

MIDDLETOWN AREA SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 17 and the required supplementary information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

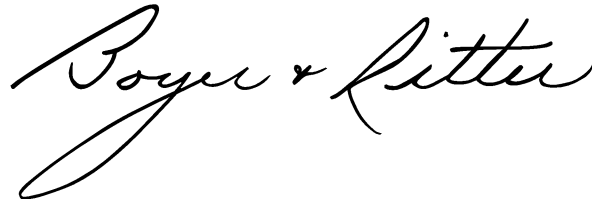
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2021, on our consideration of Middletown Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Middletown Area School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering Middletown Area School District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania
December 17, 2021

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2021

The discussion and analysis of Middletown Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the independent auditor's letter, the basic financial statements, the notes to the financial statements and the supplementary information to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. Certain comparative information between the current and prior years is required to be presented in the MD&A to present the District's financial performance as a whole.

Financial Highlights

Key financial highlights for the year ended June 30, 2021, are as follows:

- In total, net position decreased approximately \$96,000. Overall, the net position of governmental activities increased approximately \$254,000, while the net position of business-type activities decreased approximately \$350,000. The food service fund (business-type activity) had an operational loss of approximately \$306,000, as a result of the COVID-19 pandemic that altered food service operations for the entire fiscal year. The WMSS radio station fund (business-type activity) had an operational loss of approximately \$67,000. The Middletown Area Recreation Alliance (business-type activity) was the only proprietary fund to have an increase in net position. The Middletown Area Recreation Alliance increased net position by approximately \$23,000. Due to the COVID-19 pandemic, all recreation activities of the Middletown Area Recreation Alliance were suspended so there were minimal expenditures; however, the fund continued to receive revenue from the municipal organizations that support the operation.
- Revenues totaled \$51.4 million, an increase of approximately \$350,000 from the prior year. General revenues accounted for \$38.2 million or 74.2% of total revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$13.3 million or 25.8% of total revenues. General revenues as a percentage of total revenues decreased 3.4% and program specific revenues increased 3.4%, reflecting an increase in grant revenue related to the pandemic and the receipt of a competitive grant.
- Expenses totaled \$51.5 million, an increase of approximately \$1.5 million from the prior year. The District had \$50.1 million in expenses related to governmental activities, an increase of approximately \$1.7 million from the prior year. The majority of the increase in expenses for governmental activities was for instruction (increase of approximately \$1.2 million). Of the expenses related to governmental activities, \$12.2 million were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and subsidies) of \$38.1 million were sufficient to fund the remaining cost of governmental activities. The District had \$1.4 million in expenses related to business-type activities, a decrease of approximately \$220,000 from the prior year. The decrease in expenses occurred in both the food service fund and the Middletown Area Recreation Alliance. The food service fund decrease is attributable to the change in operations because of the pandemic. The decrease for Middletown Area Recreation Alliance is a result of all recreation programming being paused because of the pandemic. Of the expenses related to business-type activities, \$1.0 million were offset by program specific charges for services, grants or contributions. General revenues (primarily contributions) were not sufficient to fund the remaining cost of business-type activities, resulting in a \$350,000 decrease in net position.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2021

Financial Highlights (Continued)

- Among governmental funds, the general fund had \$50.6 million in revenues (an increase of \$1.1 million over the prior year) and \$45.0 million in expenditures (an increase of \$1.9 million over the prior year). The general fund also had \$5.6 million in net other financing uses (a decrease of approximately \$250,000 over the prior year), primarily consisting of transfers to the debt service fund to meet obligations. The general fund's fund balance increased by \$108,000, which is approximately \$630,000 less than the prior year.

Using this Annual Report

The District's annual report consists of a series of financial statements and notes to those statements that show information for the District as a whole, its various funds and its fiduciary responsibilities. The statements are organized in a manner so that the reader might understand the Middletown Area School District. First, the statements show the District as a financial whole by presenting information on a government-wide basis. Then, the statements provide the reader with a detailed look at specific financial activities of the District.

The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide information about the financial status and operations of the entire District on the accrual basis of accounting, which is different than the basis of accounting used for budgeting and reporting in the governmental funds.

Fund financial statements provide the next level of detail, showing the District's most significant funds in separate columns and non-major funds totaled in one column. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. Proprietary fund statements show the financial information for activities operated like a business - the food service fund, the WMSS radio station fund and the Middletown Area Recreation Alliance (MARA). Fiduciary fund statements present information for relationships where the District acts solely as a trustee or agent of the party to whom the resources belong.

The notes to financial statements further explain the information presented in the financial statements and provide more detailed data. The notes are an integral part of the financial statements. The notes are followed by a section of supplementary information that further explains and supports the financial statements with additional post-employment benefits plan information.

Reporting the District as a Whole

The analysis of the District as a whole in the MD&A begins on page 7. While this report contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole examines all financial transactions and asks the question, "Is the condition of the District better or worse as a result of the operations during the school year?" The government-wide statements, which begin on page 18, present information about the District as a whole in a way that helps to answer this question. The Statement of Net Position includes all of the District's assets, deferred inflows of resources, deferred outflows of resources and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Both statements are prepared on the accrual basis of accounting, which is similar to the method used by most private-sector companies.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2021

Reporting the District as a Whole (Continued)

The government-wide statements report the District's net position - assets plus deferred outflows of resources less liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position - as reported in the statement of activities - are used as one indicator of whether the District's financial health is improving or deteriorating. The District exists to provide services, primarily educational, to its students, so it does not have the profit-generation goal of private-sector companies. For this reason, the reader must also consider nonfinancial factors, such as the quality of the education provided, when assessing the *overall* health of the District.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental Activities* - Most of the District's programs and services are reported under this category including instruction, support services, operation and maintenance of plant services, pupil transportation and extracurricular activities. These activities are primarily financed by local taxes and subsidies and grants from the Federal and state governments.
- *Business-Type Activities* - The District operates a food service program that charges students, staff and other users in order to cover the costs of the food provided. The District operates a student-run radio station, which is primarily funded by contributions and fundraisers. The District operates recreation programs, primarily funded by charges for services, a start-up grant from the state and support from local government entities.

Reporting the District's Most Significant Funds

The analysis of the District's major funds in the MD&A begins on page 10. The fund financial statements, which provide detailed information about the most significant funds - not the District as a whole, begin on page 20. The District's funds are divided into three broad types - governmental, proprietary and fiduciary. Each type of fund uses a different accounting approach.

- *Governmental Funds* - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information is used to determine whether there are more or less financial resources that can be spent in the near future to finance District programs. The relationship (or differences) between governmental activities (as reported in the statement of net position and the statement of activities) and governmental funds is described in the financial statements on pages 21 and 23.
- *Proprietary Funds* - Proprietary funds consist solely of activities treated as business-type activities in the government-wide financial statements. As the same basis of accounting is used by proprietary funds and business-type activities, the information presented is essentially the same. The fund financial statements do provide some additional detail and information, such as cash flows.
- *Fiduciary Funds* - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate statements beginning on page 28. These activities are excluded from the District's other statements because the District cannot use these assets to finance its operations.

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

Financial Analysis of the District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a comparison of the District's net position at June 30, 2021 and 2020.

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2021	2020	2021	2020	2021	2020
Assets						
Current assets	\$ 27,451,692	\$ 29,444,947	\$ 442,321	\$ 686,657	\$ 27,894,013	\$ 30,131,604
Capital and non-current assets	82,595,821	81,139,320	423,159	513,838	83,018,980	81,653,158
Total assets	\$ 110,047,513	\$ 110,584,267	\$ 865,480	\$ 1,200,495	\$ 110,912,993	\$ 111,784,762
Deferred Outflows of Resources	\$ 12,813,024	\$ 10,051,522	\$ 39,150	\$ 31,896	\$ 12,852,174	\$ 10,083,418
Liabilities						
Current liabilities	\$ 6,291,253	\$ 5,100,790	\$ (56,656)	\$ (65,643)	\$ 6,234,597	\$ 5,035,147
Long-term liabilities	124,967,491	123,751,614	244,916	229,981	125,212,407	123,981,595
Total liabilities	\$ 131,258,744	\$ 128,852,404	\$ 188,260	\$ 164,338	\$ 131,447,004	\$ 129,016,742
Deferred Inflows of Resources	\$ 2,697,809	\$ 3,253,069	\$ 10,386	\$ 11,814	\$ 2,708,195	\$ 3,264,883
Net Position (Deficit)						
Net investment in capital assets	\$ 35,549,963	\$ 30,995,607	\$ 423,159	\$ 513,838	\$ 35,973,122	\$ 31,509,445
Restricted	6,136,919	9,129,132	-	-	6,136,919	9,129,132
Unrestricted	(52,782,898)	(51,594,423)	282,825	542,401	(52,500,073)	(51,052,022)
Total net position (deficit)	\$ (11,096,016)	\$ (11,469,684)	\$ 705,984	\$ 1,056,239	\$ (10,390,032)	\$ (10,413,445)

The District's net position consists of \$36.0 million invested in capital assets (buildings, land and equipment). The restricted net position of \$6.1 million consists of the proceeds from the sale of one of the District's elementary school buildings that must be used for payment of debt service on the school building that replaced the property that was sold, balances in capital projects funds that are restricted for capital projects and funds raised by students toward school-sponsored activities. The deficit unrestricted net position of \$52.5 million is combined of designated and undesignated amounts. The designated balances are amounts set aside to offset future debt service, to fund the District's portion of a shared wide-area network, to offset future technology replacement costs, to offset future special education costs, and to offset the anticipated operational deficit in the 2021-2022 fiscal year due to the pandemic.

