

SOUTH MIDDLETON SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate, remaining fund information of the South Middleton School District, as of and for the year ended June 30, 2010, which collectively comprise the South Middleton School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Middleton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the South Middleton School District's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall, financial-statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate, remaining fund information of the South Middleton School District, as of June 30, 2010, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2010, on our consideration of the South Middleton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Middleton School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Camp Hill, Pennsylvania
September 8, 2010

**SOUTH MIDDLETON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010. Comparative financial information for fiscal year ended June 30, 2009, is also presented in this report to show changes in the financial position of the District from prior to current year. The purpose of this discussion is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements.

Financial Highlights

For fiscal year 2009-2010, the School Board adopted a General Fund Budget with a real estate tax millage rate of 11.38 mills, which is a no mill increase from the 2008-09 year. Actual year-end expenditures were \$150,770 less than budgeted. Revenues were under budget by \$320,577 due to over estimating/under funding by the Commonwealth of Pennsylvania. The variance with the final budget was (\$270,415). In the final analysis of budget versus actual for the General Fund, the District did not utilize the \$500,000 budgetary reserve. However, they did transfer to the Capital Reserve Fund the amount of \$598,112; which was not budgeted. When you consider that the \$500,000 budgetary reserve was not expended, and the unbudgeted transfer to the Capital Reserve Fund in the amount of \$598,112; which results in the overall variance to the final budget in the amount of (\$172,303).

In the summer of 2009, the District completed various construction projects including \$98,000 for new playground equipment at the W. G. Rice Elementary School, \$80,000 for security cameras at designated school buildings, and \$380,000 in renovation projects at Boiling Springs High School, Iron Forge Educational Center and Rice Elementary. The District began a \$250,000 construction of a new fitness center and team room in the Boiling Springs High School in June 2010. This project was substantially complete in September of 2010. The District also awarded bids for a \$1,071,000 Storm Water Management/Athletic Field Project in June 2010. This project is projected to be substantially complete in November 2010.

The Cafeteria Fund experienced a net change in assets of (\$8,665) in 2009-10 year. This loss was due primarily to a depreciation expense of \$23,749; otherwise the proprietary fund remained stable.

The Capital Reserve Fund closed the year with a reserved fund balance of \$1,577,501, a decrease of \$620,236. A total of \$598,112 was transferred to the Construction fund in June 2010, for ongoing projects.

Overview of the Financial Statements

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

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

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

Government-wide Statements Report the District as a Whole

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

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

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

Business-type activities - The District operates a food service operation and charges fees to students, staff, and visitors to help cover the costs of the food service operation.

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets and Statement of Activities

The District's total net assets were \$15,245,957 on June 30, 2010, which includes \$14,850,420 in Governmental Activities and \$395,537, in Business Activities (cafeteria). Net assets increased by \$63,559 in 2009-10. Of this increase, \$72,224 was in Governmental Funds, while Business Funds (cafeteria) decreased by \$8,665. The increase in net assets for Governmental Activities funds is a combination of capital assets gains due to capital improvements in the District, governmental fund balance decreases due to expenditures in capital assets, coupled with the decrease in long term debt due to repayment of a portion of the debt. As required by GASB 34, the District was required to show on its financial statements a liability of \$85,908 for post-employment benefit obligations. The slight decrease in net assets in the Business Activities is due to depreciation related to equipment in the Cafeteria Fund.

Statement of Net Assets

	Governmental Activities		Business Activities		Total Activities	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
Current and Other Assets	\$ 11,254,167	\$ 12,617,140	\$ 331,164	\$ 330,395	\$ 11,585,331	\$ 12,947,535
Capital Assets	30,993,820	31,247,774	66,160	89,909	31,059,980	31,337,683
Total assets	\$ 42,247,987	\$ 43,864,914	\$ 397,324	\$ 420,304	\$ 42,645,311	\$ 44,285,218
Current and Other Liabilities	\$ 3,705,519	\$ 3,683,136	\$ 1,787	\$ 16,102	\$ 3,707,306	\$ 3,699,238
Long-Term Liabilities (originally stated)	23,692,048	25,403,582	-	-	23,692,048	25,403,582
Total liabilities	27,397,567	29,086,718	1,787	16,102	27,399,354	29,102,820
Invested in Capital Assets - net of related debt	6,136,937	4,489,652	66,160	89,909	6,203,097	4,579,561
Unrestricted	8,713,483	10,288,544	329,377	314,293	9,042,860	10,602,837
Total net assets	14,850,420	14,778,196	395,537	404,202	15,245,957	15,182,398
Total liabilities and net assets	\$ 42,247,987	\$ 43,864,914	\$ 397,324	\$ 420,304	\$ 42,645,311	\$ 44,285,218

