

SOUTH MIDDLETON SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10 - 11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Net Assets - Proprietary Fund - Food Service	18
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund - Food Service	19
Statement of Cash Flows - Proprietary Fund - Food Service	20
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Fund	22
Notes to Financial Statements	23 - 42

CONTENTS (Continued)

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information Post-Employment Benefits Plan	43
---	----

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 <i>Government Auditing Standards</i>	44 - 45
Independent Auditor's Report on Compliance with Requirements 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	46 - 47
Schedule of Findings and Questioned Costs	48 - 49
Schedule of Expenditures of Federal Awards	50 - 52
Notes to Schedule of Expenditures of Federal Awards	53
Summary Schedule of Prior Year's Audit Findings	54

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, 2012, 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. Accordingly, we express no such opinion. 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, 2012, 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 October 8, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Camp Hill, Pennsylvania
October 8, 2012

**SOUTH MIDDLETON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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, 2012. Comparative financial information for fiscal year ended June 30, 2011, is also presented in this report to show changes in the financial position of the District from the prior to current year. The purpose of this discussion is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements.

Financial Highlights

For fiscal year 2011-2012, the School Board adopted a General Fund Budget with a real estate tax millage rate of 8.924 mills which represents zero increase from the 2010-2011 year.

When the 2011-2012 budget was passed in June of 2011, the District anticipated a balanced expenditures over revenues budget, exclusive of the \$500,000 unfunded budgetary reserve. The budget to actual for 2011-2012 shows a variance with the final budget of \$60,682.

Overview of the Financial Statements

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

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

Government-wide Statements Report the District as a Whole

The government-wide statements report financial information about the District as a whole using accounting methods similar to the accounting methods used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities utilizing the full accrual basis of accounting. The Statement of Activities accounts are for all of the District's revenues and expenses regardless of when cash is received or paid. These two government-wide statements report the District's net 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 county-wide employment. The government-wide financial statements of the District are divided into two categories:

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

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

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets and Statement of Activities

The District's total net assets were \$15,213,047 on June 30, 2012, which includes \$14,854,475 in Governmental Activities and \$358,572, in Business Activities (cafeteria). Net assets decreased by \$338,280 in 2012-13. Of this decrease, \$305,945 was in Governmental Funds, while Business Funds (cafeteria) decreased by \$32,335. As stated in GASB 34, the District is required to record on its financial statements a liability of \$225,735 for post-employment benefit obligations. The slight decrease in net assets in the Business Activities is due to equipment repair costs as well as depreciation related to equipment in the Cafeteria Fund.

Statement of Net Assets

	Governmental Activities		Business Activities		Total Activities	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Current and Other Assets	\$ 9,520,494	\$ 9,956,245	\$ 319,934	\$ 340,438	\$ 9,840,428	\$ 10,296,683
Capital Assets	29,791,187	31,227,195	35,355	53,539	29,826,542	31,280,734
Total assets	\$ 39,311,681	\$ 41,183,440	\$ 355,289	\$ 393,977	\$ 39,666,970	\$ 41,577,417
Current and Other Liabilities	\$ 4,116,081	\$ 3,408,488	\$ (3,283)	\$ 3,070	\$ 4,112,798	\$ 3,411,558
Long-Term Liabilities (originally stated)	20,341,125	22,614,532	-	-	20,341,125	22,614,532
Total liabilities	24,457,206	26,023,020	(3,283)	3,070	24,453,923	26,026,090
Invested in Capital Assets - net of related debt	8,369,520	7,937,496	35,355	53,539	8,404,875	7,991,035
Unrestricted	6,484,955	7,222,924	323,217	337,368	6,808,172	7,560,292
Total net assets	14,854,475	15,160,420	358,572	390,907	15,213,047	15,551,327
Total liabilities and net assets	\$ 39,311,681	\$ 41,183,440	\$ 355,289	\$ 393,977	\$ 39,666,970	\$ 41,577,417