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

Financial Analysis of the District as a Whole (Continued)

The results of this year's operations as a whole are reported in the statement of activities on page 19. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are listed as program revenues in the second, third and fourth columns. The fifth and sixth columns show the amount of the District's governmental and business-type activities, respectively, that must be supported by other general revenues. The District's two largest general revenues are the basic education subsidy provided by the state and the various taxes paid by residents and employers within the District. Table 2 takes the information from the Statement of Activities, rounds the numbers and rearranges them slightly to display total revenues and expenses for the year.

Table 2 - Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues:						
Charges for services	\$ 902,440	\$ 668,536	\$ 68,691	\$ 499,777	\$ 971,131	\$ 1,168,313
Operating grants and contributions	10,219,138	8,631,880	947,481	913,553	11,166,619	9,545,433
Capital grants and contributions	1,124,445	699,753	-	5,500	1,124,445	705,253
General revenues:						
Property taxes	22,442,215	22,227,100	-	-	22,442,215	22,227,100
Other taxes	6,303,084	7,690,854	-	-	6,303,084	7,690,854
Grants, subsidies, and contributions	9,250,525	9,223,346	19,039	21,151	9,269,564	9,244,497
Investment earnings	146,580	418,916	2,663	6,954	149,243	425,870
Loss on disposition of capital assets	(30,874)	(35,287)	-	-	(30,874)	(35,287)
Miscellaneous income	360	437	1,076	90	1,436	527
Extraordinary item	48,660	110,367	-	-	48,660	110,367
Total revenues	50,406,573	49,635,902	1,038,950	1,447,025	51,445,523	51,082,927
Expenses						
Instruction	30,934,104	29,770,309	-	-	30,934,104	29,770,309
Support services:						
Instructional student support	5,455,880	4,680,031	-	-	5,455,880	4,680,031
Administrative and financial						
Support services	5,138,003	5,196,102	-	-	5,138,003	5,196,102
Operation and maintenance						
of plant services	4,135,096	3,874,394	-	-	4,135,096	3,874,394
Pupil transportation	1,415,809	1,432,300	-	-	1,415,809	1,432,300
Student activities	1,430,379	1,526,328	-	-	1,430,379	1,526,328
Community services	26,321	36,932	-	-	26,321	36,932
Interest on long-term debt	1,597,836	1,908,956	-	-	1,597,836	1,908,956
Food services	-	-	1,273,114	1,355,599	1,273,114	1,355,599
Radio station	-	-	108,144	99,731	108,144	99,731
MARA	-	-	15,916	162,879	15,916	162,879
Transfers	19,039	293,770	(19,039)	(293,770)	-	-
Extraordinary item	-	-	11,070	-	11,070	-
Total expenses	50,152,467	48,719,122	1,389,205	1,324,439	51,541,672	50,043,561
Changes in net position	254,106	916,780	(350,255)	122,586	(96,149)	1,039,366
Net Position - beginning	(11,469,684)	(12,386,464)	1,056,239	933,653	(10,413,445)	(11,452,811)
Prior period adjustment	119,562	-	-	-	119,562	-
Net position - beginning (restated)	(11,350,122)	(12,386,464)	1,056,239	933,653	(10,293,883)	(11,452,811)
Net Position - ending	\$ (11,096,016)	\$ (11,469,684)	\$ 705,984	\$ 1,056,239	\$ (10,390,032)	\$ (10,413,445)

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

Financial Analysis of the District as a Whole (Continued)

Table 2 shows that total revenues exceeded total expenses for governmental activities of the District by \$254,000, total revenues fell short of total expenses for business-type activities by \$350,000 and total revenues fell short of total expenses for all activities by \$96,000 for the year ended June 30, 2021. It should be noted that although the District is required to present government-wide information using the accrual basis of accounting, as detailed in Table 2, the District must still prepare its general fund budget and report its operations under the modified accrual basis of accounting used in the fund financial statements. Operations in relation to the District’s budget will be discussed later in this report under the “Analysis of the District by Funds” section.

The statement of activities breaks the expenses of the District into functions or programs. These expenses are offset by program revenues (charges for services, grants and contributions) before the general revenues of the District are applied. Table 3 shows the District’s governmental activities, the expenses by program, as well as each program’s net cost (the total cost less the applicable program revenues). It also shows the net costs offset by other unrestricted grants, subsidies and contributions to identify the cost of these services that must be supported by local tax revenue and other miscellaneous revenues.

Table 3 - Total and Net Cost of Program Services - Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
Instruction	\$ 30,934,104	\$ 29,770,309	\$ 22,474,280	\$ 23,187,669
Support services				
Instructional student support	5,455,880	4,680,031	4,418,146	3,817,589
Administrative and financial Support services	5,138,003	5,196,102	4,452,895	4,446,815
Operation and maintenance of Plant services	4,135,096	3,874,394	3,350,277	3,423,058
Pupil transportation	1,415,809	1,432,300	816,003	884,176
Student activities	1,430,379	1,526,328	1,241,182	1,313,402
Community services	26,321	36,932	8,144	18,730
Interest on long-term debt	1,597,836	1,908,956	1,126,478	1,333,744
Total expenses	<u>\$ 50,133,428</u>	<u>\$ 48,425,352</u>	<u>37,887,405</u>	<u>38,425,183</u>
Less: unrestricted grants, subsidies and contributions			<u>9,250,525</u>	<u>9,223,346</u>
Total required local taxes and other general revenues			<u>\$ 28,636,880</u>	<u>\$ 29,201,837</u>

The dependence upon local taxes for governmental activities is apparent. Program revenue provides only 27.3% of the funding needed for instruction, the major program area of the District. Even if all of the unrestricted grants, subsidies, and contributions are used toward instruction, there remains a need for over 42% of the funding for instruction to come from local taxes and other general revenues. Put another way, Table 3 reveals that almost one-half of every tax dollar is used to cover the cost of instruction. The community, as a whole, by far provides the primary financial support for the education of the District’s students.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2021

Financial Analysis of the District as a Whole (Continued)

The District has three business-type activities - food service, a student-run radio station and Middletown Area Recreation Alliance (MARA). The total cost of food service operations was approximately \$1.27 million. These costs were offset by charges for services (primarily fees paid by students and employees for lunches and breakfasts consumed) of approximately \$42,000, operating grants (Federal and state participation in the National School Lunch and National School Breakfast Programs) of approximately \$921,000 and private contributions of \$11,000. The total cost of radio station operations was approximately \$108,000. These costs were offset by contributions and fundraising of approximately \$41,000. The total cost of MARA operations was approximately \$16,000. There was no program revenue for MARA. The general fund budget included support for business-type activities in the amount of \$69,000 (\$50,000 in support of the radio station's general manager's salary and \$19,000 for MARA in support of recreation programming as part of an intergovernmental agreement with the local municipalities that also provide support). Transfers from the general fund to business-type activities totaled approximately \$19,000 for the support of MARA. No transfer was made to the radio station for this fiscal year as the transfer made in the prior fiscal year was intended to cover costs for more than one year.

Financial Analysis of the District by Funds

As previously noted, the District uses a number of funds, in accordance with the Pennsylvania Public School Code, to control and manage resources for particular purposes. Information about the District's major governmental funds starts on page 20. These funds are accounted for using the modified accrual basis of accounting. Combined, the governmental funds had total revenues of \$50.7 million, expenditures of \$53.7 million, and net other financing uses of approximately \$17,000. The net change in fund balance for the year was a decrease of approximately \$3 million. The decrease is related to the various planned capital expenditures paid from the capital reserve fund for which resources had accumulated in prior years to cover those expenditures.

General Fund

The general fund increased its fund balance by \$108,000 to a total of \$15.2 million. The District had budgeted for expenditures to exceed revenues by approximately \$2.9 million, requiring the use of fund balance for non-recurring revenue loss or specific expenditures as part of the District's multi-year planning. The positive variance is attributed to revenues being realized beyond budgeted amounts. These variances are discussed in the "Budget Highlights" sections of this report.

Nonspendable fund balance in the amount of \$60,000 corresponds with the prepaid expense amount included in assets. Restricted fund balance in the amount of \$467,000 is equal to the proceeds from the sale of an elementary school that must be used toward debt service on the replacement school building. The District has committed fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to identify and protect resources to address future costs. The District has committed \$9.0 million to pay future debt service costs, \$40,000 to fund the District's share of construction of a new wide-area network, \$151,000 to fund special education costs, and \$477,000 for technology equipment replacements. The District has \$1.4 million of fund balance that is assigned to offset the operational deficit that is anticipated in the 2021-2022 fiscal year due to the pandemic. The District's remaining fund balance of \$3.6 million is recorded as unassigned.

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

Financial Analysis of the District by Funds (Continued)

In accordance with Act 1 of 2006 legislation, the District may not adopt a general fund budget that would result in the unassigned fund balance exceeding 8% of the budgeted expenditures for that fiscal year. The District's current unassigned fund balance is 6.87% of the 2021-2022 budgeted expenditures. The District's unassigned fund balance provides resources to deal with increasing costs, unexpected costs and future liabilities. The unassigned fund balance also provides resources to pay obligations in the next fiscal year while revenues are being collected. Maintaining a healthy fund balance is important to the District's favorable bond rating and allows the District to address unanticipated financial challenges.

