ 15,913,179	\$ 15,264,477
Restricted	193,938	61,952	-	-	193,938	61,952
Unrestricted	(41,101,308)	(41,393,325)	(6,805)	(25,212)	(41,108,113)	(41,418,537)
Total net deficit	\$ (24,994,191)	\$ (26,067,536)	\$ (6,805)	\$ (24,572)	\$ (25,000,996)	\$ (26,092,108)

Net Position and Statement of Activities (Continued)

	Governmental Activities		Business-Type Activities		Total Activities	
	2021	2020	2021	2020	2021	2020
Program Revenues						
Charges for services	\$ 634,564	\$ 641,280	\$ 23,368	\$ 321,065	\$ 657,932	\$ 962,345
Operating grants and contributions	7,161,013	6,580,472	835,565	470,446	7,996,578	7,050,918
Total program revenues	7,795,577	7,221,752	858,933	791,511	8,654,510	8,013,263
General Revenues						
Taxes	27,036,969	26,439,609	-	-	27,036,969	26,439,609
General subsidies	4,565,310	4,565,315	-	-	4,565,310	4,565,315
Investment earnings	52,201	195,092	127	417	52,328	195,509
Other local revenue	40,016	46,550	13,071	-	53,087	46,550
Total general revenues	31,694,496	31,246,566	13,198	417	31,707,694	31,246,983
Total Revenues	39,490,073	38,468,318	872,131	791,928	40,362,204	39,260,246
Total Expenses	38,622,761	34,653,857	854,364	867,549	39,477,125	35,521,406
Excess (deficiency) before transfers	867,312	3,814,461	17,767	(75,621)	885,079	3,738,840
Transfers	-	(104,000)	-	104,000	-	-
Changes in net position	867,312	3,710,461	17,767	28,379	885,079	3,738,840
Net deficit - beginning	(26,067,536)	(29,777,997)	(24,572)	(52,951)	(26,092,108)	(29,830,948)
Prior period adjustment (see Note 1)	206,033	-	-	-	206,033	-
Net deficit - beginning (restated)	(25,861,503)	(29,777,997)	(24,572)	(52,951)	(25,886,075)	(29,830,948)
Net deficit - ending	\$ (24,994,191)	\$ (26,067,536)	\$ (6,805)	\$ (24,572)	\$ (25,000,996)	\$ (26,092,108)

Fund Balances

The General Fund balance decreased \$1,554,555. Due to COVID-19 and health concerns there was an increase in enrollment in cyber/charter schools, which resulted in an unbudgeted increase in cyber charter tuition.

The Cafeteria Fund continues to be managed by Chartwells, with the 2021-2022 school year being the third year the management group oversaw the food service program. The cafeteria fund ended the 2020-2021 fiscal year with a \$17,767 increase in net position. COVID-19 required Chartwells to provide a grab and go meal option. It should also be noted that the USDA in partnership with PDE authorized free reimbursable meals to all children 0-18 years of age for the entire school year.

The Capital Projects Fund closed the year with a restricted fund balance of \$1,001,494 which is a decrease of \$246,885 from the 2019-2020 fiscal year. This decrease is a result of the completion of a Turf and Track replacement at the Stadium.

	2021	2020	Change	% Change
General Fund, including Athletics	\$6,993,288	\$ 8,547,843	\$ (1,554,555)	-18.19%
Capital Projects Fund	1,001,494	1,248,379	(246,885)	-19.78%
Total Governmental Fund Balances	\$7,994,782	\$ 9,796,222	\$ (1,801,440)	-18.39%

	Budget	Actual	Difference
Total Revenues	\$ 38,294,991	\$ 39,295,284	\$ 1,000,293
Total Expenditures	38,044,991	40,599,839	(2,554,848)
Change in Fund Balances excluding Interfund Transfers	250,000	(1,304,555)	(1,554,555)
Interfund Transfers	(250,000)	(250,000)	-
Net Changes in Fund Balances	\$ -	(1,554,555)	\$ (1,554,555)
General Fund Balance - June 30, 2020		8,547,843	
General Fund Balance - June 30, 2021		\$ 6,993,288	

Capital Assets

On June 30, 2021, the District recorded \$47,781,114 in Total Capital Assets, which represents a decrease of \$758,074 from the previous fiscal year. This decrease is based in part on the completion of recent construction project at Ecker Field and yearly depreciation.

	2021	2020	Change
Governmental Activities			
Land and site improvements	\$ 2,860,115	\$ 1,994,623	\$ 865,492
Buildings and improvements	43,150,098	44,636,881	(1,486,783)
Furniture and equipment	1,770,901	1,907,684	(136,783)
Total Governmental Capital Assets	<u>47,781,114</u>	<u>48,539,188</u>	<u>(758,074)</u>
Business-Type Activities			
Total Business Capital Assets	<u>-</u>	<u>640</u>	<u>(640)</u>
Total Capital Assets	<u>\$ 47,781,114</u>	<u>\$ 48,539,828</u>	<u>\$ (758,714)</u>

Long-Term Liabilities

Bonds payable at June 30, 2021, were \$31,725,000 compared to \$33,850,000 at June 30, 2020. A total of \$11,390,000 of debt was paid off, with \$9,265,000 of new issuances during the 2020-2021 fiscal year.

General Obligation Debt	2021	2020
Series of 2014	\$ 640,000	\$ 640,000
Series of 2015	450,000	450,000
Series A of 2016	-	8,935,000
Series B of 2016	1,955,000	4,375,000
Series of 2019	9,710,000	9,745,000
Series of 2020	9,705,000	9,705,000
Series of 2021	9,265,000	-
Total Outstanding Debt	\$ 31,725,000	\$ 33,850,000

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

Factors Expected to Have an Effect on Future Operations

Pennsylvania's Act 1 of 2006 places limitations on the ability of the District to raise taxes without voter approval. While this has not been a binding constraint to date, it may have long-term effects as the index is linked to a national salary index and a state salary index. Prior to June 30, 2012, the District had ten (10) Pennsylvania Department of Education approved, limited exceptions to increasing its real estate tax rate beyond the index. On June 30, 2011, the Governor of Pennsylvania signed into law legislation eliminating seven of the ten exceptions and further restricting the three remaining exceptions. The Act 1 Index will limit the District, without state approved exceptions, to raise taxes at a maximum of 3.4% for the 2021-2022 fiscal year. The District raised taxes for the 2020-2021 fiscal year by 3.0%, which was the maximum amount allowed by the Act 1 index.