Statement of Activities

	Governmental Activities		Business Activities		Total Activities	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Program Revenues						
Charges for services	\$ 550,813	\$ 769,225	\$ 475,594	\$ 463,730	\$ 1,026,407	\$ 1,232,955
Operating grants and contributions	4,052,564	4,730,487	240,236	245,763	4,292,800	4,976,250
Total program revenues	4,603,377	5,499,712	715,830	709,493	5,319,207	6,209,205
General Revenues						
Taxes	19,951,008	19,476,893	-	-	19,951,008	19,476,893
General subsidies	4,003,362	3,529,960	-	-	4,003,362	3,529,960
Investment earnings	49,969	132,645	584	741	50,553	133,386
Other local revenue	(41,259)	33,805	-	-	(41,259)	33,805
Total general revenues	23,963,080	23,173,303	584	741	23,963,664	23,174,044
Total revenues	28,566,457	28,673,015	716,414	710,234	29,282,871	29,383,249
Total Expenses	28,759,166	28,256,943	861,985	820,936	29,621,151	29,077,879
Excess (deficiency) before transfers	(192,709)	416,072	(145,571)	(110,702)	(338,280)	305,370
Transfers between activities	(113,236)	(106,072)	113,236	106,072	-	-
Changes in net assets - operations	(305,945)	310,000	(32,335)	(4,630)	(338,280)	305,370
Prior period adjustments	-	-	-	-	-	-
Changes in net assets	\$ (305,945)	\$ 310,000	\$ (32,335)	\$ (4,630)	\$ (338,280)	\$ 305,370

Fund Balances

When evaluating instructional, support services, and non-instructional expenditures, the expenditures were \$205,671 over budget. This was attributed primarily to an increase in purchased professional services for Charter School Expenditures (\$141,000) which were for regular and special education, whom are residents of the School District as mandated by the Commonwealth of Pennsylvania, with the remaining difference primarily attributed to additional contracted Special Education services and costs of legal fees.

Revenues were under budgeted by \$355,994 due to reduced state funding for student transportation (\$102,000) caused primarily by the reduced market value calculation from the State Tax Equalization Board, decreased earnings in investment earnings related to low interest rates (\$120,000), and less than anticipated interim local tax revenues. In addition, anticipated refunds for prior year health insurance premiums of \$100,000 budgeted in 2011-12 budget were not received until the 2012-13 year. In the creation of the 2012-2013 budget, these variances were taken into consideration.

The Cafeteria Fund experienced a net change in assets of (\$32,335) in 2011-2012 year. The proprietary fund remained stable.

The Capital Projects Fund closed the year with a restricted fund balance of \$4,166, a decrease of \$126,876. The deficit was funded in the 2012-13 budget and was due to the early implementation of summer projects that were budgeted for the 2012-13 year. During the 2011-2012 the South Middleton School District installed a new District-wide phone system as well as completed routine maintenance on the buildings and grounds.

Governmental Fund Balances

	6/30/2012	6/30/2011	Change	% Change
General Fund, including Athletics	\$ 7,022,363	\$ 7,583,045	\$ 560,682	7.39%
Capital Projects Fund	4,166	131,042	126,876	96.82%
Total Governmental Fund Balances	\$ 7,026,529	\$ 7,714,087	\$ 687,558	8.91%

2011-12 General Fund Balances

	Budget	Actual	Difference
Total Revenues	\$ 28,932,189	\$ 28,576,195	\$ 355,994
Total Expenditures excluding transfer	26,337,881	29,023,641	(2,685,760)
Change in Fund Balances excluding Capital Projects transfer	2,594,308	(447,446)	(3,041,754)
Transfers (Capital Projects, Cafeteria and Bond Refinancing)	(3,094,308)	(113,236)	2,981,072
Net Changes in Fund Balances	\$ (500,000)	(560,682)	\$ (60,682)
General Fund Balance - June 30, 2011		7,583,045	
General Fund Balance - June 30, 2012		\$ 7,022,363	

Capital Assets

On June 30, 2012, the District recorded \$29,791,187 in Governmental Activities Capital Assets, which represents a decrease of \$1,436,008 or 4.6% from the previous fiscal year. This decrease is based on the depreciation of Capital assets during the year.

Capital Assets (net of depreciation)

	6/30/2012	6/30/2011	Change
Governmental Activities			
Bond-issuance costs	\$ 283,299	\$ 343,561	\$ (60,262)
Construction-in-progress	-	56,245	(56,245)
Land and site improvements	2,562,296	2,767,432	(205,136)
Buildings and improvements	25,561,412	26,464,547	(903,135)
Furniture and equipment	1,384,180	1,595,410	(211,230)
Total Governmental Capital Assets	29,791,187	31,227,195	(1,436,008)
Business Activities			
Total Business Capital Assets	35,355	53,539	(18,184)
Total Capital Assets	\$ 29,826,542	\$ 31,280,734	\$ (1,454,192)

Long-Term Liabilities

Bonds payable at June 30, 2012, were \$21,200,000 compared with \$23,015,000 at June 30, 2011, a 7.9% decrease. A total of \$1,815,000 of existing bonds was repaid during the 2011-12 fiscal year. A scheduled amount of \$1,850,000 will be repaid in 2012-13.