Statement of Activities

	Governmental Activities		Business Activities		Total Activities	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
Program Revenues						
Charges for services	\$ 966,723	\$ 612,190	\$ 474,200	\$ 485,934	\$ 1,440,923	\$ 1,098,124
Operating grants and contributions	4,322,476	3,882,456	241,223	204,937	4,563,699	4,087,393
Total program revenues	5,289,199	4,494,646	715,423	690,871	6,004,622	5,185,517
General Revenues						
Taxes	18,880,837	18,257,592	-	-	18,880,837	18,257,592
General subsidies	3,647,382	4,003,362	-	-	3,647,382	4,003,362
Investment earnings	130,260	348,556	926	2,251	131,186	350,807
Other local revenue	37,230	81,013	-	-	37,230	81,013
Total general revenues	22,695,709	22,690,523	926	2,251	22,696,635	22,692,774
Total revenues	27,984,908	27,185,169	716,349	693,122	28,701,257	27,878,291
Total Expenses	27,812,447	25,759,033	825,251	798,318	28,637,698	26,557,351
Excess (deficiency) before transfers	172,461	1,426,136	(108,902)	(105,196)	63,559	1,320,940
Transfers between activities	(100,237)	(94,518)	100,237	94,518	-	-
Change in net asset - operations	72,224	1,331,618	(8,665)	(10,678)	63,559	1,320,940
Prior period adjustments	-	-	-	-	-	-
Changes in net assets	\$ 72,224	\$ 1,331,618	\$ (8,665)	\$ (10,678)	\$ 63,559	\$ 1,320,940

Fund Balances

On June 30, 2010, the District's Total Governmental Fund Balances were \$9,423,057, which are a decrease of \$1,267,544, from June 30, 2009. The General Fund's decrease of \$770,412, or 9.10%, is due primarily to the June 2010, transfer of \$598,112, to the Capital Reserve Fund of the District for future capital projects. Subsequently the Capital Reserve Fund was increased by the same amount. The Capital Reserve Fund represents the largest change in fund balance, showing a decrease of \$620,236, which reflects expenditures during the year on the High School Renovation project, and several other minor capital projects. The capital projects/building value is accounted for as capital assets and is reflected as follows.

Governmental Fund Balances

	6/30/2010	6/30/2009	Change	% Change
General Fund	\$ 7,844,136	\$ 8,614,548	\$ 770,412	8.94%
Capital Reserve Fund	1,577,501	2,197,737	620,236	28.22%
Capital Projects Fund	-	(114,771)	(114,771)	100.00%
Athletic Fund	1,420	(6,913)	(8,333)	120.54%
Total Governmental Fund Balances	\$ 9,423,057	\$ 10,690,601	\$ 1,267,544	11.86%

2009-10 General Fund Balances

For the 2009-10 fiscal year, excluding the transfer to Capital Reserve funding, the net of excess revenue over expenditures was \$172,300 (.06% compared to budgeted expenditures) at the Board of School Directors June 2010 meeting, a determination was made to transfer monies from the General Fund to the Capital Reserve Fund for capital improvements.

Revenue was under the budget by \$320,577 (1.1%). This was due primarily to lower than expected subsidies from the State of Pennsylvania.

2009-10 General Fund Budget

	Budget	Actual	Difference
Total Revenues	\$ 28,322,769	\$ 28,002,192	\$ 320,577
Total Expenditures and Other Financing uses	28,822,766	28,174,492	648,274
Change in Fund Balances excluding Cap Reserve transfer	(499,997)	(172,300)	327,697
Capital Reserve Transfer	-	(598,112)	(598,112)
Net Changes in Fund Balances	\$ (499,997)	(770,412)	\$ (270,415)
General Fund Balance - June 30, 2009		\$ 8,614,548	

Capital Assets

On June 30, 2010, the District recorded \$30,993,820 in Governmental Activities Capital Assets, which represents a decrease of \$253,954 or 0.82% from the previous fiscal year.

Capital Assets (net of depreciation)

	6/30/2010	6/30/2009	Change
Governmental Activities			
Bond issuance costs	\$ 291,427	\$ 353,872	\$ (62,445)
Construction-in-progress	44,052	-	44,052
Land and site improvements	1,882,336	2,066,513	(184,177)
Buildings and improvements	27,197,517	27,484,665	(287,148)
Furniture and equipment	1,578,488	1,342,724	235,764
Total Governmental Capital Assets	30,993,820	31,247,774	(253,954)
Business Activities			
Total Business Capital Assets	66,160	89,909	(23,749)
Total Capital Assets	\$ 31,059,980	\$ 31,337,683	\$ (277,703)

Long-Term Liabilities

Bonds payable at June 30, 2010, were \$24,555,000 compared with \$26,275,000 at June 30, 2009, a 6.6% decrease. A total of \$1.72 million of existing bonds were repaid during the 2009-10 fiscal year. A similar amount is scheduled to be repaid in 2010-11.

Reserve for Compensated Absences is reported under long-term liabilities. Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts/agreements and varies by employee classification. In addition, under the Pennsylvania School Code, employees are granted sick days annually, with unused sick days accumulating in subsequent years. Upon retirement from the District, employees are reimbursed based on their accumulated sick days, or a portion thereof, multiplied by an amount pre-established per the employment contracts/agreements. The total liability for accrued vacation and sick leave at June 30, 2010, is reflected in the Statement of Net Assets and totals \$825,684, for year ended June 30, 2010. This represents an increase of \$37,815, from June 30, 2009.

Factors Expected to Have an Effect on Future Operations

The District has seen near stagnate student enrollment over the last several years. New housing developments are planned in the District and could increase student enrollment. Although the recent downturn in the national economy has shown affects to local real estate sales and values in the District to date, the District has been relatively insulated from the disastrous economic issues that are being felt in other areas of the country. Cumberland County, which is responsible for the assessment of properties in the District, is presently undergoing a reassessment of all real estate in the county. New values are scheduled to be approved in November 2010.