The District's agreement with the bargaining unit (South Middleton Education Association) for District teaching professionals will expire on June 30, 2024. The agreement includes a spousal exclusion to medical and prescription drug benefits clause, which is expected to save the district throughout the duration of the agreement. The agreement began July 1, 2020 through June 30, 2024. A key change within the contract was the implementation of a Qualified High Deductible Health Plan (QHDHP), in correlation with a District-funded Health Savings Account, that will help to control rising insurance premium costs.

Factors Expected to Have an Effect on Future Operations

The District Act 93 team and support staff have compensation and benefit plans in place through the June 30, 2023. Like the SMEA contract, these compensation and benefits plan include the QHDHP, in correlation with a District funded Health Savings Account, this has helped to contain district expenditures.

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

Contacting the District's Financial Management

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

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,699,352	\$ 7,584	\$ 5,706,936
Investments	4,169,401	-	4,169,401
Internal balances	5,473	(5,473)	-
Receivables	2,866,045	51,510	2,917,555
Inventories	-	28,024	28,024
Capital assets			
Other capital assets, net of depreciation	47,781,114	-	47,781,114
Total capital assets	47,781,114	-	47,781,114
Total assets	\$ 60,521,385	\$ 81,645	\$ 60,603,030
Deferred Outflows of Resources			
Deferred amounts on pension liability	\$ 7,018,000	\$ -	\$ 7,018,000
Deferred amounts on OPEB liabilities	895,969	-	895,969
Total deferred outflows of resources	\$ 7,913,969	\$ -	\$ 7,913,969
Liabilities			
Accounts payable and accrued expenses	\$ 4,452,132	\$ 47,405	\$ 4,499,537
Unearned revenues	-	41,045	41,045
Long-term obligations			
Due within one year	2,000,000	-	2,000,000
Due in more than one year	31,586,150	-	31,586,150
Net pension liability	46,580,000	-	46,580,000
OPEB liabilities	4,590,910	-	4,590,910
Total long-term liabilities	84,757,060	-	84,757,060
Total liabilities	\$ 89,209,192	\$ 88,450	\$ 89,297,642
Deferred Inflows of Resources			
Deferred amounts on pension liability	\$ 3,554,000	\$ -	\$ 3,554,000
Deferred amounts on OPEB liabilities	529,375	-	529,375
Deferred amounts on refunding debt	136,978	-	136,978
Total deferred inflows of resources	\$ 4,220,353	\$ -	\$ 4,220,353
Net Position (Deficit)			
Net investment in capital assets	\$ 15,913,179	\$ -	\$ 15,913,179
Restricted	193,938	-	193,938
Unrestricted	(41,101,308)	(6,805)	(41,108,113)
Total net deficit	\$ (24,994,191)	\$ (6,805)	\$ (25,000,996)

See Notes Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 24,751,694	\$ 530,124	\$ 5,371,534	\$ -	\$ (18,850,036)	\$ -	\$ (18,850,036)
Instructional student support	4,130,947	-	492,235	-	(3,638,712)	-	(3,638,712)
Administration and financial support	3,634,790	-	407,855	-	(3,226,935)	-	(3,226,935)
Operation and maintenance of plant services	2,803,493	7,288	146,990	-	(2,649,215)	-	(2,649,215)
Pupil transportation	1,731,801	-	624,812	-	(1,106,989)	-	(1,106,989)
Student activities	901,548	97,152	117,587	-	(686,809)	-	(686,809)
Community services	5,000	-	-	-	(5,000)	-	(5,000)
Interest on long-term debt	663,488	-	-	-	(663,488)	-	(663,488)
Total governmental activities	38,622,761	634,564	7,161,013	-	(30,827,184)	-	(30,827,184)
Business-Type activities:							
Food service	854,364	23,368	835,565	-	-	4,569	4,569
Total School District	\$ 39,477,125	\$ 657,932	\$ 7,996,578	\$ -	\$ (30,827,184)	\$ 4,569	\$ (30,822,615)
General Revenues and Transfers:							
Property taxes levied for general purposes, net					\$ 21,195,959	\$ -	\$ 21,195,959
Public utility, realty transfer, earned income and other taxes for general purposes, net					5,841,010	-	5,841,010
Grants, subsidies and contributions not restricted					4,565,310	-	4,565,310
Investment earnings					52,201	127	52,328
Miscellaneous income					40,016	13,071	53,087
Total general revenues and transfers					31,694,496	13,198	31,707,694
Changes in net position					867,312	17,767	885,079
Net deficit - July 1, 2020					(26,067,536)	(24,572)	(26,092,108)
Prior period adjustment (see Note 1)					206,033	-	206,033
Net deficit - July 1, 2020 (restated)					(25,861,503)	(24,572)	(25,886,075)
Net deficit - June 30, 2021					\$ (24,994,191)	\$ (6,805)	\$ (25,000,996)

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,237,749	\$ 260,179	\$ 201,424	\$ 5,699,352
Investments	3,428,050	741,351	-	4,169,401
Due from other funds	13,969	50,873	-	64,842
Due from other governments	1,508,878	-	-	1,508,878
Taxes receivable - net	1,133,154	-	-	1,133,154
Other receivables	222,833	-	1,180	224,013
Total assets	\$ 11,544,633	\$ 1,052,403	\$ 202,604	\$ 12,799,640
Liabilities				
Accounts payable	\$ 529,600	\$ -	\$ 206	\$ 529,806
Due to other funds	-	50,909	8,460	59,369
Due to other governments	579,761	-	-	579,761
Accrued salaries and benefits	3,007,336	-	-	3,007,336
Payroll deductions and withholdings	140,955	-	-	140,955
Total liabilities	4,257,652	50,909	8,666	4,317,227
Deferred Inflows of Resources				
Delinquent property taxes	293,693	-	-	293,693
Fund Balances				
Restricted fund balance for:				
Capital projects	-	1,001,494	193,938	1,195,432
Committed fund balance for:				
Future retirement and health care obligations	5,750,000	-	-	5,750,000
Unassigned	1,243,288	-	-	1,243,288
Total fund balances	6,993,288	1,001,494	193,938	8,188,720
Total liabilities, deferred inflows of resources and fund balances	\$ 11,544,633	\$ 1,052,403	\$ 202,604	\$ 12,799,640

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

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

June 30, 2021

Total Fund Balances - Governmental Funds	\$	8,188,720
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$84,651,621, and the accumulated depreciation is \$36,870,507.		47,781,114
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Property taxes receivable will be collected this year, but they are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflow of resources in the funds.		293,693
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The difference between the reacquisition price and the net carrying amount of the refunded debt is a deferred inflow of resources, which is not reported in the funds.		(136,978)
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Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail):