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, 2012, is reflected in the Statement of Net Assets and totals \$827,022. This represents an increase of \$194 from June 30, 2011.

Factors Expected to Have an Effect on Future Operations

The District has experienced near stagnate student enrollment over the last several years. New housing developments are planned in the District and could potentially 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. Although the District anticipates residential construction to be slow in the near future, moderate commercial growth along the Interstate 81 corridor continues. In October 2012, a large commercial warehouse was added to the District's tax rolls which will yield the District an additional \$223,500 per year.

Pennsylvania's Act 1 of 2006 places limitations on the ability of the District to raise taxes without voter approval. While this has not been a binding constraint to date, it may have long term effects as the index is linked to a national salary index and a state salary index, both of which have had minimal increases in recent years. Prior to June 30, 2011, the District had ten (10) Pennsylvania Department of Education approved, limited exceptions to increasing its tax rate beyond the index. On June 30, 2011, the Governor of Pennsylvania signed into law legislation eliminating seven of the ten exceptions, further restricting the three remaining exceptions. The Act 1 Index will limit the District, without state approved exceptions, to raise taxes a maximum of 1.7% for the 2013-14 fiscal year. The District did not raise taxes for the 2012-13 year.

At present the District is in negotiations with the collective bargaining unit (South Middleton Education Association) for District teaching professionals. The present agreement expired June 30, 2012.

In June of 2011, the District approved and submitted to the Pennsylvania Department of Education a "Plancon A" submission for renovations and additions to the Iron Forge Educational Center, the District's Grade 4 and 5 school. The District is monitoring various issues to determine if and when the project will proceed.

Contacting the District's Financial Management

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

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 3,488,157	\$ 266,958	\$ 3,755,115
Investments	4,187,575	-	4,187,575
Receivables			
Taxes - net	1,024,920	-	1,024,920
Federal subsidies	235,097	-	235,097
State subsidies	480,584	-	480,584
Other	618	-	618
Due from other governments	70,297	-	70,297
Inventories	33,246	52,976	86,222
Total current assets	9,520,494	319,934	9,840,428
Noncurrent Assets			
Bond-issuance costs - net	283,299	-	283,299
Land and site improvements - net	2,562,296	-	2,562,296
Buildings and building improvements - net	25,561,412	-	25,561,412
Furniture and equipment - net	1,384,180	35,355	1,419,535
Total noncurrent assets	29,791,187	35,355	29,826,542
Total assets	\$ 39,311,681	\$ 355,289	\$ 39,666,970

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 134,392	\$ -	\$ 134,392
Internal balances	21,290	(21,290)	-
Due to other governments	23,260	-	23,260
Current portion of long-term debt	1,850,000	-	1,850,000
Accrued salaries and benefits	1,918,982	-	1,918,982
Accrued payroll withholdings	38,354	-	38,354
Accrued interest payable	110,848	-	110,848
Deferred revenues	18,955	18,007	36,962
Total current liabilities	4,116,081	(3,283)	4,112,798
Noncurrent Liabilities			
Long-term debt - net of current portion	19,288,368	-	19,288,368
Compensated absences	827,022	-	827,022
Other post-employment benefit obligations	225,735	-	225,735
Total noncurrent liabilities	20,341,125	-	20,341,125
Total liabilities	24,457,206	(3,283)	24,453,923
Net Assets			
Invested in capital assets - net of related debt	8,369,520	35,355	8,404,875
Unrestricted	6,484,955	323,217	6,808,172
Total net assets	14,854,475	358,572	15,213,047
Total liabilities and net assets	\$ 39,311,681	\$ 355,289	\$ 39,666,970