Pennsylvania's Act 1 places limitations on the ability of the District to raise taxes without voter approval. While this has not been a binding constraint to date, it may have long term effects as the index is related to a national salary index and the state salary index both of which have had minimal increases in recent years. The Act 1 Index will limit the District, without state approved exceptions to raise taxes a maximum of 1.4% for the 2011-12 fiscal year.

In the 2010-11 budget, the District designated \$6,584,472 of its fund balance for future retirement and insurance costs. In 2013, the Pennsylvania State Employees Retirement System estimates that the percentage cost of contribution based on employees salaries will increase to over 16%. This will increase the cost of District paid retirement costs by 3.5 times. As an effective business practice, the Board has designated fund balance to help buffer the effects of this increase.

On October 4, 2010, the District reviewed a scenario to refinance the 2006 and 2006A General Obligations Bond issues that are callable on April 1, 2011. Should interest rates remain favorable, this refinancing could yield the distinct a savings of \$500,000.

Contacting the District's Financial Management

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

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 3,440,976	\$ 270,573	\$ 3,711,549
Investments	6,398,260	-	6,398,260
Receivables			
Taxes - net	664,668	-	664,668
Federal subsidies	420,673	-	420,673
State subsidies	133,239	-	133,239
Other	40,491	-	40,491
Due from other governments	129,230	-	129,230
Inventories	26,630	60,591	87,221
Total current assets	11,254,167	331,164	11,585,331
Noncurrent Assets			
Bond-issuance costs - net	291,427	-	291,427
Land and site improvements - net	1,882,336	-	1,882,336
Buildings and building improvements - net	27,197,517	-	27,197,517
Furniture and equipment - net	1,578,488	66,160	1,644,648
Construction-in-progress	44,052	-	44,052
Total noncurrent assets	30,993,820	66,160	31,059,980
Total assets	\$ 42,247,987	\$ 397,324	\$ 42,645,311

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 142,820	\$ -	\$ 142,820
Internal balances	17,809	(17,809)	-
Due to other governments	350	-	350
Current portion of long-term debt	1,785,000	-	1,785,000
Accrued salaries and benefits	1,389,691	1,044	1,390,735
Accrued payroll withholdings	22,790	-	22,790
Accrued interest payable	347,059	-	347,059
Deferred revenues	-	18,552	18,552
Total current liabilities	3,705,519	1,787	3,707,306
Noncurrent Liabilities			
Long-term debt - net of current portion	22,780,456	-	22,780,456
Compensated absences	825,684	-	825,684
Other post-employment benefit obligations	85,908	-	85,908
Total noncurrent liabilities	23,692,048	-	23,692,048
Total liabilities	27,397,567	1,787	27,399,354
Net Assets			
Invested in capital assets - net of related debt	6,136,937	66,160	6,203,097
Unrestricted	8,713,483	329,377	9,042,860
Total net assets	14,850,420	395,537	15,245,957
Total liabilities and net assets	\$ 42,247,987	\$ 397,324	\$ 42,645,311

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 16,965,036	\$ 910,126	\$ 3,251,276	\$ -	\$ (12,803,634)	\$ -	\$ (12,803,634)
Instructional student support	2,513,718	-	158,331	-	(2,355,387)	-	(2,355,387)
Administration and financial support	3,090,358	-	149,263	-	(2,941,095)	-	(2,941,095)
Operation and maintenance of plant services	2,460,112	9,721	72,592	-	(2,377,799)	-	(2,377,799)
Pupil transportation	1,175,565	-	448,789	-	(726,776)	-	(726,776)
Student activities	724,043	46,876	31,036	-	(646,131)	-	(646,131)
Community services	1,025	-	-	-	(1,025)	-	(1,025)
Interest on long-term debt	882,590	-	211,189	-	(671,401)	-	(671,401)
Total governmental activities	27,812,447	966,723	4,322,476	-	(22,523,248)	-	(22,523,248)
Business-Type activities:							
Food service	825,251	474,200	241,223	-	-	(109,828)	(109,828)
Total school district	\$ 28,637,698	\$ 1,440,923	\$ 4,563,699	\$ -	\$ (22,523,248)	\$ (109,828)	\$ (22,633,076)
General Revenues:							
Property taxes levied for general purposes, net					\$ 15,051,358	\$ -	\$ 15,051,358
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net					3,829,479	-	3,829,479
Grants, subsidies and contributions not restricted					3,647,382	-	3,647,382
Investment earnings					130,260	926	131,186
Miscellaneous income					37,230	-	37,230
Transfers					(100,237)	100,237	-
Total general revenues and transfers					22,595,472	101,163	22,696,635
Changes in net assets					72,224	(8,665)	63,559
Net assets - July 1, 2009					14,778,196	404,202	15,182,398
Net assets - June 30, 2010					\$ 14,850,420	\$ 395,537	\$ 15,245,957

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Capital Reserve Fund
ASSETS		
Cash and cash equivalents	\$ 1,852,702	\$ 1,586,854
Investments	6,397,804	456
Receivables		
Taxes - net	664,668	-
Federal subsidies	420,673	-
State subsidies	133,239	-
Other	40,491	-
Due from other governments	129,230	-
Inventories	26,630	-
Total assets	\$ 9,665,437	\$ 1,587,310
LIABILITIES		
Accounts payable	\$ 133,011	\$ 9,809
Due to other funds	17,809	-
Due to other governments	350	-
Accrued salaries and benefits	1,389,691	-
Accrued payroll withholdings	22,790	-
Deferred revenues	257,650	-
Total liabilities	1,821,301	9,809
Fund Balances		
Reserved for		
Capital reserve	-	1,577,501
Unreserved	7,844,136	-
Total fund balances	7,844,136	1,577,501
Total liabilities and fund balances	\$ 9,665,437	\$ 1,587,310

See Notes to Financial Statements.