Debt Service Fund

The District does not typically maintain a fund balance in the debt service fund. The District makes transfers from its general fund on an annual basis to pay the principal and interest obligations for the current fiscal year.

Capital Projects Fund

The District's capital reserve fund is the only capital projects fund. The District uses the capital reserve fund for major repair and small construction projects that have been identified in the District's facility planning. In total, the fund balance for the capital projects fund decreased by \$3.1 million to \$5.6 million. Expenditures in the capital reserve fund totaled \$4.3 million for capital improvements. Transfers from the general fund of \$1.1 million, interest earnings of \$37,000, and donations of \$8,000 were less than the expenditures, resulting in the decrease in the fund balance of the capital reserve fund. Fund balance in the capital reserve fund is restricted for capital expenditures.

Student Activity Fund

In accordance with Governmental Accounting Standards Board Statement No. 84, the District's school-sponsored student activity fund was reclassified from a fiduciary fund to a governmental fund for the fiscal year ended June 30, 2021. The fund balance in the student activity fund was approximately the same as the prior year with expenditures during the year covered by contributions or other revenue raised in support of the activities. Fund balance in the student activity fund is restricted for school-sponsored student activities.

The District's proprietary funds were discussed earlier as business-type activities. There was no significant change in the operation or activity of the District's fiduciary funds.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021

Budget Highlights

The District's budget is prepared according to Pennsylvania law and is based on the modified accrual basis of accounting. The only fund with a formally adopted budget is the general fund.

During the fiscal year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was finalized after year-end, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with actual results is shown on page 24 of this report.

Total general fund revenue was approximately \$3.8 million higher than budgeted. Expenditures were approximately \$100,000 less than budgeted. The District's other financing uses were approximately \$760,000 more than the adjusted budget as the District transferred surplus funds to the capital reserve fund. The District's other financing sources were approximately \$150,000 less than the adjusted budget as a budgeted sale of replaced technology did not occur. The District also had an extraordinary gain of \$49,000 that was not budgeted in settlement of a claim against a contractor. The end result is that instead of using \$2.9 million of fund balance as budgeted, the District added \$108,000 to its fund balance.

Relative to the budget, the following significant variances occurred during the fiscal year:

- Real estate tax collections exceeded the budget by approximately \$1.2 million. The District anticipated that real estate tax collections would be impacted by the pandemic and reduced its tax collection percentage for current real estate taxes from 94.5% of the levy to 93%. In actuality, the District's collection rate was 96%, exceeding the historical budget percentage. The positive change in the collection percent resulted in current real estate tax revenue exceeding the budget by \$616,000. The District also anticipated that the pandemic would impact delinquent real estate tax collections, but the anticipated revenue loss of \$303,000 was not realized. Instead, delinquent real estate tax revenue exceeded the budget by \$564,000. The delinquent real estate tax revenue did include \$127,000 that was collected in a prior year, but was held in protest and was not able to be recognized as revenue until this fiscal year.
- Other taxes exceeded the budget by approximately \$1.54 million. Current and delinquent earned income tax collections and real estate transfer tax collections exceeded budget estimates. Current earned income tax collections exceeded the budget by approximately \$1.1 million or 25.2%. The District reduced its collection budget to 83.5% of the prior year budget due to the pandemic in alignment with the guidance being offered. Not only was the revenue loss not realized, but tax collections exceeded all prior fiscal years. Delinquent earned income tax collections exceeded the budget by approximately \$75,000 or almost 200%. The District's collector made a concerted effort to contact delinquent taxpayers so that its clients would have consistent revenue. Real estate transfer tax collections exceeded the budget by approximately \$285,000 or over 170%. Six real estate transfers accounted for \$120,000 in transfer tax revenue. Transfers that generate more than \$10,000 each are deemed extraordinary. The adopted budget did not allow for any extraordinary transfers. The District anticipated that real estate transfers would be impacted by the pandemic and adjusted its budget to 83.5% of the prior fiscal year budget. In fact, no revenue loss occurred.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2021

Budget Highlights (Continued)

- Other local revenue exceeded the budget by approximately \$545,000. The primary reason for the budget variance relates to the significant shift in how instruction was delivered during the fiscal year as a result of the pandemic. The District has its own online learning model that provides an opportunity for residents to utilize an online learning platform while still remaining enrolled in the District as opposed to enrolling in a cyber charter school. The enrollment in the District's online learning program increased significantly, which was consistent with enrollment increases in other school districts serviced by the District's provider. The District's provider expressed concern with being able to provide teachers for the increased enrollment. Accordingly, the District made the decision to utilize its own teachers for the online learning platform. The District's provider gave a credit to the District for each student serviced by one of the District's teachers. This credit was recorded as revenue so that the true cost of the program – had the District not provided its own teachers – could be recorded as an expenditure. The District received credits of almost \$500,000 for the online learning program that were not included in the adopted budget. Another reason for the budget variance relates to the District's receipt of refunds in the amount of \$118,000 that were not budgeted. The refunds consisted of vocational school tuition reimbursement from the prior fiscal year, pandemic return premiums from the District's workers compensation carrier, and other miscellaneous vendor refunds. There was one significant shortfall in other local revenue. The District budgeted for \$460,000 in tuition from other school districts for special education students to be educated by the District, which was consistent with prior fiscal years. Due to the pandemic, the District did not provide education services for all of these students and the District only collected tuition income of \$375,000.
- Revenue from state sources exceeded the budget by approximately \$98,000. Subsidies to offset social security contributions and employer retirement contributions exceeded the budget by \$63,000 because the District's aid ratio was higher than the aid ratio used for budgeting. The District's transportation subsidy exceeded the budget by \$64,000 because the state provided subsidy for the full prior fiscal year despite the shutdown that occurred in March 2020 because of the pandemic. The District's foster subsidy also exceeded the budget by \$30,000. This subsidy is based upon foster students within the District and can easily vary from year to year. One offset to the positive variances relates to the District's receipt of safety and security grants that were budgeted to be fully utilized during the fiscal year. Instead, the District's actual expenditures – and corresponding revenue – fell short of the budget by \$60,000 because the expenditures shifted to the next fiscal year.
- Revenue from Federal sources exceeded the budget by approximately \$497,000. The District recognized federal grant revenue in response to the pandemic in excess of \$1.1 million, which exceeded the budget by \$697,000. The District had one significant offset to this positive variance related to a decision to draw almost \$200,000 less funds from the District's medical assistance reimbursement account because of the additional grant revenue so these funds could be preserved for future years when their use might have a greater positive impact on financial operations.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2021

Budget Highlights (Continued)

- Expenditures were approximately \$100,000 less than the budget after budget transfers were made to utilize the budgetary reserve line item of the budget and shift the budget for transfers to the capital reserve fund. Prior to the budget transfers, expenditures exceeded the original budget by approximately \$1.2 million. Instruction for regular programs required a transfer of approximately \$1.3 million for an increase in enrollment in the District's online learning program, an increase in enrollment in cyber charter schools, and the purchase of educational technology. The enrollment shift is attributable to the pandemic and was partially isolated to the 2020-21 fiscal year. Other instructional programs required a transfer of approximately \$158,000 to expand the summer school program to address learning loss. Administration services required a transfer of approximately \$232,000 for salary and benefit costs associated with unanticipated retirements and resignations, tax collection costs, legal costs, and technology purchases. Operation and maintenance of plant services required a transfer of approximately \$126,000 for equipment and supplies purchased as a result of the pandemic.
- Interfund transfers out of the general fund exceeded budget estimates by approximately \$759,000. The District budgeted to transfers approximately \$1.1 million to its capital reserve fund based upon a reduction in the transfers needed to the debt service fund. The District did transfer \$1.1 million to the capital reserve fund; however, as noted above budget transfers occurred during the fiscal year to reduce the budgeted transfer because of expenditure increases in other line items of the budget. Despite the budgeted transfer to the capital reserve fund being reduced, the District was able to still make the transfer because total revenues exceeded total expenditures.
- As noted earlier, the District budgeted to sell technology equipment that had been replaced and anticipated the receipt of \$157,000 from the sale. The technology sale was postponed and no revenue was realized, resulting in an unfavorable budget variance.
- As noted earlier, the District received \$49,000 in unbudgeted revenue from a contractor in settlement of a claim related to a building repair. The revenue paid for the cost of the repair, which was also not included in the adopted budget.