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

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	\$ 18,194,133	\$ 490,471	\$ 2,924,879	\$ -	\$ (14,778,783)	\$ -	\$ (14,778,783)
Instructional student support	2,248,290	-	190,727	-	(2,057,563)	-	(2,057,563)
Administration and financial support	3,331,386	-	195,263	-	(3,136,123)	-	(3,136,123)
Operation and maintenance of plant services	2,387,568	7,209	86,466	-	(2,293,893)	-	(2,293,893)
Pupil transportation	1,245,396	-	450,940	-	(794,456)	-	(794,456)
Student activities	673,779	53,133	41,213	-	(579,433)	-	(579,433)
Community services	500	-	-	-	(500)	-	(500)
Interest on long-term debt	678,114	-	163,076	-	(515,038)	-	(515,038)
Total governmental activities	28,759,166	550,813	4,052,564	-	(24,155,789)	-	(24,155,789)
Business-type activities:							
Food service	861,985	475,594	240,236	-	-	(146,155)	(146,155)
Total School District	\$ 29,621,151	\$ 1,026,407	\$ 4,292,800	\$ -	\$ (24,155,789)	\$ (146,155)	\$ (24,301,944)
General Revenues (Expenses):							
Property taxes levied for general purposes, net					\$ 15,620,673	\$ -	\$ 15,620,673
Public utility, realty transfer, earned income, and per capita taxes for general purposes, net					4,330,335	-	4,330,335
Grants, subsidies and contributions not restricted					4,003,362	-	4,003,362
Investment earnings					49,969	584	50,553
Loss on disposal of capital assets					(54,458)	-	(54,458)
Miscellaneous income					13,199	-	13,199
Transfers					(113,236)	113,236	-
Total general revenues and transfers					23,849,844	113,820	23,963,664
Changes in net assets					(305,945)	(32,335)	(338,280)
Net assets - July 1, 2011					15,160,420	390,907	15,551,327
Net assets - June 30, 2012					\$ 14,854,475	\$ 358,572	\$ 15,213,047

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Non-Major Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,482,563	\$ 5,594	\$ 3,488,157
Investments	4,187,119	456	4,187,575
Receivables			
Taxes - net	1,024,920	-	1,024,920
Federal subsidies	235,097	-	235,097
State subsidies	480,584	-	480,584
Other	618	-	618
Due from other governments	70,297	-	70,297
Inventories	33,246	-	33,246
Total assets	\$ 9,514,444	\$ 6,050	\$ 9,520,494
LIABILITIES			
Accounts payable	\$ 132,508	\$ 1,884	\$ 134,392
Due to other funds	21,290	-	21,290
Due to other governments	23,260	-	23,260
Accrued salaries and benefits	1,918,982	-	1,918,982
Accrued payroll withholdings	38,354	-	38,354
Deferred revenues	357,687	-	357,687
Total liabilities	2,492,081	1,884	2,493,965
Fund Balances			
Non-spendable fund balance for:			
Inventories	33,246	-	33,246
Restricted for:			
Capital projects	-	4,166	4,166
Committed fund balance for:			
Future retirement, insurance increases, future capital projects, and for instructional resources	5,089,832	-	5,089,832
Unassigned	1,899,285	-	1,899,285
Total fund balances	7,022,363	4,166	7,026,529
Total liabilities and fund balances	\$ 9,514,444	\$ 6,050	\$ 9,520,494

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balances - Governmental Funds	\$	7,026,529
<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 \$52,040,417, and the accumulated depreciation is \$22,532,529.</p>		29,507,888
<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>		338,732
<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>		283,299
<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	(21,200,000)	
Accrued interest	(110,848)	
Bond-issuance premium	(139,975)	
Refunding loss	201,607	
Compensated absences	(827,022)	
Other post-employment benefit obligations	(225,735)	(22,301,973)
	<hr/>	
Total net assets - governmental activities	\$	14,854,475
		<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, 2012**

	General Fund	Non-Major Capital Projects Fund	Total Governmental Funds
Revenues			
Local sources	\$ 20,520,269	\$ 235	\$ 20,520,504
State sources	7,882,062	-	7,882,062
Federal sources	173,864	-	173,864
Total revenues	28,576,195	235	28,576,430
Expenditures			
Instructional	16,963,849	-	16,963,849
Support services	8,951,174	-	8,951,174
Noninstructional services	628,529	-	628,529
Capital outlay	-	127,111	127,111
Debt service			
Principal	1,815,000	-	1,815,000
Interest	665,089	-	665,089
Total expenditures	29,023,641	127,111	29,150,752
Deficiency of revenues over expenditures	(447,446)	(126,876)	(574,322)
Other Financing Sources (Uses)			
Transfers out	(113,236)	-	(113,236)
Net changes in fund balances	(560,682)	(126,876)	(687,558)
Fund Balances - July 1, 2011	7,583,045	131,042	7,714,087
Fund Balances - June 30, 2012	\$ 7,022,363	\$ 4,166	\$ 7,026,529