Debt Service Fund	Non-Major Governmental Funds		Total Governmental Funds
	Capital Projects Fund	Athletic Fund	
\$ -	\$ -	\$ 1,420	\$ 3,440,976
-	-	-	6,398,260
-	-	-	664,668
-	-	-	420,673
-	-	-	133,239
-	-	-	40,491
-	-	-	129,230
-	-	-	26,630
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,420</u>	<u>\$ 11,254,167</u>
\$ -	\$ -	\$ -	\$ 142,820
-	-	-	17,809
-	-	-	350
-	-	-	1,389,691
-	-	-	22,790
-	-	-	257,650
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,831,110</u>
-	-	-	1,577,501
-	-	1,420	7,845,556
<u>-</u>	<u>-</u>	<u>1,420</u>	<u>9,423,057</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,420</u>	<u>\$ 11,254,167</u>

SOUTH MIDDLETON SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010**

Total Fund Balances - Governmental Funds	\$	9,423,057
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital Assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of capital assets is \$50,315,886, and the accumulated depreciation is \$19,613,493.</p>		30,702,393
<p>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 revenues in the funds.</p>		257,650
<p>Governmental funds report bond-issuance costs as expenditures. However, in the Statement of Activities, the costs of issuance are allocated over the life of the debt issue. This is the amount by which bond-issuance costs exceed accumulated amortization.</p>		291,427
<p>Long-term liabilities, including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year-end consist of:</p>		
Bonds payable	(24,555,000)	
Accrued interest	(347,059)	
Bond-issuance premium	(108,002)	
Refunding loss	97,546	
Compensated absences	(825,684)	
Other post-employment benefit obligations	(85,908)	(25,824,107)
	<hr/>	
Total net assets - governmental activities	\$	14,850,420
		<hr/> <hr/>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	General Fund	Capital Reserve Fund
Revenues		
Local sources	\$ 20,032,333	\$ 21,264
State sources	7,344,899	-
Federal sources	624,960	-
Total revenues	28,002,192	21,264
Expenditures		
Instructional	15,989,845	-
Support services	8,801,263	-
Noninstructional services	439,061	-
Capital outlay	-	808,612
Debt service		
Principal	-	-
Interest	-	-
Total expenditures	25,230,169	808,612
Excess (deficiency) of revenues over expenditures	2,772,023	(787,348)
Other Financing Sources (Uses)		
Interfund transfers in	-	598,112
Interfund transfers out	(3,542,435)	(431,000)
Total other financing sources (uses)	(3,542,435)	167,112
Net changes in fund balances	(770,412)	(620,236)
Fund Balances - July 1, 2009	8,614,548	2,197,737
Fund Balances - June 30, 2010	\$ 7,844,136	\$ 1,577,501

See Notes to Financial Statements.

Debt Service Fund	Non-Major Governmental Funds		Total Governmental Funds
	Capital Projects Fund	Athletic Fund	
\$ -	\$ 44	\$ 47,261	\$ 20,100,902
-	-	-	7,344,899
-	-	-	624,960
-	44	47,261	28,070,761
-	-	-	15,989,845
3,090	-	-	8,804,353
-	-	244,294	683,355
-	316,273	-	1,124,885
1,720,000	-	-	1,720,000
915,630	-	-	915,630
2,638,720	316,273	244,294	29,238,068
(2,638,720)	(316,229)	(197,033)	(1,167,307)
2,638,720	431,000	205,366	3,873,198
-	-	-	(3,973,435)
2,638,720	431,000	205,366	(100,237)
-	114,771	8,333	(1,267,544)
-	(114,771)	(6,913)	10,690,601
\$ -	\$ -	\$ 1,420	\$ 9,423,057

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, 2010**

Net change in fund balances - total governmental funds \$ (1,267,544)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlays	1,342,972	
Less depreciation expense	(1,534,481)	(191,509)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (85,852)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The change in interest costs in the Statement of Activities over the amount due is shown here. 33,040

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. (77,489)

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

Repayment of long-term debt	1,720,000	
Amortization of refunding loss and premium on bonds	4,023	
Amortization of bond-issuance costs	(62,445)	1,661,578