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021**

Capital Assets and Debt Administration

Section 1.01 Capital Assets

At June 30, 2021, the District had total assets of \$83.0 million in land, buildings, equipment and books, with \$82.6 million of that figure in governmental activities. Table 4 shows the fiscal 2021 balances compared to July 1, 2020:

Table 4 - Capital Assets, Net of Depreciation at June 30

	Governmental Activities		Business-Type Activities		Total Activities	
	2021	2020	2021	2020	2021	2020
Land and land improvements	\$ 5,071,733	\$ 5,301,521	\$ -	\$ -	\$ 5,071,733	\$ 5,301,521
Buildings and building improvements	68,843,942	71,339,894	-	-	68,843,942	71,339,894
Furniture and equipment	4,043,284	4,043,153	423,159	513,838	4,466,443	4,556,991
Construction-in-progress	4,636,862	454,752	-	-	4,636,862	454,752
	<u>\$ 82,595,821</u>	<u>\$ 81,139,320</u>	<u>\$ 423,159</u>	<u>\$ 513,838</u>	<u>\$ 83,018,980</u>	<u>\$ 81,653,158</u>

Net capital assets increased by approximately \$1.4 million during fiscal 2021, as additions of \$1.3 million and an increase in construction in progress of \$4.2 million were greater than the depreciation expense of \$4.0 million. Additions of \$189,000 from the capital reserve fund included concrete replacement at the Administration Building, indoor air quality modifications in all school buildings, and the installation of handrails at the District’s War Memorial Field athletic field. Additions of \$4.1 million to construction in progress from the capital reserve fund included the construction of a synthetic turf stadium, construction of a replacement athletics and grounds storage building, and roof restoration at Kunkel Elementary School. Additions of \$1.0 million from the general fund included instructional technology equipment, instructional software, technology network equipment, video streaming equipment, security equipment, industrial technology equipment, classroom furniture, textbooks, library books, athletic equipment, custodial and disinfection equipment and pandemic mitigation equipment. Additions of \$114,000 to construction in progress from the general fund were for secure vestibules in two school buildings. Deletions to capital assets of approximately \$134,000 during fiscal 2021 consisted primarily of replaced security equipment. No significant proceeds were received for the disposed assets.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2021

Capital Assets and Debt Administration (Continued)

Section 1.02 Debt Administration

At June 30, 2021, the District had \$42.1 million in general obligation bonds, general obligation notes and capital appreciation bonds outstanding; \$3.5 million due within one year. Table 5 summarizes bonds and notes outstanding:

Table 5 - Outstanding Debt at June 30

	Governmental Activities	
	2021	2020
General Obligation Bonds:		
Series A of 2017	\$ 28,215,000	\$ 28,715,000
	\$ 28,215,000	\$ 28,715,000
General Obligation Notes:		
Series of 2008	\$ -	\$ 280,000
Series of 2017	2,470,000	4,860,000
	\$ 2,470,000	\$ 5,140,000
Capital Appreciation Bonds:		
Series B of 2014	\$ 11,462,476	\$ 11,462,476
	\$ 11,462,476	\$ 11,462,476
Total Outstanding Debt	\$ 42,147,476	\$ 45,317,476

The District's outstanding debt decreased by \$3.2 million during fiscal 2021, related to principal payments made on the outstanding obligations.

In its most recent bond refunding, the District retained a municipal bond rating of "AA-" by S&P Global Ratings. In accordance with the Local Government Unit Debt Act, the District's borrowing capacity is capped at 225% of the average net revenues for the prior three fiscal years. The District estimates that its current borrowing limit is approximately \$105.5 million. The District estimates that its remaining borrowing capacity is \$65.5 million. The District has completed capital improvements or new construction on many of its school buildings.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2021

Factors Expected to Have an Effect on Future Operations

Considerable attention will be required in the next fiscal years to navigate the challenges that have occurred as a result of the COVID-19 pandemic. Students have experienced learning loss and emotional trauma. The expectation for remote learning has increased, which has resulted in some students leaving the District in favor of cyber charter schools while other students remain in the District but enrolled in the District's own online learning platform. The availability of staff to fill positions at all levels in the District has been challenged, though this has not yet forced the District to alter operations in any manner.

The District paused discussions on an elementary level renovation or construction project prior to the COVID-19 pandemic. The discussions are expected to resume in the next fiscal year as two of the older elementary buildings need maintenance that was tabled while a decision was made whether a renovation or new construction project would be pursued. Estimates for either a renovation or construction project will require additional debt to supplement the reserves that the District has available. The need for additional borrowing will require additional mills devoted to debt service. Because there are limitations in permitted tax increases, the reserves that have been set aside will likely be needed to phase-in the debt service increases. This should allow for only modest tax increases over several years.

Ongoing operational costs will compete with capital projects for the revenue from any proposed tax increase since operational costs have grown at a pace surpassing the District's revenue growth. Sustainable increases from the state and federal government have been minimal. The District has been unable to rely upon assessed value growth to provide significant additional real estate tax revenue to date. However, the District does expect to see some assessed value growth after the construction of some warehouse properties within the District. Despite the fact that expenditures are growing at a faster rate than revenue, the District has been mindful of its constituents and has avoided a real estate tax increase in five of the last six years. The District has nevertheless maintained a healthy unassigned fund balance just slightly below the maximum (percentage of expenditures) allowed by the state.

Contacting the District's Financial Management

This financial report provides our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's financial operations and the District's accountability for the money it manages. If you have questions about this report or wish to request additional financial information, please contact the Chief Financial Officer/Board Secretary, David A. Franklin, CPA, PCSBA, at Middletown Area School District, 55 West Water Street, Middletown, PA 17057.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 22,188,796	\$ 396,529	\$ 22,585,325
Receivables	5,202,571	32,539	5,235,110
Inventories	-	13,253	13,253
Prepaid expenses	60,325	-	60,325
Capital assets			
Land and construction-in-progress	6,987,353	-	6,987,353
Other capital assets, net of depreciation	75,608,468	423,159	76,031,627
Total capital assets	82,595,821	423,159	83,018,980
Total assets	\$ 110,047,513	\$ 865,480	\$ 110,912,993
Deferred Outflows of Resources			
Deferred amounts on pension liability	\$ 10,388,000	\$ 32,000	\$ 10,420,000
Deferred amounts on OPEB liabilities	1,568,849	7,150	1,575,999
Deferred amounts on refunding debt	856,175	-	856,175
Total deferred outflows of resources	\$ 12,813,024	\$ 39,150	\$ 12,852,174
Liabilities			
Internal balances	\$ 125,914	\$ (125,914)	\$ -
Accounts payable and accrued expenses	6,142,450	41,614	6,184,064
Unearned revenues	16,761	4,492	21,253
Other current liabilities	6,128	23,152	29,280
Long-term obligations			
Due within one year	3,809,723	-	3,809,723
Due in more than one year	45,165,478	-	45,165,478
Net pension liability	65,193,000	196,000	65,389,000
OPEB liabilities	10,799,290	48,916	10,848,206
Total long-term liabilities	124,967,491	244,916	125,212,407
Total liabilities	\$ 131,258,744	\$ 188,260	\$ 131,447,004
Deferred Inflows of Resources			
Deferred amounts on pension liability	\$ 1,563,000	\$ 5,000	\$ 1,568,000
Deferred amounts on OPEB liabilities	1,134,809	5,386	1,140,195
Total deferred inflows of resources	\$ 2,697,809	\$ 10,386	\$ 2,708,195
Net Position (Deficit)			
Net investment in capital assets	\$ 35,549,963	\$ 423,159	\$ 35,973,122
Restricted	6,136,919	-	6,136,919
Unrestricted	(52,782,898)	282,825	(52,500,073)
Total net position (deficit)	\$ (11,096,016)	\$ 705,984	\$ (10,390,032)

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 30,934,102	\$ 867,798	\$ 7,408,141	\$ 183,885	\$ (22,474,280)	\$ -	\$ (22,474,280)
Instructional student support	5,455,880	4,359	1,033,375	-	(4,418,146)	-	(4,418,146)
Administration and financial support	5,138,003	21,228	619,880	44,000	(4,452,895)	-	(4,452,895)
Operation and maintenance of plant services	4,135,096	450	354,651	429,718	(3,350,277)	-	(3,350,277)
Pupil transportation	1,415,809	-	599,806	-	(816,003)	-	(816,003)
Student activities	1,430,379	8,605	180,592	-	(1,241,182)	-	(1,241,182)
Community services and scholarships	26,321	-	18,177	-	(8,144)	-	(8,144)
Interest on long-term debt	1,597,836	-	4,516	466,842	(1,126,478)	-	(1,126,478)
Total governmental activities	50,133,426	902,440	10,219,138	1,124,445	(37,887,405)	-	(37,887,405)
Business-type activities:							
Food service	1,273,114	42,490	932,363	-	-	(298,261)	(298,261)
Radio station	108,144	26,201	15,118	-	-	(66,825)	(66,825)
MARA	15,916	-	-	-	-	(15,916)	(15,916)
Total business-type activities	1,397,174	68,691	947,481	-	-	(381,002)	(381,002)
Total primary government	\$ 51,530,600	\$ 971,131	\$ 11,166,619	\$ 1,124,445	\$ (37,887,405)	\$ (381,002)	\$ (38,268,407)
General Revenues, Transfers and Extraordinary Items:							
General revenues							
Property taxes, levied for general purposes, net					\$ 22,442,215	\$ -	\$ 22,442,215
Public utility, realty transfer, earned income and other taxes for general purposes, net					6,303,084	-	6,303,084
Grants, subsidies and contributions not restricted					9,250,525	19,039	9,269,564
Investment earnings					146,580	2,663	149,243
Loss on disposition of capital assets					(30,874)	-	(30,874)
Miscellaneous income					360	1,076	1,436
Transfers					(19,039)	19,039	-
Extraordinary item - gain from settlement					48,660	-	48,660
Extraordinary item - losses					-	(11,070)	(11,070)
Total general revenues, transfers and extraordinary items					38,141,511	30,747	38,172,258
Changes in net position					254,106	(350,255)	(96,149)
Net Position - July 1, 2020					(11,469,684)	1,056,239	(10,413,445)
Prior period adjustment (see Note 1)					119,562	-	119,562
Net position - July 1, 2020 (restated)					(11,350,122)	1,056,239	(10,293,883)
Net Position - June 30, 2021					\$ (11,096,016)	\$ 705,984	\$ (10,390,032)