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net change in fund balances - total governmental funds		\$ (687,558)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlays	373,280	
Loss on disposal of capital assets	(54,458)	
Less depreciation expense	<u>(1,694,568)</u>	(1,375,746)
<p>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.</p>		
		44,485
<p>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.</p>		
		(11,465)
<p>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.</p>		
		(74,363)
<p>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.</p>		
Repayment of long-term debt	1,815,000	
Amortization of premium on bonds	43,964	
Amortization of bond-issuance costs	<u>(60,262)</u>	1,798,702
Change in net assets - governmental activities		<u><u>\$ (305,945)</u></u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 20,840,725	\$ 20,840,725	\$ 20,520,269	\$ (320,456)
State sources	7,916,933	7,916,933	7,882,062	(34,871)
Federal sources	174,531	174,531	173,864	(667)
Total revenues	28,932,189	28,932,189	28,576,195	(355,994)
Expenditures				
Instructional	16,547,927	16,547,927	16,963,849	(415,922)
Support services	9,145,354	9,145,354	8,951,174	194,180
Noninstructional services	644,600	644,600	628,529	16,071
Debt service				
Principal	-	-	1,815,000	(1,815,000)
Interest	-	-	665,089	(665,089)
Total expenditures	26,337,881	26,337,881	29,023,641	(2,685,760)
Excess of revenues over expenditures	2,594,308	2,594,308	(447,446)	(3,041,754)
Other Financing Uses				
Transfers out	(2,594,308)	(2,594,308)	(113,236)	2,481,072
Budgetary reserve	(500,000)	(500,000)	-	500,000
Total other financing uses	(3,094,308)	(3,094,308)	(113,236)	2,981,072
Net changes in fund balances	\$ (500,000)	\$ (500,000)	(560,682)	\$ (60,682)
Fund Balances - July 1, 2011			7,583,045	
Fund Balances - June 30, 2012			<u>\$ 7,022,363</u>	

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUND - FOOD SERVICE

June 30, 2012

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 266,958
Internal balances	21,290
Inventories	52,976
Total current assets	<u>341,224</u>
 Noncurrent Assets	
Furniture and equipment - net	35,355
Total assets	<u>\$ 376,579</u>
 LIABILITIES	
Deferred revenues	<u>\$ 18,007</u>
 NET ASSETS	
Invested in capital assets	35,355
Unrestricted	323,217
Total net assets	<u>358,572</u>
 Total liabilities and net assets	<u>\$ 376,579</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2012**

Operating Revenues	
Food service revenues	\$ 475,594
Operating Expenses	
Food and milk	310,350
Labor, taxes and benefits	492,011
Supplies	4,816
Trash removal	9,566
Equipment repairs and maintenance	21,900
Travel and other	5,158
Depreciation	18,184
Total operating expenses	861,985
Operating loss	(386,391)
Nonoperating Revenues	
Investment earnings	584
State sources	44,003
Federal sources	196,233
Total nonoperating revenues	240,820
Operating Transfer In	113,236
Changes in net assets	(32,335)
Net Assets - July 1, 2011	390,907
Net Assets - June 30, 2012	<u>\$ 358,572</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2012**

<hr/>	
Cash Flows From Operating Activities	
Cash received from users	\$ 473,265
Cash payments for goods and services	(305,000)
Cash payments to employees for services	(492,011)
Net cash used in operating activities	<u>(323,746)</u>
Cash Flows From Noncapital Financing Activities	
State sources	44,003
Federal sources	158,371
Operating transfer in	113,236
Net cash provided by noncapital financing activities	<u>315,610</u>
Cash Flows From Investing Activities	
Investment earnings	<u>584</u>
Net decrease in cash and cash equivalents	(7,552)
Cash and Cash Equivalents:	
July 1, 2011	274,510
June 30, 2012	<u>\$ 266,958</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (386,391)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	18,184
Value of donated commodities used	37,862
Changes in assets and liabilities:	
(Increase) decrease in:	
Internal balances	(4,024)
Inventories	12,952
Decrease in:	
Deferred revenues	(2,329)
Net cash used in operating activities	<u>\$ (323,746)</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	Agency Fund <u>Student Activities</u>	Private-Purpose Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ 116,680	\$ 116,806	\$ 233,486
Total assets	<u>\$ 116,680</u>	<u>\$ 116,806</u>	<u>\$ 233,486</u>
LIABILITIES			
Due to student groups	\$ 116,680	\$ -	\$ 116,680
NET ASSETS			
Held in trust for private purposes	-	116,806	116,806
Total liabilities and net assets	<u>\$ 116,680</u>	<u>\$ 116,806</u>	<u>\$ 233,486</u>