Deferred outflows		7,018,000
Deferred inflows		(3,554,000)

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

Deferred outflows		895,969
Deferred inflows		(529,375)

Long-term liabilities, including bonds payable, net pension liability, compensated absences and other post-employment benefit liabilities, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable, net of related discounts and premiums	(32,807,466)		
Accrued interest	(194,274)		
Compensated absences	(778,684)		
Net pension liability	(46,580,000)		
OPEB liabilities	(4,590,910)		(84,951,334)

Total net deficit - governmental activities		<u>\$ (24,994,191)</u>
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See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2021

	General Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
Revenues				
Local sources	\$ 27,568,960	\$ 500	\$ 96,793	\$ 27,666,253
State sources	10,929,243	-	-	10,929,243
Federal sources	797,081	-	-	797,081
Total revenues	39,295,284	500	96,793	39,392,577
Expenditures				
Instructional	24,338,306	-	-	24,338,306
Support services	12,209,165	167,430	-	12,376,595
Operation of noninstructional services	750,006	-	108,888	858,894
Capital outlay	-	1,238,777	-	1,238,777
Debt service				
Principal	2,460,000	-	-	2,460,000
Interest	842,362	160,288	-	1,002,650
Total expenditures	40,599,839	1,566,495	108,888	42,275,222
Deficiency of revenues over expenditures	(1,304,555)	(1,565,995)	(12,095)	(2,882,645)
Other Financing Sources (Uses)				
Interfund transfers in	-	250,000	-	250,000
Interfund transfers out	(250,000)	-	-	(250,000)
Issuance of refunding bonds	-	9,265,000	-	9,265,000
Payment to refunded-bond escrow agent	-	(8,930,000)	-	(8,930,000)
Bond premium	-	734,110	-	734,110
Total other financing sources (uses)	(250,000)	1,319,110	-	1,069,110
Net changes in fund balances	(1,554,555)	(246,885)	(12,095)	(1,813,535)
Fund Balances - July 1, 2020	8,547,843	1,248,379	-	9,796,222
Prior period adjustment (see Note 1)	-	-	206,033	206,033
Fund Balances - July 1, 2020 (restated)	8,547,843	1,248,379	206,033	10,002,255
Fund Balances - June 30, 2021	\$ 6,993,288	\$ 1,001,494	\$ 193,938	\$ 8,188,720

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

Net change in fund balances - governmental funds	\$ (1,813,535)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlays	1,481,853	
Less depreciation expense	<u>(2,403,077)</u>	(921,224)

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

97,497

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the Statement of Activities over the amount due is shown here.

49,566

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

District pension and OPEB contributions (PSERS)	4,882,000	
Cost of benefits earned net of employee contributions (PSERS)		(3,001,000)

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

Change in compensated absences		(75,316)
Change in other post-employment benefits (District's plan)		(31,163)

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

Issuance of long-term debt	(9,265,000)	
Premium on issuance of long-term debt	(734,110)	
Refunding of long-term debt	9,090,289	
Repayment of long-term debt	2,460,000	
Amortization of charges for bond refundings	(1,492)	
Amortization of bond premiums and discounts - net	<u>130,800</u>	<u>1,680,487</u>

Changes in net position of governmental activities	<u>\$ 867,312</u>
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See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2021**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 27,014,035	\$ 27,014,035	\$ 27,568,960	\$ 554,925
State sources	11,020,956	11,020,956	10,929,243	(91,713)
Federal sources	260,000	260,000	797,081	537,081
Total revenues	38,294,991	38,294,991	39,295,284	1,000,293
Expenditures				
Instructional	21,710,332	21,964,154	24,338,306	(2,374,152)
Support services	12,218,126	11,946,879	12,209,165	(262,286)
Operation of noninstructional services	752,556	769,981	750,006	19,975
Debt service	3,363,977	3,363,977	3,302,362	61,615
Total expenditures	38,044,991	38,044,991	40,599,839	(2,554,848)
Excess (deficiency) of revenues over expenditures	250,000	250,000	(1,304,555)	(1,554,555)
Other Financing Uses				
Interfund transfers out	(250,000)	(250,000)	(250,000)	-
Net changes in fund balance	\$ -	\$ -	(1,554,555)	\$ (1,554,555)
Fund Balances - July 1, 2020			8,547,843	
Fund Balances - June 30, 2021			<u>\$ 6,993,288</u>	

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE

June 30, 2021

Assets	
Cash and cash equivalents	\$ 7,584
Receivables	
State sources	2,053
Federal sources	49,457
Inventories	28,024
Total assets	<u>\$ 87,118</u>
Liabilities	
Accounts payable	\$ 47,405
Due to other funds	5,473
Unearned revenues	41,045
Total liabilities	<u>\$ 93,923</u>
Net Deficit	
Unrestricted	\$ (6,805)
Total net deficit	<u>\$ (6,805)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2021**

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Operating Revenues	
Food service revenue	\$ 23,368
Other operating revenues	13,071
Total operating revenues	<u>36,439</u>
Operating Expenses	
Other purchased services	795,450
Supplies	58,275
Depreciation	640
Total operating expenses	<u>854,365</u>
Operating loss	(817,926)
Nonoperating Revenues	
Investment earnings	128
State sources	30,530
Federal sources	805,035
Total nonoperating revenues	<u>835,693</u>
Changes in net position	17,767
Net Deficit - July 1, 2020	(24,572)
Net Deficit - June 30, 2021	<u>\$ (6,805)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2021**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 38,885
Cash payments for goods and services	<u>(966,301)</u>
Net cash used in operating activities	<u><u>(927,416)</u></u>
Cash Flows From Noncapital Financing Activities	
State sources	31,821
Federal sources	<u>779,268</u>
Net cash provided by noncapital financing activities	<u><u>811,089</u></u>
Cash Flows From Investing Activities	
Investment earnings	<u>128</u>
Net decrease in cash and cash equivalents	(116,199)
Cash and Cash Equivalents:	
July 1, 2020	123,783
June 30, 2021	<u><u>\$ 7,584</u></u>

(Continued)

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - FOOD SERVICE (Continued)
Year Ended June 30, 2021**

Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (817,926)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	640
Value of donated commodities used	58,275
Changes in assets and liabilities:	
(Increase) decrease in:	
Other accounts receivable	368
Inventories	(9,408)
(Decrease) increase in:	
Accounts payable	(81,503)
Internal balances	(80,308)
Unearned revenues	2,446
Net cash used in operating activities	<u><u>\$ (927,416)</u></u>
Supplemental Disclosure	
Noncash noncapital financing activity	
USDA donated commodities	<u><u>\$ 58,275</u></u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2021

	Private-Purpose Trust Fund
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Assets	
Cash and cash equivalents	\$ 202,130
Total assets	<u>\$ 202,130</u>
Net Position	
Held in trust for private purposes	\$ 202,130
Total net position	<u>\$ 202,130</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2021**

Additions	
Contributions	\$ 20,107
Investment earnings	231
Total additions	<u>20,338</u>
Deductions	
Scholarships and awards	<u>10,215</u>
Changes in net position	10,123
Net Position - July 1, 2020	<u>192,007</u>
Net Position - June 30, 2021	<u>\$ 202,130</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

Despite the foregoing, the overriding issue is that the volume of participating school districts does not permit South Middleton School District to exercise "significant influence" over the operations of the Cumberland/Perry Area Vocational-Technical School and HACC, and the latter entities are not considered "component units of the South Middleton School District in determining the "reporting entity".

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided in the report for all of the governmental, proprietary and fiduciary funds of the School District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. Non-major individual governmental funds are also reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (assets plus deferred outflows of resources less liabilities less deferred inflows of resources) are used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as an expense against current operations and accumulated depreciation is reported in the Statement of Net Position.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the School District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable, financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund. Revenues are primarily derived from local property, earned income and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District and certain non-instructional services are accounted for in this Fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

The Student Sponsored Activity Fund is set up in accordance with Section 511 of the PA School Code for student sponsored school organizations and publications which do not meet the criteria to be reported as custodial funds per GASB Statement No. 84 Fiduciary Activities.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal on-going operations. The principal operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The 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 District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. This fund accounts for activities in the various scholarship accounts, the sole purpose of which is to provide annual scholarships to particular students as prescribed by donor stipulations.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budget and Budgetary Accounting

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

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

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

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

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

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

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2021. The inventory consisted of government donated commodities which were valued at their estimated fair market values, and purchased commodities and supplies, both of which were valued at cost using the FIFO method.

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

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

Deferred Outflows of Resources - Pensions: The District recognizes the difference between expected and actual experience, changes in assumptions, net difference between projected and actual investment earnings, changes in proportion, the difference between employer contributions and proportionate share of total contributions, and the contributions subsequent to the measurement date, as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated, employee benefits, such as unpaid vacation and sick pay. The calculation of this amount is determined by the appropriate vacation, sick and retirement lump-sum payments, adjusted for expected employee-turnover, which would be available to employees if they were to leave or retire from the District. Accrued benefit days, multiplied by appropriate salaries, are reflected as a long-term liability unless retirements are likely within the ensuing fiscal year. Costs determined to be current year costs are reflected as a liability of the General Fund.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The balance of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2021, are as follows:

	Governmental Activities
<hr/>	
OPEB Liabilities	
District's Single Employer Plan	\$ 2,546,910
PSERS Cost Sharing Plan	2,044,000
Total	<u>\$ 4,590,910</u>
Deferred Outflows of Resources	
District's Single Employer Plan	\$ 670,969
PSERS Cost Sharing Plan	225,000
Total	<u>\$ 895,969</u>
Deferred Inflows of Resources	
District's Single Employer Plan	\$ 301,375
PSERS Cost Sharing Plan	228,000
Total	<u>\$ 529,375</u>

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported to PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Pensions: The District recognizes the difference between expected and actual experience, changes in proportion and the difference between employer contributions and apportioned share of total contributions as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Net Position and Fund Balance Classification

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balance:

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

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

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

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

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

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

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

F. Other

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

Restatement of Net Position and Fund Balance Beginning Balances: As of July 1, 2020, the District implemented Governmental Accounting Standards Board Statement GASB No. 84, Fiduciary Activities. The implementation of GASB No. 84 required the District to report student sponsored activities, previously reported as an agency fund in the fiduciary funds financial statements, as a special revenue fund in the governmental funds financial statements. This change has resulted in a restatement of government-wide net position and governmental fund balance of \$206,033.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 15, 2021, the date that the financial statements were available to be issued.

Note 2. Deposits and Investments

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits as of June 30, 2021, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	M&T Bank
Insured (FDIC)	250,000	250,000	F&M Trust
Uninsured, collateralized in accordance with Act 72	2,327,240	2,702,187	M&T Bank
Uninsured, collateralized in accordance with Act 72	3,069,686	3,069,686	F&M Trust
	<u>\$ 5,896,926</u>	<u>\$ 6,271,873</u>	

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments

As of June 30, 2021, the District had the following investments:

<u>Investments</u>	<u>Weighted Avg. Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	45 days	AAAm	\$ 12,141
Pennsylvania Local Government Investment Trust (PLGIT)			
PLGIT - PRIME	78 days	AAAm	3,154,801
PLGIT - ARM Series	91 days	AAAm	741,354
Pennsylvania Treasurer's INVEST Daily Program	42 days	AAAm	273,249
			<u>\$ 4,181,545</u>

Portfolio Assets

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Portfolio Assets (Continued)

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

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

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

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

Weighted-Average Maturity

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

Interest-Rate Risk

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Credit Risk

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

Concentration of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District’s investments in PLGIT represent 93% of the District’s total investments.

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

A summary of the taxes receivable and related accounts at June 30, 2021, is as follows:

	Amount
Uncollected taxes	\$ 1,141,113
Estimated uncollectible taxes	<u>(7,959)</u>
Taxes Receivable - Net	<u>\$ 1,133,154</u>
Taxes to be collected within 60 days	\$ 839,463
Deferred inflows of resources - delinquent property taxes	<u>293,693</u>
Taxes Receivable - Net	<u>\$ 1,133,154</u>

Note 4. Property Taxes

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the District. The schedule for property taxes levied for 2020-2021 is as follows:

July 1, 2020	Tax Levy Date
Through August 31, 2020	2% Discount
Through October 31, 2020	Face Payment Period
November 1, 2020	10% Penalty Period
January 1, 2021	Interim Tax Levy Date

The District’s tax rate for all purposes in 2020-2021, was 11.0966 mills (\$11.0966 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania’s accounting system. Current tax collections for the District were approximately 99% of the total tax levy.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2021, are as follows:

	Due from other funds	Due to other funds
Governmental Funds		
General fund	\$ 13,969	\$ 50,909
Capital projects fund	50,873	-
Proprietary Funds		
Food service	-	5,473
Fiduciary Funds		
Student activities	-	8,460
	<u>\$ 64,842</u>	<u>\$ 64,842</u>

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

Operating transfers between funds at June 30, 2021, are as follows:

	Transfers in	Transfers out
Governmental Funds		
General fund	\$ -	\$ 250,000
Capital projects fund	250,000	-
	<u>\$ 250,000</u>	<u>\$ 250,000</u>

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	July 1, 2020	Increases	Decreases	June 30, 2021
Governmental Activities				
Capital assets not being depreciated				
Construction-in-progress	\$ 163,150	\$ 1,114,396	\$ 1,277,546	\$ -
Capital assets being depreciated				
Land and site improvements	4,558,608	1,013,951	-	5,572,559
Buildings and building improvements	71,202,043	402,754	-	71,604,797
Furniture and equipment	7,245,967	228,298	-	7,474,265
Total capital assets being depreciated	83,006,618	1,645,003	-	84,651,621
Less accumulated depreciation				
Land and site improvements	2,563,985	148,459	-	2,712,444
Buildings and building improvements	26,565,162	1,889,537	-	28,454,699
Furniture and equipment	5,338,283	365,081	-	5,703,364
Total accumulated depreciation	34,467,430	2,403,077	-	36,870,507
Total capital assets being depreciated - net	48,539,188	(758,074)	-	47,781,114
Total Governmental Activities, Capital Assets - Net	\$48,702,338	\$ 356,322	\$ 1,277,546	\$47,781,114
Business-Type Activities				
Furniture and equipment	\$ 507,922	\$ -	\$ -	\$ 507,922
Less accumulated depreciation				
Furniture and equipment	507,282	640	-	507,922
Business-Type Activities, Capital Assets - Net	\$ 640	\$ (640)	\$ -	\$ -

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

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

	Amount
Governmental Activities	
Instruction	\$ 1,675,095
Instructional student support	284,149
Administration and financial support	260,365
Operation and maintenance of plant services	93,835
Student activities	75,064
Transportation	14,569
Total Governmental Activities	<u>2,403,077</u>
Business-Type Activities	
Food service	640
Total School District	<u>\$ 2,403,717</u>

Note 7. Long-Term Obligations

During the fiscal year ended June 30, 2021, long-term obligations changed as follows:

	July 1, 2020	Increases	Decreases	June 30, 2021	Due within one year
General Obligation Bonds					
Series of 2014	\$ 640,000	\$ -	\$ -	\$ 640,000	\$ -
Series of 2015	450,000	-	-	450,000	-
Series A of 2016	8,935,000	-	(8,935,000)	-	-
Series B of 2016	4,375,000	-	(2,420,000)	1,955,000	1,955,000
Series of 2019	9,745,000	-	(35,000)	9,710,000	35,000
Series of 2020	9,705,000	-	-	9,705,000	5,000
Series of 2021	-	9,265,000	-	9,265,000	5,000
Total General Obligation Bonds	<u>33,850,000</u>	<u>9,265,000</u>	<u>(11,390,000)</u>	<u>31,725,000</u>	<u>2,000,000</u>
Unamortized bond premiums/(discounts)	778,233	734,110	(429,877)	1,082,466	-
Total Long-Term Debt	<u>34,628,233</u>	<u>9,999,110</u>	<u>(11,819,877)</u>	<u>32,807,466</u>	<u>2,000,000</u>
Other Long-Term Obligations					
Compensated absences	703,368	75,316	-	778,684	-
Total Long-Term Obligations	<u>\$ 35,331,601</u>	<u>\$ 10,074,426</u>	<u>\$ (11,819,877)</u>	<u>\$ 33,586,150</u>	<u>\$ 2,000,000</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Bonds - Series of 2014 - During fiscal year 2013-14, the Board of the South Middleton School District issued General Obligation Bonds, Series of 2014 in the aggregate principal amount of \$9,995,000. The proceeds of the bonds were used to: (1) finance various capital projects of the District, and (2) pay all costs of issuance of the 2014 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 3.50%. The bonds mature serially in amounts ranging from \$5,000 to \$925,000 through September 1, 2034. During fiscal year 2018-19, this bond was partially refunded with the Series of 2019 issuance.

General Obligation Bonds - Series of 2015 - During fiscal year 2014-15, the Board of the South Middleton School District issued General Obligation Bonds, Series of 2015 in the aggregate principal amount of \$9,995,000. The proceeds of the bonds were used to: (1) finance various capital projects of the District, and (2) pay all costs of issuance of the 2015 Bonds. The bonds bear interest semi-annually with rates ranging from 2.00% to 2.75%. The bonds mature serially in amounts ranging from \$5,000 to \$955,000 through September 1, 2034. During fiscal year 2019-20, this bond was partially refunded with the Series of 2020 issuance.

General Obligation Bonds - Series A of 2016 - During fiscal year 2015-16, the Board of the South Middleton School District issued General Obligation Bonds, Series of A of 2016 in the aggregate principal amount of \$8,950,000. The proceeds of the bonds were used to: (1) finance various capital projects of the District, and (2) pay all costs of issuance of the Series A of 2016 Bond. The bonds bear interest semi-annually with rates ranging from 0.85% to 4.00%. The bonds mature serially in amounts ranging from \$5,000 to \$2,115,000 through September 1, 2039. During fiscal year 2020-21, this bond was partially refunded with the Series of 2021 issuance.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

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

General Obligation Bonds - Series of 2021 - During fiscal year 2020-21, the Board the South Middleton School District issued General Obligation Bonds, Series of 2021 in the aggregate principal amount of \$9,265,000. The proceeds of the bonds were used to: (1) currently refunding a portion of the District’s outstanding General Obligation Bonds, Series of 2016A, (2) funding capital projects of the District and (3) paying the costs of issuing the bonds. The economic gain on the refunding of the 2016A bonds was \$330,007. The bonds bear interest semi-annually with rates ranging from 1.00% to 3.00%. The bonds mature serially in amounts ranging from \$5,000 to \$1,875,000 through September 1, 2040.