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 17,743,277	\$ -	\$ 4,316,890	\$ 128,629	\$ 22,188,796
Due from other funds	1,756	-	1,778,511	-	1,780,267
Due from other governments	3,313,151	-	-	-	3,313,151
Taxes receivable	1,814,996	-	-	-	1,814,996
Other receivables	74,840	-	-	34	74,874
Prepaid expenses	60,325	-	-	-	60,325
Total assets	\$ 23,008,345	\$ -	\$ 6,095,401	\$ 128,663	\$ 29,232,409
Liabilities					
Due to other funds	\$ 1,904,245	\$ -	\$ -	\$ 2,387	\$ 1,906,632
Accounts payable	1,149,259	-	544,848	1,050	1,695,157
Accrued salaries and benefits	3,859,080	-	-	-	3,859,080
Payroll deductions and withholdings	216,612	-	-	-	216,612
Unearned revenues	16,761	-	-	-	16,761
Other current liabilities	-	-	-	6,128	6,128
Total liabilities	7,145,957	-	544,848	9,565	7,700,370
Deferred Inflows of Resources					
Delinquent property taxes	707,226	-	-	-	707,226
Fund Balances					
Nonspendable	60,325	-	-	-	60,325
Restricted	467,268	-	5,550,553	119,098	6,136,919
Committed	9,620,789	-	-	-	9,620,789
Assigned	1,412,670	-	-	-	1,412,670
Unassigned	3,594,110	-	-	-	3,594,110
Total fund balances	15,155,162	-	5,550,553	119,098	20,824,813
Total liabilities, deferred inflows of resources and fund balances	\$ 23,008,345	\$ -	\$ 6,095,401	\$ 128,663	\$ 29,232,409

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021**

Total fund balances - governmental funds		\$ 20,824,813
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$129,026,102 and the accumulated depreciation is \$46,430,281.		82,595,821
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred inflows of resources in the funds.		707,226
The difference between the re-acquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds.		856,175
Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnotes for detail):		
Deferred outflows		10,388,000
Deferred inflows		(1,563,000)
Deferred inflows and outflows of resources related to OPEB are applicable to future periods, and therefore are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail):		
Deferred outflows		1,568,849
Deferred inflows		(1,134,809)
Long-term liabilities; including bonds payable, lease-purchase obligations, net pension liabilities, other post-employment benefits, reserve for loss contingencies and compensated absences are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable, net of related discounts and premiums	(47,539,828)	
Accrued interest	(371,600)	
Lease-purchase obligation	(362,205)	
Net pension liability	(65,193,000)	
Other post-employment benefit obligation	(10,799,290)	
Reserve for loss contingencies	(152,359)	
Compensated absences	(920,809)	(125,339,091)
		<u>\$ (11,096,016)</u>
Total net deficit - governmental activities		<u>\$ (11,096,016)</u>

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Student Sponsored Activity Fund	Total Governmental Funds
Revenues					
Local sources	\$ 30,748,277	\$ -	\$ 44,978	\$ 40,949	\$ 30,834,204
State sources	17,232,208	-	-	-	17,232,208
Federal sources	2,634,828	-	-	-	2,634,828
Total revenues	50,615,313	-	44,978	40,949	50,701,240
Expenditures					
Instruction	27,741,474	-	-	-	27,741,474
Support services	15,592,917	3,870	14,411	-	15,611,198
Operation of noninstructional services	1,196,845	-	16,486	41,413	1,254,744
Capital outlay	195,471	-	4,225,392	-	4,420,863
Debt service	251,197	4,448,310	-	-	4,699,507
Refund of prior year's receipts	8,985	-	-	-	8,985
Total expenditures	44,986,889	4,452,180	4,256,289	41,413	53,736,771
Excess (deficiency) of revenues over expenditures	5,628,424	(4,452,180)	(4,211,311)	(464)	(3,035,531)
Other Financing Sources (Uses)					
Interfund transfers in	-	4,452,180	1,100,000	-	5,552,180
Interfund transfers out	(5,571,219)	-	-	-	(5,571,219)
Sale of capital assets	2,283	-	-	-	2,283
Total other financing (uses) sources	(5,568,936)	4,452,180	1,100,000	-	(16,756)
Extraordinary Item					
Gain from settlement	48,660	-	-	-	48,660
Net changes in fund balances	108,148	-	(3,111,311)	(464)	(3,003,627)
Fund Balances - July 1, 2020	15,047,014	-	8,661,864	-	23,708,878
Prior period adjustment (see Note 1)	-	-	-	119,562	119,562
Fund Balances - July 1, 2020 (restated)	15,047,014	-	8,661,864	119,562	23,828,440
Fund Balances - June 30, 2021	\$ 15,155,162	\$ -	\$ 5,550,553	\$ 119,098	\$ 20,824,813

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

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

Year Ended June 30, 2021

Net changes in fund balances - governmental funds	\$ (3,003,627)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlays	5,519,674	
Less net book value of disposed assets	(33,157)	
Less depreciation expense	<u>(4,030,016)</u>	1,456,501

Because some taxes will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year. (312,454)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. The additional interest accrued in the Statement of Activities over the amount due is shown here. (520,372)

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

District pension and OPEB contributions (PSERS)	6,559,000	
Cost of benefits earned net of employee contributions (PSERS)	(7,788,200)	

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

Change in compensated absences	150,405	
Change in other post-employment benefits (District's Plan)	128,919	
Change in reserve for loss contingencies	(47,094)	

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

Repayment of long-term debt	3,170,000	
Repayment of lease-purchase obligation	241,330	
Amortization of bond premiums and discounts - net	312,740	
Amortization of charges for bond refunding	<u>(93,042)</u>	3,631,028

Changes in net position of governmental activities	<u><u>\$ 254,106</u></u>
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See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Local sources				
Real estate taxes	\$ 21,560,645	\$ 21,560,645	\$ 22,754,669	\$ 1,194,024
Other taxes	4,831,396	4,831,396	6,303,084	1,471,688
Investment earnings	110,325	110,325	109,072	(1,253)
Other revenue	1,036,917	1,036,917	1,581,452	544,535
Total local sources	27,539,283	27,539,283	30,748,277	3,208,994
State sources	17,134,592	17,134,592	17,232,208	97,616
Federal sources	2,137,449	2,137,449	2,634,828	497,379
Total revenues	46,811,324	46,811,324	50,615,313	3,803,989
Expenditures				
Instruction				
Regular programs	17,833,101	19,131,901	19,128,065	3,836
Special programs	6,961,345	7,081,345	7,071,699	9,646
Vocational education	1,170,452	1,180,952	1,180,801	151
Other instructional programs	39,896	199,296	197,488	1,808
Nonpublic school programs	11,821	25,171	24,558	613
Adult education programs	138,727	138,927	138,863	64
Support services				
Pupil personnel services	3,096,708	3,022,008	3,007,643	14,365
Instructional staff services	1,506,255	1,411,754	1,404,027	7,727
Administrative services	2,461,458	2,693,159	2,690,630	2,529
Pupil health services	873,621	782,421	776,908	5,513
Business services	684,952	684,952	683,483	1,469
Operation and maintenance of plant services	4,012,181	4,137,681	4,133,788	3,893
Student transportation services	1,577,135	1,412,635	1,411,408	1,227
Central support services	1,479,914	1,470,614	1,460,093	10,521
Other support services	25,000	25,000	24,937	63
Operation of noninstructional services				
Student activities	1,345,254	1,206,254	1,170,501	35,753
Community services	22,049	22,049	21,744	305
Scholarships and awards	-	4,600	4,600	-
Capital outlay	292,424	196,024	195,471	553
Debt service	251,197	251,197	251,197	-
Refund of prior year's receipts	-	9,000	8,985	15
Total expenditures	43,783,490	45,086,940	44,986,889	100,051
Excess of revenues over expenditures	3,027,834	1,724,384	5,628,424	3,904,040
Other Financing Sources (Uses)				
Interfund transfers out	(5,665,459)	(4,812,009)	(5,571,219)	(759,210)
Sale of capital assets	156,603	156,603	2,283	(154,320)
Budgetary reserve	(450,000)	-	-	-
Total other financing uses	(5,958,856)	(4,655,406)	(5,568,936)	(913,530)
Extraordinary Items				
Gain from settlement	-	-	48,660	48,660
Net changes in fund balance	\$ (2,931,022)	\$ (2,931,022)	108,148	\$ 3,039,170
Fund Balance - July 1, 2020			15,047,014	
Fund Balance - June 30, 2021			<u>\$ 15,155,162</u>	