See Notes to Financial Statements.

SOUTH MIDDLETON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PRIVATE-PURPOSE TRUST FUND
Year Ended June 30, 2012**

Additions	
Contributions	\$ 8,012
Investment earnings	528
Total additions	<u>8,540</u>
Deductions	
Scholarships and awards	<u>7,767</u>
Changes in net assets	773
Net Assets - July 1, 2011	116,033
Net Assets - June 30, 2012	<u>\$ 116,806</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 (including committed, assigned, and unassigned) resources are available for use, it is the School District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

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

The District reports the following major governmental funds:

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenues and expenses from 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, 2012. 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's fund balance classifications are defined and described as follows:

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

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

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

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

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

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

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 8, 2012, the date that the financial statements were available to be issued.

Note 2. Deposits and Investments

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

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or 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, 2012, \$3,932,757 of the District's total bank balances of \$4,432,757 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72	\$ 3,932,757

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, 2012, 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	\$ 3,706,107
Pennsylvania School District Liquid Asset Fund (PSDLAF)	45 days weighted avg	2,749
Pennsylvania Treasurer's INVEST Program	46 days weighted avg	478,719
		<u>\$ 4,187,575</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)

Portfolio Assets (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, 2012, the District's investments in PLGIT, PSDLAF, and PA INVEST, were rated AAAM by Standard & Poor's.

Concentration of Credit Risk

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

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, 2012, is as follows:

	Amount
Uncollected taxes	\$ 1,040,010
Estimated uncollectible taxes	<u>15,090</u>
Taxes Receivable - Net	<u><u>\$ 1,024,920</u></u>
Taxes to be collected within 60 days	\$ 686,188
Deferred revenues - delinquent taxes	<u>338,732</u>
Taxes Receivable - Net	<u><u>\$ 1,024,920</u></u>
Deferred Revenues - General Fund	
Delinquent taxes	\$ 338,732
Retiree insurance premiums	18,955
Deferred Revenues - Proprietary Fund	
Deferred lunch revenues	<u>18,007</u>
Total Deferred Revenues	<u><u>\$ 375,694</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 2011-2012 is as follows:

July 1, 2011	tax levy date
Through August 31, 2011	2% discount
Through October 31, 2011	face payment period
November 1, 2011	10% penalty period
4th Monday, 2011	lien filing date
January 1, 2012	interim tax-levy date

The School District tax rate for all purposes in 2011-2012 was 8.92 mills (\$8.92 per \$1,000 assessed valuation). Refunds on payments of prior-year taxes are classified as “Other Debt Service” items under the Commonwealth of Pennsylvania accounting system.

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2012, are as follows:

Fund	Due from other funds	Due to other funds
General	\$ -	\$ 21,290
Food Service	21,290	-
	\$ 21,290	\$ 21,290

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts (Continued)

Operating transfers between funds at June 30, 2012, are as follows:

	Transfers in	Transfers out
Governmental Activities		
General Fund	\$ -	\$ 113,236
Business-Type Activities - Food Service	113,236	-
	<u>\$ 113,236</u>	<u>\$ 113,236</u>