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

Years	General Obligation Debt		
	Principal	Interest	Total
2021-2022	\$ 2,000,000	\$ 762,913	\$ 2,762,913
2022-2023	1,355,000	786,114	2,141,114
2023-2024	1,395,000	746,614	2,141,614
2024-2025	1,450,000	691,739	2,141,739
2026-2030	7,860,000	2,853,394	10,713,394
2031-2035	8,835,000	1,870,923	10,705,923
2036-2040	8,830,000	678,450	9,508,450
	<u>\$ 31,725,000</u>	<u>\$ 8,390,147</u>	<u>\$ 40,115,147</u>

Compensated Absences

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Affiliates

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

Total payments of \$434,620 were made by the District to the Vo-Tech School as the former's share of operating expenses for the year ended June 30, 2021.

Note 9. Defined-Benefit Pension Plans

Plan Description

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

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members, whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

Contributions

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2021, was 34.51% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 34.51% rate is composed of a contribution rate of 33.51% for pension benefits, .18% for Act 5 defined contribution retirement benefits and .82% for healthcare insurance premium assistance (OPEB benefits).

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2021, was \$4,766,421, and is equal to the required contribution for the year. For the year ended June 30, 2021, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$2,460,740.

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

At June 30, 2021, the District reported a liability of \$46,580,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2019 to June 30, 2020. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was .0946 percent, which was a decrease of .0026 from its proportion measured as of June 30, 2019.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

For the year ended June 30, 2021, the District recognized pension expense of \$2,938,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 122,000	\$ 1,116,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	2,047,000	-
Changes in proportion	-	2,406,000
Difference between employer contributions and proportionate share of total contributions	83,000	32,000
Contributions subsequent to the measurement date	4,766,000	-
	<u>\$ 7,018,000</u>	<u>\$ 3,554,000</u>

\$4,766,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Total
2022	\$ (1,782,000)
2023	(450,000)
2024	305,000
2025	621,000
2026	4,000
Thereafter	-
	<u>\$ (1,302,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2020, was determined by rolling forward the System's total pension liability as of June 30, 2019 to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

The actuarial assumptions used in the June 30, 2020 valuation, were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2016.

Investments

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

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

For the year ended June 30, 2020, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.68%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	15.0%	5.2%
Fixed income	15.0%	7.2%
Commodities	36.0%	1.1%
Absolute return	8.0%	1.8%
Risk parity	10.0%	2.5%
Infrastructure/MLPs	6.0%	5.7%
Real estate	10.0%	5.5%
Alternative investments	8.0%	3.3%
Cash	6.0%	(1.0%)
Financing (LIBOR)	(14.0%)	(0.7%)
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2020.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability	\$ 57,629,000	\$ 46,580,000	\$ 37,220,000

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2021, the District has payables to the PSERS pension plan of \$1,373,875. This total is composed of staff payroll accruals for retirement contributions.

Pension Reform

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Plan Description, Benefit Terms and Funding Policy

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

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

Employees Covered by Benefit Terms

As of the July 1, 2020 actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	40
Inactive employees entitled to but not yet received benefit payments	-
Active employees	236
	276

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

At June 30, 2020, the District reported a liability of \$2,546,910 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2020, and was determined by an actuarial valuation as of July 1, 2020. The OPEB liability is composed of the following:

	Amount
Total OPEB Liability, beginning	\$ 2,018,550
Changes for the year	
Service cost	122,806
Interest	69,647
Changes of benefit terms	-
Differences between expected and actual experience	142,586
Changes in assumptions	319,846
Benefit payments	(126,525)
Net changes	528,360
Total OPEB Liability, ending	\$ 2,546,910

For the year ended June 30, 2021, the District recognized OPEB expense of \$203,909. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 131,618	\$ 257,501
Changes in assumptions	366,605	43,874
Benefit payments subsequent to the measurement date	172,746	-
	\$ 670,969	\$ 301,375

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$172,746 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ending June 30:	Total
2021	\$ 11,456
2022	11,456
2023	11,456
2024	11,456
2025	11,456
Thereafter	139,568
	<u>\$ 196,848</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increases which varies by age from 2.75 to 0%.
- Discount Rate - 1.86%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2020.
- Health Care Cost Trend Rate - 5.5% in 2020 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

The following presents the total OPEB liability of the district calculated using the discount rate of 1.86%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (0.86%) or one percentage higher (2.86%) than the current discount rate:

	1% Decrease 0.86%	Current Discount Rate 1.86%	1% Increase 2.86%
Total OPEB liability	\$ 2,720,365	\$ 2,546,910	\$ 2,381,412

The discount rate used to measure the Total OPEB liability decreased from 3.36% as of July 1, 2019, to 1.86% as of July 1, 2020.

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

The following presents the total OPEB liability of the district calculated using the health care cost trend rates of (5.5% decreasing to 4.0%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 2,270,518	\$ 2,546,910	\$ 2,877,395

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

System Administration

The administrative staff of the System administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost sharing multiple employer defined-benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

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

Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Employer Contributions

The District is contractually required contribution rate for the fiscal year ended June 30, 2021, was 0.87% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$116,010 for the year ended June 30, 2021.

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

At June 30, 2021, the District reported a liability of \$2,044,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2019 to June 30, 2020. The District’s proportion of the net OPEB liability was calculated utilizing the employer’s one year reported covered payroll as it relates to the total one year reported covered payroll. At June 30, 2021, the District’s proportion was .0946%, which was a decrease of .0026 from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the District recognized OPEB expense of \$63,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,000	\$ -
Changes in assumptions	83,000	45,000
Changes in proportion	-	182,000
Net difference between projected and actual investment earnings	4,000	-
Difference between employer contributions and proportionate share of total contributions	3,000	1,000
Contributions subsequent to the measurement date	116,000	-
	<u>\$ 225,000</u>	<u>\$ 228,000</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

\$116,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	Amount
2022	\$ (34,000)
2023	(33,000)
2024	(33,000)
2025	(19,000)
2026	2,000
Thereafter	(2,000)
	<u>\$ (119,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2020, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2019 to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.79% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre age 65 at 50%
 - Eligible retirees will elect to participate Post age 65 at 70%

The actuarial assumptions used in the June 30, 2020 valuation, were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2016.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Actuarial Assumptions (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018, determined the employer contribution rate for fiscal year 2020.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	50.3%	(1.0%)
Fixed income	46.5%	(0.1%)
Non-U.S. Developed Fixed	3.2%	(0.1%)
	<u>100.0%</u>	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2020.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.66%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.66% which represents the S&P 20 year Municipal Bond Rate at June 30, 2020, was applied to all projected benefit payments to measure the total OPEB liability.

Change in Actuarial Assumptions

The discount rate used to measure the total OPEB liability decreased from 2.79% as of June 30, 2019, to 2.66% as of June 30, 2020.