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2021

	Enterprise Funds			
	Food Service	Non-major		Total
Radio Station		MARA		
Assets				
Cash and cash equivalents	\$ 301,302	\$ 64,127	\$ 31,100	\$ 396,529
Due from other funds	93,626	21,906	11,747	127,279
Receivables				
Federal sources	24,779	-	-	24,779
Other receivables	514	4,520	1,361	6,395
Inventories	13,253	-	-	13,253
Other capital assets, net of depreciation	416,181	2,853	4,125	423,159
Total assets	\$ 849,655	\$ 93,406	\$ 48,333	\$ 991,394
Deferred Outflows of Resources				
Deferred amounts on pension liability	\$ 32,000	\$ -	\$ -	\$ 32,000
Deferred amounts on OPEB liabilities	7,150	-	-	7,150
Total deferred outflows of resources	\$ 39,150	\$ -	\$ -	\$ 39,150
Liabilities				
Accounts payable	\$ 35,859	\$ 18	\$ 5,737	\$ 41,614
Unearned revenue	4,492	-	-	4,492
Other current liabilities	23,152	-	-	23,152
Long-term liabilities				
Net pension liability	196,000	-	-	196,000
OPEB liabilities	48,916	-	-	48,916
Total long-term liabilities	244,916	-	-	244,916
Total liabilities	\$ 308,419	\$ 18	\$ 5,737	\$ 314,174
Deferred Inflows of Resources				
Deferred amounts on pension liability	\$ 5,000	\$ -	\$ -	\$ 5,000
Deferred amounts on OPEB liabilities	5,386	-	-	5,386
Total deferred inflows of resources	\$ 10,386	\$ -	\$ -	\$ 10,386
Net Position				
Net investment in capital assets	\$ 416,181	\$ 2,853	\$ 4,125	\$ 423,159
Unrestricted	153,819	90,535	38,471	282,825
Total net position	\$ 570,000	\$ 93,388	\$ 42,596	\$ 705,984

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
 Year Ended June 30, 2021

	Enterprise Funds			Total
	Food Service	Non-major		
		Radio Station	MARA	
Operating Revenues				
Food service revenue	\$ 42,490	\$ -	\$ -	\$ 42,490
Station services	-	26,201	-	26,201
Total operating revenues	42,490	26,201	-	68,691
Operating Expenses				
Salaries	105,807	58,702	-	164,509
Employee benefits	49,907	33,360	7,292	90,559
Purchased professional and technical services	79	5,807	-	5,886
Purchased property services	14,936	1,441	-	16,377
Other purchased services	875,167	5,756	-	880,923
Supplies	128,645	1,240	5,700	135,585
Depreciation	97,221	1,321	2,273	100,815
Other operating expenses	1,352	517	651	2,520
Total operating expenses	1,273,114	108,144	15,916	1,397,174
Operating loss	(1,230,624)	(81,943)	(15,916)	(1,328,483)
Nonoperating Revenues and Extraordinary Item:				
Investment earnings	1,877	318	468	2,663
Local sources	-	-	19,039	19,039
State sources	35,693	13,405	-	49,098
Federal sources	885,600	-	-	885,600
Contributions from private sources	11,070	1,713	-	12,783
Miscellaneous income	1,072	-	4	1,076
Extraordinary item - losses	(11,070)	-	-	(11,070)
Total nonoperating revenues	924,242	15,436	19,511	959,189
Income (loss) before transfers	(306,382)	(66,507)	3,595	(369,294)
Interfund Transfers In	-	-	19,039	19,039
Changes in net position	(306,382)	(66,507)	22,634	(350,255)
Net Position - July 1, 2020	876,382	159,895	19,962	1,056,239
Net Position - June 30, 2021	\$ 570,000	\$ 93,388	\$ 42,596	\$ 705,984

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2021

	Enterprise Funds			
	Food Service	Non-major		Total
		Radio Station	MARA	
Cash Flows From Operating Activities				
Cash received from meal sales	\$ 61,912	\$ -	\$ -	\$ 61,912
Cash received from charges for services	-	27,300	-	27,300
Cash payments for goods and services	(889,924)	65,935	6,143	(817,846)
Cash payments to employees for services	(149,461)	(92,062)	(132,681)	(374,204)
Net cash (used in) provided by operating activities	(977,473)	1,173	(126,538)	(1,102,838)
Cash Flows From Noncapital Financing Activities				
State sources	37,003	13,405	7,024	57,432
Federal sources	841,542	-	-	841,542
Miscellaneous income	1,072	-	4	1,076
Contributions from private sources	11,070	1,713	19,039	31,822
Transfers	-	-	19,039	19,039
Extraordinary item - losses	(11,070)	-	-	(11,070)
Net cash provided by noncapital financing activities	879,617	15,118	45,106	939,841
Cash Flows From Capital and Related Financing Activities				
Capital outlay	(8,661)	(1,475)	-	(10,136)
Cash Flows From Investing Activities				
Investment earnings	1,877	318	468	2,663
Net change in cash and cash equivalents	(104,640)	15,134	(80,964)	(170,470)
Cash and Cash Equivalents:				
July 1, 2020	405,942	48,993	112,064	566,999
June 30, 2021	\$ 301,302	\$ 64,127	\$ 31,100	\$ 396,529
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	\$ (1,230,624)	\$ (81,943)	\$ (15,916)	\$ (1,328,483)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation	97,221	1,321	2,273	100,815
Value of donated commodities	82,872	-	-	82,872
(Increase) decrease in:				
Receivables	24,456	1,099	(11,747)	13,808
Inventories	4,030	-	-	4,030
Deferred outflow of resources	(7,254)	-	-	(7,254)
(Decrease) increase in:				
Internal balances	35,559	80,678	(105,185)	11,052
Accounts payable	7,794	18	4,037	11,849
Other current liabilities	(5,034)	-	-	(5,034)
Net pension liability	11,000	-	-	11,000
OPEB liabilities	3,935	-	-	3,935
Deferred inflow of resources	(1,428)	-	-	(1,428)
Net cash (used in) provided by operating activities	\$ (977,473)	\$ 1,173	\$ (126,538)	\$ (1,102,838)
Supplemental Disclosure				
Noncash noncapital financing activity				
USDA donated commodities	\$ 82,872	\$ -	\$ -	\$ 82,872

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2021

	Private-Purpose Trust Fund
<hr/>	
Assets	
Cash and cash equivalents	\$ 448,211
Due from other funds	451
Total assets	<u><u>\$ 448,662</u></u>
Liabilities	
Due to other funds	\$ 1,365
Accounts payable	38,902
Total liabilities	<u><u>\$ 40,267</u></u>
Net Position	
Held in trust for scholarships	\$ 408,395
Total net position	<u><u>\$ 408,395</u></u>

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2021

	Private-Purpose Trust Fund
<hr/>	
Additions	
Gifts and contributions	\$ 8,717
Investment earnings	2,503
Refund of prior year's expenditures	2,900
Total additions	<hr/> 14,120 <hr/>
 Deductions	
Scholarships awarded	<hr/> 40,088 <hr/>
 Change in net position	 (25,968)
 Net Position - July 1, 2020	 434,363
Net Position - June 30, 2021	<hr/> \$ 408,395 <hr/> <hr/>

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Middletown Area School District (the District), located in Dauphin County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12th to students living in Middletown Borough, Royaltown Borough and Lower Swatara Township. These include regular, advanced academic programs, vocational education programs and special education programs for gifted and special needs children. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The District operates three elementary schools, one middle school and one high school, serving approximately 2,400 students.

The financial statements of 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

In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. This report presents the activities of the District. The District is not a component unit of another reporting entity, nor does it have any component units. The District does; however, participate in jointly-governed organizations which are described in Note 14.

B. Government-wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, 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 as general revenues.

Separate fund financial statements are provided in the report for all of the governmental funds, proprietary funds and the fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major proprietary 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.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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 generally considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available. The District reduces committed amounts first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the 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:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for and the payment of principal, interest and related costs.

MIDDLETOWN AREA 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)

The District reports the following major governmental funds (continued):

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds).

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

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The District operates three proprietary funds - the food service fund, radio station fund and Middletown Area Recreation Alliance (MARA).

The food service fund accounts for the activities of the District's food service program. The principal operating revenues of the District's food service fund are food service charges. Operating expenses for the District's food service 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 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 radio station fund is an enterprise fund that accounts for the revenue, expenses and other transactions surrounding the operation of the District's student operated radio station.

The Middletown Area Recreation Alliance fund is an enterprise fund that accounts for an intergovernmental agreement of cooperation between the District and the Borough of Middletown, Borough of Royaltown and Lower Swatara Township, for the joint operation of recreation programs within the school district boundaries. MARA will be administered by the School Board with the municipalities providing representatives to an Advisory Board that will solely provide input into the program offerings.

The radio station fund and the MARA fund are presented as non-major funds. Due to their non-major status and the nature of operations of these funds, the District has determined that allocation of amounts relating to the Pension and OPEB liabilities is not required. Any amounts for Pension and OPEB liabilities associated with employees within these funds will be paid by the District's general fund.

MIDDLETOWN AREA 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)

The District maintains the following fiduciary fund types:

Private-Purpose Trust Fund - The private purpose trust fund accounts for assets held by the District in a trustee capacity. It accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to students as prescribed by donor stipulations.

D. Budget and Budgetary Accounting

The District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. Management submits to the Board for consideration a draft operating budget projection or other information to review for the fiscal year commencing the following July 1. The Board determines if it will approve a resolution to keep any tax increase below the index by the PDE deadline.
2. If the Board adopts the resolution, management must submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. If the Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance with the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
4. At public Board meetings, information is presented and debated. The public is welcome to comment on the budget.
5. Prior to June 30, legislation requires a budget to be legally enacted through passage of a resolution.
6. Legal budgetary control is maintained by the Board at the sub-function/major object level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.
7. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, encumbrance accounting allows the District to increase the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserve a portion of fund balance in a like amount. There were no outstanding encumbrances for the year ended 2021.
9. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles in the United States of America.
10. Where applicable, unbudgeted Federal and state revenue and expenditures have been added to the original budgeted revenue and expenditures.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Inventories: There is no inventory recorded in the general fund. Items such as office supplies and cleaning materials are expensed as incurred.