Change in net assets - governmental activities \$ 72,224

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 19,895,601	\$ 19,895,601	\$ 20,032,333	\$ 136,732
State sources	8,267,168	8,267,168	7,344,899	(922,269)
Federal sources	160,000	160,000	624,960	464,960
Total revenues	28,322,769	28,322,769	28,002,192	(320,577)
Expenditures				
Instructional	15,939,573	15,941,153	15,989,845	(48,692)
Support services	8,980,328	8,978,748	8,801,263	177,485
Noninstructional services	461,038	461,038	439,061	21,977
Total expenditures	25,380,939	25,380,939	25,230,169	150,770
Excess of revenues over expenditures	2,941,830	2,941,830	2,772,023	(169,807)
Other Financing Sources (Uses)				
Interfund transfers out	(2,941,827)	(2,941,827)	(3,542,435)	(600,608)
Budgetary reserve	(500,000)	(500,000)	-	500,000
Total other financing uses	(3,441,827)	(3,441,827)	(3,542,435)	(100,608)
Net changes in fund balances	\$ (499,997)	\$ (499,997)	(770,412)	\$ (270,415)
Fund Balances - July 1, 2009			8,614,548	
Fund Balances - June 30, 2010			<u>\$ 7,844,136</u>	

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUND - FOOD SERVICE

June 30, 2010

ASSETS

Current Assets

Cash and cash equivalents \$ 270,573

Internal balances 17,809

Inventories 60,591

Total current assets 348,973

Noncurrent Assets

Furniture and equipment - net 66,160

Total assets \$ 415,133

LIABILITIES AND NET ASSETS

Liabilities - all current

Accrued salaries and benefits \$ 1,044

Deferred revenues 18,552

Total liabilities 19,596

Net Assets

Invested in capital assets 66,160

Unrestricted 329,377

Total net assets 395,537

Total liabilities and net assets \$ 415,133

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2010**

Operating Revenues	
Food-service revenues	\$ 474,200
Operating Expenses	
Food and milk	307,196
Labor, taxes and benefits	456,312
Supplies	6,335
Trash removal	11,817
Equipment repairs and maintenance	12,887
Travel and other	6,955
Depreciation	23,749
Total operating expenses	825,251
Operating loss	(351,051)
Nonoperating Revenues	
Investment earnings	926
State sources	40,062
Federal sources	201,161
Total nonoperating revenues	242,149
Operating Transfer In	100,237
Changes in net assets	(8,665)
Net Assets - July 1, 2009	404,202
Net Assets - June 30, 2010	<u>\$ 395,537</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2010**

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Cash Flows From Operating Activities	
Cash received from users	\$ 475,215
Cash payments for goods and services	(304,276)
Cash payments to employees for services	(453,833)
Net cash used in operating activities	<u>(282,894)</u>
Cash Flows From Noncapital Financing Activities	
State sources	40,062
Federal sources	147,052
Operating transfer in	100,237
Net cash provided by noncapital financing activities	<u>287,351</u>
Cash Flows From Investing Activities	
Investment earnings	926
Net cash provided by investing activities	<u>926</u>
Net increase in cash and cash equivalents	5,383
Cash and Cash Equivalents:	
July 1, 2009	265,190
June 30, 2010	<u>\$ 270,573</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (351,051)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	23,749
Value of donated commodities used	54,109
Changes in assets and liabilities:	
(Increase) decrease in:	
Internal balances	(16,135)
Inventories	2,940
(Decrease) increase in:	
Accrued salaries and benefits	1,015
Deferred revenues	2,479
Net cash used in operating activities	<u>\$ (282,894)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2010

	Agency Fund <u>Student Activities</u>	Private-Purpose Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ 93,919	\$ 109,929	\$ 203,849
LIABILITIES			
Due to student groups	\$ 93,919	\$ -	\$ 93,919
NET ASSETS			
Held in trust for private purposes	-	109,929	109,929
	<u>\$ 93,919</u>	<u>\$ 109,929</u>	<u>\$ 203,849</u>
Total liabilities and net assets			

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2010**

Additions	
Contributions	\$ 7,816
Investment earnings	657
Total additions	<u>8,473</u>
Deductions	
Scholarships and awards	<u>6,838</u>
Changes in net assets	1,635
Net Assets - July 1, 2009	108,294
Net Assets - June 30, 2010	<u>\$ 109,929</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund-Financial Statements

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

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

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

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

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

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 assets (total assets less total liabilities) are used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as an expense against current operations, and accumulated depreciation is reported net of the costs of related assets in the Statement of Net Assets.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental-fund financial statements are reported using the current, financial-resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current, fiscal period. Revenues from Federal, state and other grants designated for payment of specific expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred 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 resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

The District reports the following major governmental funds:

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

The Capital Reserve Fund (Section 2932 is authorized by P.L. 145, Act of April 30, 1943, known as Section 2932 School Laws of Pennsylvania) accounts for: (1) resources transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, and (2) surplus resources in the General Fund of the School District at the end of any fiscal year. This fund is included in the financial statements as a Special Revenue Fund.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

The School District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budget and Budgetary Accounting

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

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

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

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

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

E. Assets, Liabilities, and Net Assets or Equity

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

Investments: Investments are stated at fair value.

Allowances for Estimated Uncollectible Taxes and Deferred Revenues:

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

The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as 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 deferred revenue. All other amounts of 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, Liabilities, and Net Assets or Equity (Continued)

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

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2010. The inventory consisted of government-donated commodities which were valued at their estimated, fair-market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method.

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

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

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 Assets. Bond premiums and discounts, and issuance costs, 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. Bond-issuance costs are reported as deferred charges and amortized over the terms of the related debt.