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

The following presents the District's proportionate share of the net OPEB liability, calculated using the discount rate of 2.66%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.66%) or 1-percentage-point higher (3.66%) than the current discount rate:

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
Total OPEB liability	\$ 2,331,000	\$ 2,044,000	\$ 1,807,000

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7.5%) that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 2,044,000	\$ 2,044,000	\$ 2,044,000

OPEB Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2021, the District had payables to the OPEB plan of \$33,440.

Note 12. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors or omissions. Most significant losses are covered by commercial insurance for 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. During the year ended June 30, 2021, the District did not incur any significant losses that were not covered by insurance.

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

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH MIDDLETON SCHOOL DISTRICT

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

	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.0946%	0.0972%	0.0992%	0.1074%	0.1079%	0.1114%	0.1088%
District's proportionate share of the net pension liability	<u>\$ 46,580,000</u>	<u>\$ 45,473,000</u>	<u>\$ 47,621,000</u>	<u>\$ 53,043,000</u>	<u>\$ 53,472,000</u>	<u>\$ 48,254,000</u>	<u>\$ 43,064,000</u>
District's covered payroll	<u>\$ 13,282,346</u>	<u>\$ 13,401,787</u>	<u>\$ 13,364,151</u>	<u>\$ 14,296,498</u>	<u>\$ 13,967,915</u>	<u>\$ 14,337,758</u>	<u>\$ 13,885,613</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	350.69%	339.31%	356.33%	371.02%	382.82%	336.55%	310.13%
Plan fiduciary net position as a percentage of the total pension liability	54.32%	55.56%	54.00%	51.84%	50.14%	54.36%	57.24%

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

SOUTH MIDDLETON SCHOOL DISTRICT

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

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 4,766,298	\$ 4,490,722	\$ 4,326,300	\$ 4,274,328	\$ 4,077,743	\$ 3,502,861	\$ 2,869,996
Contributions in relation to the contractually required contribution	(4,766,298)	(4,490,722)	(4,326,300)	(4,274,328)	(4,077,743)	(3,502,861)	(2,869,996)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 13,286,408	\$ 13,286,408	\$ 13,432,735	\$ 13,453,282	\$ 14,297,856	\$ 13,977,367	\$ 14,347,111
Contributions as a percentage of covered payroll	35.87%	33.80%	32.21%	31.77%	28.52%	25.06%	20.67%

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

SOUTH MIDDLETON SCHOOL DISTRICT

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

Year Ended June 30,

	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 122,806	\$ 124,552	\$ 166,341	\$ 160,579
Interest	69,647	61,570	73,005	53,095
Changes of benefit terms	-	-	-	-
Differences between Expected and Actual Experience	142,586	-	(343,334)	-
Changes in assumptions	319,846	(52,648)	3,648	102,939
Benefit payments	(126,525)	(123,212)	(125,362)	(118,673)
Other changes	-	-	-	-
Net change in total OPEB liability	528,360	10,262	(225,702)	197,940
Total OPEB Liability - beginning	2,018,550	2,008,288	2,233,990	2,036,050
Total OPEB Liability - ending	<u>\$ 2,546,910</u>	<u>\$ 2,018,550</u>	<u>\$ 2,008,288</u>	<u>\$ 2,233,990</u>
District's covered payroll	<u>\$ 13,023,589</u>	<u>\$ 12,019,760</u>	<u>\$ 12,019,760</u>	<u>\$ 12,700,218</u>
Total OPEB Liability as a percentage of covered payroll	19.56%	16.79%	16.71%	17.59%

Notes to Schedule:

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

Changes of assumptions: The discount rate changed from 3.36% to 1.86%.

SOUTH MIDDLETON SCHOOL DISTRICT

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

Year Ended June 30,

	2021	2020	2019	2018
District's proportion of the net OPEB liability	0.0946%	0.0972%	0.0992%	0.1074%
District's proportionate share of the net OPEB liability	<u>\$ 2,044,000</u>	<u>\$ 2,067,000</u>	<u>\$ 2,068,000</u>	<u>\$ 2,188,000</u>
District's covered payroll	<u>\$ 13,282,346</u>	<u>\$ 13,401,787</u>	<u>\$ 13,364,151</u>	<u>\$ 14,296,498</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.39%	15.42%	15.47%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.69%	5.56%	5.56%	5.73%

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

SOUTH MIDDLETON SCHOOL DISTRICT

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

	2021	2020	2019	2018
Contractually required contribution	\$ 116,010	\$ 112,772	\$ 110,148	\$ 111,774
Contributions in relation to the contractually required contribution	(116,010)	(112,772)	(110,148)	(111,774)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 13,286,408</u>	<u>\$ 13,286,408</u>	<u>\$ 13,432,735</u>	<u>\$ 13,453,282</u>
Contributions as a percentage of covered payroll	0.87%	0.85%	0.82%	0.83%

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

SUPPLEMENTARY INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of South Middleton School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise South Middleton Area School District's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Camp Hill, Pennsylvania
December 15, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited South Middleton School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Middleton School District's major federal programs for the year ended June 30, 2021. South Middleton School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of South Middleton School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about South Middleton School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of South Middleton School District's compliance.

Opinion on Each Major Federal Program

In our opinion, South Middleton School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

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

Camp Hill, Pennsylvania
December 15, 2021

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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

Identification of the major programs:

Assistance Listing Number(s)	Name of Federal Programs/Cluster
21.019	Coronavirus Relief Fund
	Child Nutrition Cluster
10.555	National School Lunch Program
10.553	School Breakfast Program
10.555	Food Donation

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

Auditee qualified as low-risk auditee? Yes X No

Section II -- Financial Statement Findings

A. Significant Deficiency (ies) in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

B. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance.