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

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
Governmental Activities				
Land and site improvements	\$ 4,548,369	\$ -	\$ -	\$ 4,548,369
Buildings and building improvements	41,447,863	149,612	-	41,597,475
Furniture and equipment	5,852,493	279,913	237,833	5,894,573
Construction-in-progress	56,245	-	56,245	-
Total Governmental Activities Capital Assets	51,904,970	429,525	294,078	52,040,417
Less accumulated depreciation				
Land and site improvements	1,780,937	205,136	-	1,986,073
Buildings and building improvements	14,983,316	1,052,747	-	16,036,063
Furniture and equipment	4,257,083	436,685	183,375	4,510,393
Total Accumulated Depreciation	21,021,336	1,694,568	183,375	22,532,529
Governmental Activities, Capital Assets - Net	\$ 30,883,634	\$ (1,265,043)	\$ 110,703	\$ 29,507,888
Business-Type Activities				
Furniture and equipment	\$ 557,444	\$ -	\$ -	\$ 557,444
Total Business-Type Activities Capital Assets	550,767	-	-	557,444
Less accumulated depreciation				
Furniture and equipment	503,905	18,184	-	522,089
Business-Type Activities, Capital Assets - Net	\$ 46,862	\$ (18,184)	\$ -	\$ 35,355

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

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

	Amount
Governmental Activities	
Instruction	\$ 1,178,508
Instructional student support	157,230
Administration and financial support	214,756
Operation and maintenance of plant services	95,099
Student activities	45,326
Transportation	3,649
Total Governmental Activities	<u>1,694,568</u>
Business-Type Activities	
Food Service	18,184
Total School District	<u>\$ 1,712,752</u>

Note 7. Long-Term Obligations

Long-term obligations changed as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
General Obligation Bonds Payable				
General Obligation Bonds - Series of 2009	\$ 7,490,000	\$ -	\$ (1,810,000)	\$ 5,680,000
General Obligation Bonds - Series of 2011	15,525,000	-	(5,000)	15,520,000
	<u>23,015,000</u>	-	(1,815,000)	21,200,000
Refunding loss, net of amortization	(252,801)	-	51,194	(201,607)
Bond-issuance premium - net	183,939	-	(43,964)	139,975
Total Bonds Payable	<u>22,946,138</u>	-	(1,807,770)	21,138,368
Compensated absences	826,828	194	-	827,022
Other post-employment benefits	151,566	74,169	-	225,735
	<u>23,924,532</u>	<u>74,363</u>	<u>(1,807,770)</u>	<u>22,191,125</u>
Total Long-Term Obligations	<u>\$ 23,924,532</u>	<u>\$ 74,363</u>	<u>\$ (1,807,770)</u>	<u>\$ 22,191,125</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Bonds - Series of 2009

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

General Obligation Bonds - Series of 2011

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

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

Years	General Obligation Debt		
	Principal	Interest	Total
2012-2013	\$ 1,850,000	\$ 665,089	\$ 2,515,089
2013-2014	1,910,000	610,164	2,520,164
2014-2015	1,985,000	553,814	2,538,814
2015-2016	2,050,000	497,363	2,547,363
2016-2017	2,145,000	433,608	2,578,608
2017-2022	11,260,000	1,256,295	12,516,295
	<u>\$ 21,200,000</u>	<u>\$ 4,016,333</u>	<u>\$ 25,216,333</u>

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Compensated Absences

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

Note 8. Affiliates

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

Total payments of \$325,207 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, 2012.

Note 9. Defined-Benefit Pension Plans

Plan Description

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

Type of Plan: Governmental, cost-sharing, multiple-employer 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, P.O. 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>.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plans (Continued)

Funding Policy

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

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 members who elected Class TD Membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after July 1, 2011, contribute at 7.50 percent with shared risk contribution levels between 7.50 and 9.50 percent (Membership Class TE) or at 10.30 percent with shared risk contribution levels between 10.30 and 12.30 percent (Membership Class TF).

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of an employer's contribution was 8.65 percent of covered payroll. The 8.65 percent rate is composed of a pension contribution rate of 8.00 percent for pension benefits and 0.65 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, 2012, 2011 and 2010, were \$1,190,094, \$791,304, and \$636,302, respectively, and are equal to the required contributions for said years.

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

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

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 9. Defined-Benefit Pension Plans (Continued)

Funding Progress - For the year ended June 30, 2012, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental-care benefits through an actuarial valuation as of July 1, 2010. 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	\$ 142,812
Interest on Net OPEB Obligation	6,820
Less adjustment to the annual required contribution	(9,305)
Annual OPEB cost	<u>140,327</u>
Amounts contributed:	
Payments of current premiums and claims	(66,158)
Advance funding	-
Increase in net OPEB obligation	<u>74,169</u>
OPEB obligation - beginning of year	151,566
OPEB obligation - end of year	<u><u>\$ 225,735</u></u>

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

For Fiscal Year Ended June 30, 2012:	Amount
Annual OPEB cost	\$ 140,327
Percentage contributed	47.1%
Net OPEB obligation	\$ 225,735

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 9. Defined-Benefit Pension Plans (Continued)

In the July 1, 2010, actuarial valuation, the entry-Age normal cost method was used. The actuarial assumptions include an annual health-care, cost trend rate of 7.50% initially, reduced by periodic decrements to an ultimate rate of 5.50% after four years. Both rates included a 4.50% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 28 years remaining.