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Fund Balance:

The School District classifies fund balances as follows:

Reserved

"Reserved" is used to denote those portions of fund balances which are not available for expenditure-appropriation or which are legally segregated for specific purposes.

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

Unreserved

- "Designated" is used to indicate intentions for financial-resource utilization
- "Undesignated" denotes that portion of fund balance which is available for appropriations

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

Subsequent Events: In preparing these financial statements, the School District has evaluated events and transactions for potential recognition or disclosure through September 8, 2010, the date that the financial statements were available to be issued.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

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

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

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

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

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

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 failure, the District's investments may not be returned to it. As of June 30, 2010, \$4,053,803 of the District's total bank balances of \$4,553,803 was exposed to custodial-credit risk as follows:

	Amount
<u>Uninsured and collateralized by assets maintained in conformity with Act 72</u>	<u>\$ 4,053,803</u>

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

Investments

As of June 30, 2010, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Values</u>
Pennsylvania Local Government Investment Trust (PLGIT)	34 days weighted avg	\$ 6,357,755
Pennsylvania School District Liquid Asset Fund (PSDLAF)	45 days weighted avg	6,649
Pennsylvania Treasurer's INVEST Program	46 days weighted avg	33,856
		<u>\$ 6,398,260</u>

Portfolio Assets

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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

Weighted-Average Maturity

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

Interest-Rate Risk

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

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2010, the District's investments in PLGIT, PSDLAF, and PA INVEST, were rated AAAM by Standard & Poor's.

Concentration of Credit Risk

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

A summary of the taxes receivable and related accounts at June 30, 2010, is as follows:

	Amount
Uncollected taxes	\$ 675,931
Estimated uncollectible taxes	<u>11,263</u>
Taxes Receivable - Net	<u><u>\$ 664,668</u></u>
Taxes to be collected within 60 days	\$ 407,018
Deferred revenues - delinquent taxes	<u>257,650</u>
Taxes Receivable - Net	<u><u>\$ 664,668</u></u>
Deferred Revenues - General Fund	
Delinquent taxes	\$ 257,650
Deferred Revenues - Proprietary Fund	
Deferred lunch revenues	<u>18,552</u>
Total Deferred Revenues	<u><u>\$ 276,202</u></u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4. Property Taxes

Based upon assessed valuations, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2009-2010 is as follows:

July 1, 2009	tax levy date
Through August 31, 2009	2% discount
Through October 31, 2009	face payment period
November 1, 2009	10% penalty period
4th Monday, 2010	lien filing date
January 1, 2010	interim tax-levy date

The School District tax rate for all purposes in 2009-2010 was 11.38 mills (\$11.38 per \$1,000 assessed valuation). Refunds on payments of prior-year taxes are classified as “Other Debt Service” items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the School District were approximately 93% of the total tax levy.

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2010, are as follows:

Fund	Due from other funds	Due to other funds
General	\$ -	\$ 17,809
Business-Type Activities - Food Service	17,809	-
	\$ 17,809	\$ 17,809

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts (Continued)

Operating transfers between funds at June 30, 2010, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 3,542,435
Capital Reserve Fund	598,112	431,000
Debt Service Fund	2,638,720	-
Capital Projects	431,000	-
Athletic Fund	205,366	-
Business-Type Activities - Food Service	100,237	-
	<u>\$ 3,973,435</u>	<u>\$ 3,973,435</u>

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

Note 6. Food Service Fund Inventory

The composition of the Food Service Fund inventory at June 30, 2010, is as follows:

	Amount
Materials and supplies	\$ 7,024
Purchased food	53,567
	<u>\$ 60,591</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. General Fixed Assets

Capital-asset activity for the year ended June 30, 2010, was as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010
Governmental Activities				
Land and site improvements	\$ 3,464,570	\$ -	\$ -	\$ 3,464,570
Buildings and building improvements	40,438,007	719,889	-	41,157,896
Furniture and equipment	5,070,337	579,031	-	5,649,368
Construction-in-progress	-	44,052	-	44,052
Total Governmental Activities Capital Assets	48,972,914	1,342,972	-	50,315,886
Less accumulated depreciation				
Land and site improvements	1,398,057	184,177	-	1,582,234
Buildings and building improvements	12,953,342	1,007,037	-	13,960,379
Furniture and equipment	3,727,613	343,267	-	4,070,880
Total Accumulated Depreciation	18,079,012	1,534,481	-	19,613,493
Governmental Activities, Capital Assets - Net	\$ 30,893,902	\$ (191,509)	\$ -	\$ 30,702,393
Business-Type Activities				
Furniture and equipment	\$ 550,767	\$ -	\$ -	\$ 550,767
Total Business-Type Activities Capital Assets	550,767	-	-	550,767
Less accumulated depreciation				
Furniture and equipment	460,858	23,749	-	484,607
Business-Type Activities, Capital Assets - Net	\$ 89,909	\$ (23,749)	\$ -	\$ 66,160

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. General Fixed Assets (Continued)

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

	Amount
Governmental Activities	
Instruction	\$ 1,059,103
Instructional student support	144,072
Administration and financial support	195,545
Operation and maintenance of plant services	95,101
Student activities	40,660
Total Governmental Activities	<u>1,534,481</u>
Business-Type Activities	
Food Service	23,749
Total School District	<u>\$ 1,558,230</u>