SOUTH MIDDLETON SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021**

	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2020	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2021	Provided to Subrecipients
U.S. Department of Education										
Passed through the Pennsylvania Department of Education										
Title I -Grants to Local Education Agencies	84.010	013-190397	18-19	\$ 211,068	\$ 35,131	\$ 35,131	\$ -	\$ -	-	\$ -
Title I -Grants to Local Education Agencies	84.010	013-200397	19-20	\$ 211,068	60,294	60,294	-	-	-	-
Title I -Grants to Local Education Agencies	84.010	013-210397	20-21	\$ 208,657	199,780	-	208,657	208,657	8,877	-
					<u>295,205</u>	<u>95,425</u>	<u>208,657</u>	<u>208,657</u>	<u>8,877</u>	<u>-</u>
Title II - Supporting Effective Instruction State Grants	84.367	020-200397	19-20	\$ 48,221	869	869	-	-	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-210397	20-21	\$ 46,528	48,497	-	46,528	46,528	(1,969)	-
					<u>49,366</u>	<u>869</u>	<u>46,528</u>	<u>46,528</u>	<u>(1,969)</u>	<u>-</u>
Title IV - Student Support and Academic Enrichment Program	84.424	144-200397	19-20	\$ 16,038	10,310	10,310	-	-	-	-
Title IV - Student Support and Academic Enrichment Program	84.424	144-210397	20-21	\$ 15,975	15,975	-	15,975	15,975	-	-
					<u>26,285</u>	<u>10,310</u>	<u>15,975</u>	<u>15,975</u>	<u>-</u>	<u>-</u>
COVID-19 - Elementary & Secondary School Emergency Relief Fund I	84.425D	200-200397	20-21	\$ 173,012	12,071	-	173,012	173,012	160,941	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund II	84.425D	200-210395	20-21	\$ 768,944	-	-	70,875	70,875	70,875	-
COVID-19 - SECIM Special Education Mitigation Grant	84.027	252-210395	20-21	\$ 16,048	4,279	-	16,048	16,048	11,769	-
					<u>16,350</u>	<u>-</u>	<u>259,935</u>	<u>259,935</u>	<u>243,585</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education					<u>387,206</u>	<u>106,604</u>	<u>531,095</u>	<u>531,095</u>	<u>250,493</u>	<u>-</u>
Passed through the Pennsylvania Commission on Crime & Delinquency										
COVID-19 Elementary & Secondary School Emergency Relief Fund I	84.425D	2020-ES -01-34940	20-21	\$ 63,188	-	-	63,188	63,188	63,188	-
Passed through Capital Area Intermediate Unit 15:										
Special Education Cluster										
Special Education - Grants to States	84.027	N/A	19-20	\$ 345,701	125,038	125,038	-	-	-	-
Special Education - Grants to States	84.027	N/A	20-21	\$ 349,602	222,140	-	349,602	349,602	127,462	-
					<u>347,178</u>	<u>125,038</u>	<u>349,602</u>	<u>349,602</u>	<u>127,462</u>	<u>-</u>
Special Education - Preschool Grants	84.173	N/A	20-21	\$ 1,792	1,792	-	1,792	1,792	-	-
Total Special Education Cluster					<u>348,970</u>	<u>125,038</u>	<u>351,394</u>	<u>351,394</u>	<u>127,462</u>	<u>-</u>
Total passed through the Capital Area Intermediate Unit					<u>348,970</u>	<u>125,038</u>	<u>351,394</u>	<u>351,394</u>	<u>127,462</u>	<u>-</u>
Total U.S. Department of Education					<u>736,176</u>	<u>231,642</u>	<u>945,677</u>	<u>945,677</u>	<u>441,143</u>	<u>-</u>
U.S. Department of Treasury										
Passed through the Pennsylvania										
Commission on Crime & Delinquency:										
COVID-19 - Coronavirus Relief Fund	21.019	2020-CS-01-33957	20-21	\$ 202,798	202,798	-	202,798	202,798	-	-

(Continued)

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2021

	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2020	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2021	Provided to Subrecipients
U.S. Department of Agriculture										
Passed through the Pennsylvania Department of Education										
National School Lunch Program	10.555	N/A	19-20	N/A	52,889	52,889	-	-	-	-
National School Lunch Program	10.555	N/A	20-21	N/A	501,633	-	537,924	537,924	36,291	-
School Breakfast Program	10.553	N/A	19-20	N/A	29,076	29,076	-	-	-	-
School Breakfast Program	10.553	N/A	20-21	N/A	195,670	-	208,836	208,836	13,166	-
Total passed through the Pennsylvania Department of Education					779,268	81,965	746,760	746,760	49,457	-
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program - Food Donations*	10.555	N/A	20-21	N/A	58,275	-	58,275	58,275	-	-
Total U.S. Department of Agriculture					837,543	81,965	805,035	805,035	49,457	-
Total Expenditures of Federal Awards					\$ 1,776,517	\$ 313,607	\$ 1,953,510	\$ 1,953,510	\$ 490,600	\$ -
Child Nutrition Cluster (Assistance Listing Numbers - 10.553, 10.555)					\$ 837,543	\$ 81,965	\$ 805,035	\$ 805,035	\$ 49,457	\$ -
Special Education Cluster (Assistance Listing Numbers - 84.027 and 84.173)					\$ 353,249	\$ 125,038	\$ 367,442	\$ 367,442	\$ 139,231	\$ -
Economic Stabilization Fund (Assistance Listing Numbers - 84.425)					\$ 12,071	\$ -	\$ 307,075	\$ 307,075	\$ 295,004	\$ -

See Notes to Schedule of Expenditures of Federal Awards.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal award activity of the District's under programs of the Federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2. Significant Accounting Policies

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS Year Ended June 30, 2020

A. Material Weakness(es) in Internal Control

Finding 2020-001

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

Condition and context: The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has designated an employee responsible to prepare the financial records and the related audit support, to oversee the audit and the external CPA firm's drafting of the financial statements including note disclosures. The District has assumed responsibility for evaluating the adequacy and results of the financial statements. However, the District's financial records required material adjustments.

Cause and effect: The financial records required material adjustments in order for them to support financial statements prepared in accordance with GAAP.

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

Actions Taken During 2020-2021 FY:

District staff did adhere to a strict monthly processing of financial statements by the 15 of each month. These responsibilities were outlined within job responsibilities distributed to various employees. This allowed for separation of duties and a clear check and balance process. End of month reconciliation processes were shifted to the Accounting Specialist position, as well as monitoring of balance sheet and income statement accounts. This separation of duties allowed for the Director of Business and Operations to oversee monthly and annual closing schedules. Through the audit process, the District has consulted with its auditors to establish a process whereby adequate documentation and closing schedules will be followed. On a monthly basis the Business Department will compare the employee benefits that are processed via the payroll procedure to the balance sheet accounts. Corresponding entries, to the expense accounts will be made to correct any variances. Further, benefit payments received from retirees or from COBRA payments will be reconciled monthly comparative to amounts paid out to benefit providers. This will provide a month to date and year to date reconciliation outlining payments received, and benefit payments made on behalf of retirees and prior employees on COBRA benefits. The use of the new business software will allow for an additional resource to assist with closing schedules. District attends webinars and outside trainings when offered.