Note 10. Risk Management

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

Note 11. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH MIDDLETON SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS PLAN
Year Ended June 30, 2012**

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)
7/1/2010	\$ -	\$ 1,109,317	\$1,109,317	0.00%	\$ 12,803,523	8.66%

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, 2012, which collectively comprise the South Middleton School District's basic financial statements and have issued our report thereon dated October 8, 2012. 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

Management of the South Middleton School District is responsible for establishing and maintaining effective 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 was not designed to 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*.

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.

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

Camp Hill, Pennsylvania
October 8, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIRMENTS
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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

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 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.

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

Camp Hill, Pennsylvania
October 8, 2012

SOUTH MIDDLETON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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, 2012

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
10.555	National School Lunch Program Cluster

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, 2012

	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	020-110397	10-11
Title II - Improving Teacher Quality	I	84.367	020-120397	11-12
Title I - Improving Basic Programs	I	84.010	013-110397	10-11
Title I - Improving Basic Programs	I	84.010	013-120397	11-12
Title I - Academic Achievement Award	I	84.010	077-110397	10-11
ARRA Fiscal Stabilization-Basic Ed	I	84.394	ARRA-126-110397	10-11
Education Jobs Fund	I	84.410	140-139195	11-12
Passed through the Capital Area Intermediate Unit:				
Special Education - Grants to States	I	84.027	N/A	10-11
Special Education - Grants to States	I	84.027	N/A	11-12
Early Intervention - Special Education Preschool Grants	I	84.173	N/A	11-12
IDEA - ARRA	I	84.391	N/A	09-11
Total U.S. Department of Education				
U.S. Department of Agriculture				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program	I	10.555	N/A	11-12
Passed through the Pennsylvania Department of Agriculture:				
National School Lunch Program	I	10.555	N/A	11-12
Total U.S. Department of Agriculture				
Total Expenditures of Federal Awards				

Restated Program or Annual Award	Total Received (Refunded) in Fiscal Year	Restated Accrued (Deferred) Revenue at 7/1/11	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/12
\$ 40,700	\$ 5,646	\$ 5,646	\$ -	\$ -	\$ -
\$ 32,546	19,726	-	32,546	32,546	12,820
\$ 133,831	17,417	17,417	-	-	-
\$ 129,031	79,172	-	129,031	129,031	49,859
\$ 5,000	5,000	5,000	-	-	-
\$ 490,213	40,851	40,851	-	-	-
\$ 4,277	-	-	4,277	4,277	4,277
\$ 399,483	399,483	399,483	-	-	-
\$ 399,013	237,492	-	399,013	399,013	161,521
\$ 2,956	-	-	2,956	2,956	2,956
\$ 445,463	172,450	172,450	-	-	-
	<u>977,237</u>	<u>640,847</u>	<u>567,823</u>	<u>567,823</u>	<u>231,433</u>
N/A	154,706	-	158,371	158,371	3,665
N/A	<u>37,862</u>	-	<u>37,862</u>	<u>37,862</u>	-
	<u>192,568</u>	-	<u>196,233</u>	<u>196,233</u>	<u>3,665</u>
	<u>\$ 1,169,805</u>	<u>\$ 640,847</u>	<u>\$ 764,056</u>	<u>\$ 764,056</u>	<u>\$ 235,098</u>

SOUTH MIDDLETON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2012

Source Codes:

- D - Direct Funding
- I - Indirect Funding

Test of 50% Rule:

Total Federal Expenditures \$ 764,056

Programs selected for testing major programs

National School Lunch Program \$ 196,233

\$ 196,233 / \$764,056 = 25.68%

See Notes to Schedule of Expenditures of Federal Awards.

SOUTH MIDDLETON SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of South Middleton School District under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the South Middleton School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the South Middleton School District.

Note 2. Significant Accounting Policies

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

SOUTH MIDDLETON SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2012

There were no prior year's audit findings.