Note 8. Long-Term Obligations

Long-term obligations changed as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010
General Obligation Bonds Payable				
General Obligation Bonds - Series of 2003	\$ 1,330,000	\$ -	\$ (655,000)	\$ 675,000
General Obligation Bonds - Series of 2006	9,880,000	-	(40,000)	9,840,000
General Obligation Bonds - Series A of 2006	5,490,000	-	(5,000)	5,485,000
General Obligation Bonds - Series of 2009	9,575,000	-	(1,020,000)	8,555,000
	<u>26,275,000</u>	-	(1,720,000)	24,555,000
Refunding loss, net of amortization	(135,065)	-	37,519	(97,546)
Bond-issuance premium - net	149,544	-	(41,542)	108,002
Total Bonds Payable	<u>26,289,479</u>	-	(1,724,023)	24,565,456
Compensated absences	787,869	37,815	-	825,684
Other post-employment benefits	46,234	39,674	-	85,908
Total Long-Term Obligations	<u>\$ 27,123,582</u>	<u>\$ 77,489</u>	<u>\$ (1,724,023)</u>	<u>\$ 25,477,048</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

General Obligation Bonds - Series of 2003

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

General Obligation Bonds - Series of 2006

During fiscal 2005-06, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series of 2006 in the aggregate principal amount of \$10,000,000. The proceeds of the bonds were used to provide funds toward: (1) the advance refunding of the School District's General Obligation Notes, Series A of 2004, and (2) paying all costs of issuance of the 2006 Bonds. The bonds bear interest semi-annually with rates ranging from 3.60% to 4.00%. The bonds mature serially in amounts ranging from \$20,000 to \$2,250,000 through October 1, 2019.

General Obligation Bonds - Series A of 2006

During fiscal 2005-06, the Board of Directors of the South Middleton School District issued General Obligation Bonds, Series A of 2006 in the aggregate principal amount of \$5,500,000. The proceeds of the bonds are to be used to provide funds toward: (1) renovations to Boiling Springs High School; (2) renovations to the School District's athletic facilities, including Ecker Field; (3) the advance refunding of the School District's General Obligation Note, Series B of 2004; and (4) paying all costs of issuance of the 2006 Bonds. The bonds bear interest semi-annually with rates ranging from 4.00% to 4.25%. The bonds mature serially in amounts ranging from \$5,000 to \$2,370,000 through October 1, 2021.

General Obligation Bonds - Series of 2009

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

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

Years	General Obligation Debt		
	Principal	Interest	Total
2010-2011	\$ 1,785,000	\$ 852,258	\$ 2,637,258
2011-2012	1,850,000	802,027	2,652,027
2012-2013	1,905,000	745,307	2,650,307
2013-2014	1,965,000	686,723	2,651,723
2014-2015	1,985,000	624,583	2,609,583
2015-2020	10,960,000	1,979,986	12,939,986
2020-2022	4,105,000	160,377	4,265,377
	<u>\$ 24,555,000</u>	<u>\$ 5,851,261</u>	<u>\$ 30,406,261</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 Assets.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Affiliates

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

Total payments of \$354,320 were made by the School District to the Vo-Tech School as the former's share of operating expenses for the year ended June 30, 2010.

Note 10. Defined-Benefit Pension Plans

Plan Description

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

Type of Plan: Governmental, cost-sharing, multiple-employer defined-benefit plan

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

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

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

Funding Policy

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined-Benefit Pension Plans (Continued)

Contribution Rates

Member Contributions - Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD Membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of an employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and 0.78 percent for healthcare-insurance premium assistance.

The School District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ration (as defined in Act 29 of 1994), which is at least one-half of the total School District's rate. The School District's contributions to the Plan for the years ended June 30, 2010, 2009 and 2008, were \$636,302, \$635,225, and \$869,412, respectively, and are equal to the required contributions for said years.

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

Plan Description - The District provides retiree health, vision, and dental-care benefits, including prescription-drug coverage, to eligible retired employees and qualified spouses/beneficiaries. This is a single-employer, defined-benefit plan administered by the District. Benefits are provided to all faculty, academic and support staff who meet the following requirements. Employee must be age 55 with 25 years of PSERS service, age 62 with 1 year of service, or have 35 years of total PSERS service. Currently, the plan has approximately 360 members. The plan does not issue a separate, stand-alone financial statement.

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined-Benefit Pension Plans (Continued)

Funding Progress - For the year ended June 30, 2010, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of June 1, 2007. In accordance with GASB Statement No. 45, the valuation computes an annual, required contribution, which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded, actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 117,473
Interest on Net OPEB Obligation	2,081
Less adjustment to the annual required contribution	(2,838)
Annual OPEB cost	116,716
Amounts contributed:	
Payments of current premiums and claims	(77,042)
Advance funding	-
Increase in net OPEB obligation	39,674
OPEB obligation - beginning of year	46,234
OPEB obligation - end of year	\$ 85,908

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

For Fiscal Year Ended June 30, 2010:	Amount
Annual OPEB cost	\$ 116,716
Percentage contributed	66.0%
Net OPEB obligation	\$ 85,908

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined-Benefit Pension Plans (Continued)

In the June 1, 2007, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care, cost trend rate of 9.00% initially, reduced by periodic decrements to an ultimate rate of 5.00% after eight years. Both rates included a 4.50% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

Note 11. Risk Management

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

Note 12. Significant Commitments

As of June 30, 2010, the District had entered into the following significant contract commitments:

Vendor	Project	Amount
Jones Turf Management	Storm Water Detention	\$ 758,700
Wilser Electric	Athletic Field	36,000
Premier Construction Group	Fitness Center	94,600
HL Bowman Inc.	Fitness Center	46,236
JA Kolva	Fitness Center	29,926
		<u>\$ 965,462</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH MIDDLETON SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS PLAN
Year Ended June 30, 2010**

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

SUPPLEMENTARY INFORMATION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate, remaining fund information of the South Middleton School District as of and for the year ended June 30, 2010, which collectively comprise the South Middleton School District's basic financial statements and have issued our report thereon dated September 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the South Middleton School District in a separate letter dated September 8, 2010.

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

Camp Hill, Pennsylvania
September 8, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the South Middleton School District with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the School District's major Federal programs for the year ended June 30, 2010. The South Middleton School District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the South Middleton School District's management. Our responsibility is to express an opinion on the South Middleton School District's compliance based on our audit.

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

In our opinion, the South Middleton School District complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended June 30, 2010.

Internal Control over Compliance

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

Camp Hill, Pennsylvania
September 8, 2010

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? Yes 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: Unqualified

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

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education - Grants to States
84.391	ARRA - Special Education - Grants to States
84.394	ARRA - Fiscal Stabilization - Basic Ed

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

Auditee qualified as low-risk auditee? X Yes No

Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

	Source Code	Federal C.F.D.A. Number	Pass- Through Grantor's Number	Grant Period
U.S. Department of Education				
Passed through the Pennsylvania				
Department of Education:				
Title II - Improving Teacher Quality	I	84.367	020-090397	08-09
Title II - Improving Teacher Quality	I	84.367	020-100397	09-10
Title I - Improving Basic Programs	I	84.010	013-090397	08-09
Title I - Improving Basic Programs	I	84.010	013-100397	09-10
Title I - Academic Achievement Award	I	84.010	077-090397	08-09
Title I - Academic Achievement Award	I	84.010	077-100397	09-10
ARRA Fiscal Stabilization Fund	I	84.394	ARRA-126-100397	09-10
Passed through the Capital Area				
Intermediate Unit:				
Special Education - Grants to States	I	84.027	N/A	08-09
Special Education - Grants to States	I	84.027	N/A	09-10
ARRA - Special Education - Grants to States	I	84.391	N/A	09-10
Total U.S. Department of Education				
U.S. Department of Agriculture				
Passed through the Pennsylvania				
Department of Education:				
National School Lunch Program	I	10.555	N/A	09-10
Passed through the Pennsylvania				
Department of Agriculture:				
Food Donation (a)	I	10.550	N/A	09-10
Total U.S. Department of Agriculture				
U.S. Department of Homeland Security				
Passed through the Pennsylvania				
Emergency Management Agency:				
Disaster Grants - Public Assistance	I	97.036	FEMA-1898-DR-PA-041-07A66-00	09-10
Total Expenditures of Federal Awards				

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/09	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/10
\$ 40,251	\$ 32,200	\$ 29,923	\$ 2,277	\$ 2,277	\$ -
\$ 40,224	40,224	-	40,224	40,224	-
\$ 84,299	67,237	67,237	-	-	-
\$ 84,638	84,638	-	84,638	84,638	-
\$ 1,000	600	600	-	-	-
\$ 1,800	-	-	1,800	1,800	1,800
\$ 490,308	449,384	-	490,308	490,308	40,924
\$ 368,884	368,884	368,884	-	-	-
\$ 396,891	297,668	-	396,891	396,891	99,223
\$ 454,900	-	-	273,013	273,013	273,013
	<u>1,340,835</u>	<u>466,644</u>	<u>1,289,151</u>	<u>1,289,151</u>	<u>414,960</u>
N/A	147,052	-	147,052	147,052	-
N/A	54,109	-	54,109	54,109	-
	<u>201,161</u>	<u>-</u>	<u>201,161</u>	<u>201,161</u>	<u>-</u>
\$ 5,713	-	-	5,713	5,713	5,713
	<u>\$ 1,541,996</u>	<u>\$ 466,644</u>	<u>\$ 1,496,025</u>	<u>\$ 1,496,025</u>	<u>\$ 420,673</u>

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended June 30, 2010

Source Codes:

- D - Direct Funding
- I - Indirect Funding
- (F) - Federal Share
- (S) - State Share

Legends:

- (a) Donated commodities valued at local market values
- (b) Total amount of commodities received from
Department of Agriculture
- (c) Inventories at July 1, 2009
- (d) Total amount of commodities used
- (e) Inventories at June 30, 2010

Test of 50% Rule:

Total Federal Expenditures \$ 1,496,025

Programs selected for testing major programs

Special Education - Grants to States	\$ 396,891
ARRA - Special Education - Grants to States	273,013
ARRA Fiscal Stabilization Fund	<u>490,308</u>

\$ 1,160,212 / \$1,496,025 = 77.55%

See Note to Schedule of Expenditures of Federal Awards.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Significant Accounting Policies

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2010

There were no prior year's audit findings.