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food supplies on hand at June 30, 2021, including the value of commodities donated by the Federal government. Any unused commodities donated by the Federal government at June 30, 2021, were reported as unearned revenue since title does not pass to the District until the commodities are used.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

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 in accordance with Board policy at the discretion of management. Management considers various factors in the capitalization of assets, including the asset's estimated useful life, cost and the extent to which the asset is part of a larger capital project. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided for fixed assets on the straight-line basis over the following estimated useful lives:

Asset Class	Years
Land improvements	5-20
Buildings and improvements	10-40
Furniture and equipment	3-20
Vehicles	10
Textbooks	6
Library books	10

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Long-Term Obligations: In the government-wide financial statements, and proprietary fund types presented in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the related bonds. Bond insurance costs are deferred as prepaid expenses and amortized over the lives of the bonds. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Compensated Absences: The District accrues vacation leave as a liability as the benefits are earned by the employees if it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year-end, taking into consideration any limits specified in the District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The District has accrued the employer's share of social security and Medicare taxes.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Other Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation. The District participates in two plans, the first is a single employer plan administered by the District. The Plan provides retiree health, vision, dental care and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

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

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

	Governmental Activities	Business-Type Activities	Total
OPEB Liabilities			
District's Single Employer Plan	\$ 7,943,290	\$ 39,916	\$ 7,983,206
PSERS Cost Sharing Plan	2,856,000	9,000	2,865,000
Total	\$ 10,799,290	\$ 48,916	\$ 10,848,206
Deferred Outflows of Resources			
District's Single Employer Plan	\$ 1,204,049	\$ 6,050	\$ 1,210,099
PSERS Cost Sharing Plan	364,800	1,100	365,900
Total	\$ 1,568,849	\$ 7,150	\$ 1,575,999
Deferred Inflows of Resources			
District's Single Employer Plan	\$ 1,071,809	\$ 5,386	\$ 1,077,195
PSERS Cost Sharing Plan	63,000	-	63,000
Total	\$ 1,134,809	\$ 5,386	\$ 1,140,195

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Deferred Inflows of Resources - Other Post-Employment Benefits: The District recognizes the changes in assumptions and the differences between expected and actual experience as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Inflows of Resources - Unearned Revenues: The District recognizes property tax revenues when they become available, which includes property tax receivables expected to be collected within 60 days after year-end. Those property tax receivables expected to be collected more than 60 days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. GASB Statement No. 54 provides additional guidance on the classification within the net position section of amounts that have been encumbered. These encumbrances, along with encumbrances of balances in funds that are restricted, committed or assigned, are not separately classified in the financial statements.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balance: The 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 purposes 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 the Finance Committee and/or the Chief Financial Officer.

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 unassigned general fund balance of not less than 5% and not more than 8% of the budgeted expenditures for the next year.

F. Other

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

Restatement of Net Position and Fund Balance Beginning Balances: As of July 1, 2020, the District implemented Governmental Accounting Standards Board Statement GASB No. 84, *Fiduciary Activities*. The implementation of GASB No. 84 required the District to report student sponsored activities, previously reported as an agency fund in the fiduciary fund type financial statements, as a special revenue fund in the governmental funds type financial statements. This change has resulted in a restatement of government-wide net position and governmental fund balance of \$119,562.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through December 17, 2021, the date the financial statements were available to be issued. There were no subsequent events identified.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

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

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

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

Deposits: Custodial Credit Risk

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

<u>Financial Institution</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Financial Institution</u>
Insured (FDIC)	\$ 250,000	\$ 250,000	Mid Penn Bank
Uninsured, collateralized in accordance with Act 72	18,340,552	18,750,591	Mid Penn Bank
	<u>\$ 18,590,552</u>	<u>\$ 19,000,591</u>	

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments

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

	Credit Rating	Weighted Avg. Maturity in Years	Carrying Value
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
PSDMAX	AAAm	0.123	\$ 4,442,484
			<u>\$ 4,442,484</u>

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, at amortized cost.

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

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

Weighted-Average Maturity

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

Interest-Rate Risk

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

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.

Concentrations of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments are entirely held with PSDLAF.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Property Taxes

Based upon assessed valuations provided by the County, the District bills and collects its own property taxes. The schedule for property taxes levied for 2020-2021 is as follows:

July 1, 2020	Tax levy date
Through September 30, 2020	2% discount
October 1, 2020 – November 30, 2020	Face payment period
December 1, 2020 - December 31, 2020	10% penalty period
January 1, 2021	Lien filing date

The District's tax rate for all purposes in 2020-2021, was 22.69 mills (\$22.69 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania's accounting system. The District collected approximately 98% of the adjusted tax duplicate during the fiscal year before factoring discounts extended and penalties received. Actual cash collections amounted to approximately 96% of the adjusted tax duplicate.

Note 4. Taxes Receivable, Deferred Inflows of Resources and Estimated Uncollectible Taxes

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

	Amount
Uncollected Taxes	\$ 3,253,959
Estimated uncollectible taxes	(1,438,963)
Taxes Receivable - Net	<u>\$ 1,814,996</u>
Taxes to be collected within 60 days	\$ 1,107,770
Deferred inflows of resources - delinquent property taxes	707,226
Taxes Receivable - Net	<u>\$ 1,814,996</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Balances and Interfund Transfers

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

Fund	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 1,756	\$ 1,904,245
Capital projects	1,778,511	-
Student sponsored activity	-	2,387
Proprietary Funds		
Food service	93,626	-
Radio station	21,906	-
MARA	11,747	-
Fiduciary Funds		
Private purpose trust	451	1,365
	\$ 1,907,997	\$ 1,907,997

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

Individual fund transfers during the fiscal year ended June 30, 2021, are as follows:

Fund	Transfers In	Transfers Out
Governmental Funds		
General	\$ -	\$ 5,571,219
Capital projects	1,100,000	-
Debt service	4,452,180	-
Proprietary Funds		
MARA	19,039	-
	\$ 5,571,219	\$ 5,571,219

Transfers are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation debt. Transfers are made from the general fund to the proprietary funds for offsets to operating losses experienced and for operation of the radio station and recreation activities. Transfers are made from the general fund to the capital projects fund for future capital needs.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for governmental-type activities for the year ended June 30, 2021, was as follows:

	July 1, 2020	Additions	Deletions	June 30, 2021
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,350,491	\$ -	\$ -	\$ 2,350,491
Construction-in-progress	454,752	4,187,238	(5,128)	4,636,862
Total capital assets not being depreciated	<u>2,805,243</u>	<u>4,187,238</u>	<u>(5,128)</u>	<u>6,987,353</u>
Capital assets being depreciated				
Land improvements	5,576,858	74,942	-	5,651,800
Buildings and building improvements	102,539,516	160,303	-	102,699,819
Furniture and equipment	10,222,533	998,185	(134,434)	11,086,284
Vehicles	677,602	-	-	677,602
Textbooks	1,213,299	103,402	-	1,316,701
Library books	605,811	732	-	606,543
Total capital assets being depreciated	<u>120,835,619</u>	<u>1,337,564</u>	<u>(134,434)</u>	<u>122,038,749</u>
Less accumulated depreciation				
Land improvements	2,625,828	304,730	-	2,930,558
Buildings and building improvements	31,199,622	2,656,255	-	33,855,877
Furniture and equipment	6,542,657	947,574	(101,277)	7,388,954
Vehicles	511,215	36,947	-	548,162
Textbooks	1,061,230	71,949	-	1,133,179
Library books	560,990	12,561	-	573,551
Total accumulated depreciation	<u>42,501,542</u>	<u>4,030,016</u>	<u>(101,277)</u>	<u>46,430,281</u>
Total capital assets being depreciated - net	<u>78,334,077</u>	<u>(2,692,452)</u>	<u>(33,157)</u>	<u>75,608,468</u>
Total Governmental Activities, Capital Assets - Net	<u>\$ 81,139,320</u>	<u>\$ 1,494,786</u>	<u>\$ (38,285)</u>	<u>\$ 82,595,821</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2021, was as follows:

	July 1, 2020	Additions	Deletions	June 30, 2021
Business-Type Activities				
Furniture and equipment	\$ 2,514,240	\$ 10,136	\$ -	\$ 2,524,376
Less accumulated depreciation				
Furniture and equipment	2,000,402	100,815	-	2,101,217
Business-Type Activities, Capital Assets - Net	\$ 513,838	\$ (90,679)	\$ -	\$ 423,159

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

	Amount
Governmental Activities	
Instruction	\$ 3,349,780
Instructional student support	144,096
Administration and financial support	212,351
Operation and maintenance of plant services	149,789
Pupil transportation	598
Student activities	173,402
Total governmental activities	4,030,016
Business-Type Activities	
Food service	97,221
Radio station	1,321
MARA	2,273
Total business-type activities	100,815
Total School District	\$ 4,130,831

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations

A summary of the reporting entity's long-term obligations as of June 30, 2021, and transactions during the year then ended follows:

	July 1, 2020	Increases	Decreases	June 30, 2021	Due within one year
General Obligation Bonds					
Series A of 2017	\$ 28,715,000	\$ -	\$ (500,000)	\$ 28,215,000	\$ 1,000,000
General Obligation Notes					
Series of 2008	280,000	-	(280,000)	-	-
Series of 2017	4,860,000	-	(2,390,000)	2,470,000	2,470,000
Capital Appreciation Bonds (CAB)					
Series B of 2014	11,462,476	-	-	11,462,476	-
Total Bonds and Notes	45,317,476	-	(3,170,000)	42,147,476	3,470,000
Series B of 2014 CAB Accrued Interest	2,699,321	533,173	-	3,232,494	-
Unamortized bond premium (discount)	2,472,598	-	(312,740)	2,159,858	-
Total Long-Term Debt	50,489,395	533,173	(3,482,740)	47,539,828	3,470,000
Other Long-Term Obligations					
Lease-purchase obligation	603,535	-	(241,330)	362,205	187,364
Reserve for loss contingencies	105,265	53,000	(5,906)	152,359	152,359
Compensated absences	1,071,214	-	(150,405)	920,809	-
Total Other Long-Term Obligations	1,780,014	53,000	(397,641)	1,435,373	339,723
Total General Long-Term Obligations	\$ 52,269,409	\$ 586,173	\$ (3,880,381)	\$ 48,975,201	\$ 3,809,723

General Obligation Note - Series of 2008 - On May 19, 2008, the District issued General Obligation Note - Series of 2008, in the principal amount of \$8,335,000. The proceeds provided funds for various capital projects including renovations to Lyall J. Fink Elementary School, renovation and development of athletic facilities, demolition of George W. Feaser Middle School and other ongoing or proposed capital projects. Additionally, the note provided funds for the refunding of the District's outstanding Series of 2003 general obligation bonds and provided funds to pay the cost and expenses related to the issuance of the bonds. During the year ended June 30, 2021, this obligation was paid in full by the District.

Capital Appreciation Bonds - Series B of 2014 - On June 12, 2014, the District issued Capital Appreciation Bonds - Series B of 2014, in the principal amount of \$11,462,476. The proceeds provided funds to finance the construction of a new high school and various capital projects of the District, pay capitalized interest and pay the costs of issuing the bonds. Interest accrues annually and is payable when the principal matures at rates between 3.50% and 3.97%, with principal maturing starting March 1, 2023, and continuing annually through March 1, 2027.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Notes - Series of 2017 - On April 10, 2017, the District issued General Obligation Notes - Series of 2017, in the principal amount of \$16,260,000. The proceeds provided funds for the refunding of the General Obligation Bonds - Series of 2013, for payment of the Swap Termination Fee and for payment of the costs and expenses of issuing the notes. Interest is payable semi-annually on December 1 and March 1 at rates between .85% and 4.00%, with principal maturing through June 1, 2022.

General Obligation Bonds - Series A of 2017 - On December 28, 2017, the District issued General Obligation Bonds - Series A of 2017, in the principal amount of \$28,730,000. The proceeds provided funds for the advance refunding of the General Obligation Bonds - Series A of 2014 and for payment of the costs and expenses of issuing the bonds. The economic gain on the refunding of the 2014A bonds was \$2,256,363. Interest is payable semi-annually on September 1 and March 1 at rates between 1.30% and 4.00%, with principal maturing through March 1, 2034.

Debt service requirements on long-term debt at June 30, 2021, are as follows:

Year ending June 30:	General Obligation Debt		
	Principal	Interest	Total
2022	\$ 3,470,000	\$ 1,178,850	\$ 4,648,850
2023	2,694,751	1,953,699	4,648,450
2024	2,688,811	2,064,389	4,753,200
2025	2,592,168	2,167,482	4,759,650
2026	2,488,513	2,272,137	4,760,650
2027-2031	18,258,233	5,539,117	23,797,350
2032-2035	9,955,000	651,200	10,606,200
	<u>\$ 42,147,476</u>	<u>\$ 15,826,874</u>	<u>\$ 57,974,350</u>

All debt service payments for general obligation notes and bonds are funded by the general fund or the capital projects fund. As required by the Pennsylvania Department of Education Financial Accounting and Reporting Manual, debt issuance costs are reported on the Statement of Revenues, Expenditures and Changes in Fund Balances as Support Services.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Lease-Purchase Obligation

The District leases computers which are located throughout the District. The related lease agreements qualify as capital leases, and accordingly, these transactions are recorded at the present values of related future, minimum lease payments as of the inception date. All lease-purchase obligations are funded by the general fund.

The assets acquired through capital leases are as follows:

	Amount
Assets	
Machinery and equipment	\$ 2,062,189
Less accumulated depreciation	(1,688,821)
Total machinery and equipment	<u>\$ 373,368</u>

The following is a schedule of the future, minimum-lease payments due under the lease-purchase obligations at June 30, 2021:

Year ending June 30:	Amount
2022	\$ 193,086
2023	177,446
Total minimum lease payments	<u>370,532</u>
Less amount representing interest	(8,327)
Total present value of net minimum lease payments	<u>\$ 362,205</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Compensated Absences

The District accrues vacation leave as a liability as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits specified in the District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The District has accrued the employer's share of social security and Medicare taxes.

Reserve for Loss Contingencies

The District has recorded a \$152,359 reserve for loss contingencies in its government-wide financial statements, which results from unfavorable rulings in compensatory education related lawsuits.

Note 8. Operating Lease

Lease Rental Debt - Series of 2015, was issued by the Dauphin County Technical School (DCTS) to provide funds to current refund the Series of 2007 School Lease Revenue Bonds. The Series of 2007 Bonds were issued to construct improvements and renovations to the Dauphin County Technical School. The Dauphin County Technical School Board and the seven-member school districts entered into a lease agreement with DCTS and will each pay their proportionate share of the lease rentals in order to fund the lease revenue bonds. Minimum future rental payments under this operating lease are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2022	\$ 141,170
2023	141,366
2024	141,294
2025	141,758
2026	141,514
2027-2031	707,596
	<u>\$ 1,414,698</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan

Plan Description

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

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

Benefits Provided

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

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

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2021, was \$6,422,616, and is equal to the required contribution for the year. For the year ended June 30, 2021, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$3,571,103.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

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

At June 30, 2021, the District reported a liability of \$65,389,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System’s total pension liability as of June 30, 2019 to June 30, 2020. The District’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District’s proportion was .1328 percent, which was an increase of .0013 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$7,653,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 171,000	\$ 1,567,000
Net difference between projected and actual investment earnings	2,874,000	-
Changes in proportion	860,000	1,000
Difference between employer contributions and proportionate share of total contributions	93,000	-
Contributions subsequent to the measurement date	6,422,000	-
	<u>\$ 10,420,000</u>	<u>\$ 1,568,000</u>

The contributions subsequent to the measurement date of \$6,422,000 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Amount
2022	\$ 225,000
2023	320,000
2024	1,021,000
2025	862,000
2026	2,000
	<u>\$ 2,430,000</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions

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

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

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

Investments

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

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

For the year ended June 30, 2020, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.12%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Investments (Continued)

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

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

Discount Rate

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 80,901,000	\$ 65,389,000	\$ 52,249,000

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2021, the District has amounts due to the PSERS pension plan of \$2,385,135. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2021.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Plan Description, Benefit Terms and Funding Policy

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

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
<u>I. CURRENT SUPERINTENDENT</u>	Age 55 with 30 years of PSERS Service and 10 years of service with MASD	<p>Coverage: Medical, Prescription Drug, Dental, Vision and Life Insurance coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 monthly PSERS supplement.</p> <p>Life insurance on the Superintendent is equal to 2 times the salary at retirement. Coverage is provided by the District until age 65.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Retiree coverage is provided until Medicare age. Spouse coverage is provided until Spouse Medicare age. If Retiree dies prior to Medicare age, Spouse coverage may continue until Spouse is Medicare age.
<u>II. ALL OTHER ADMINISTRATORS</u>			
A) Retired prior to 7/1/2014	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 monthly PSERS Supplement.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.
B) Retired 7/1/2014 - 6/30/2019	Age 55 with 30 years of PSERS Service and 25 years of service within MASD	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 monthly PSERS Supplement.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.
C) Retired 7/1/2019 and later	Same as II. B	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 monthly PSERS Supplement plus monthly cost share paid by active single employee up to an additional \$100 per month.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Plan Description, Benefit Terms and Funding Policy (Continued)

III. TEACHERS			
A) Retired prior to 7/1/2003	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium.</p> <p>Spousal Coverage: Available if paid by Retiree.</p>	Same as I.
B) Retired 7/1/2003 -6/30/2006	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: Retiree pays the difference between the medical and prescription drug premium that was in effect at date of retirement and the premium effective 7/01/2006, not to exceed \$450 annually. The district pays remainder of premium. District also pays 100% of Dental and Vision premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.
C) Retired 7/1/2006 - 6/30/2009	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: Retiree pays \$1,000 annually for PPO plan with traditional prescription drug benefits and \$1,200 annual for PPO plan with non-traditional prescription drug benefits. The District pays remainder of premium. District also pays 100% of Dental and Vision premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.
D) Retired 7/1/2009 - 6/30/2013	N/A - Already retired	Same as II.A.	Same as I.
E) Retired 7/1/2013 - 6/30/2019	Same as II.B.	Same as II. B.	Same as I.
F) Retired 7/1/2019 and later	Same as II.B.	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 75% of premium for up to 84 months after retirement. The member may continue coverage after this subsidy period by paying for 50% of premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Plan Description, Benefit Terms and Funding Policy (Continued)

IV. SUPPORT STAFF			
A) Retired prior to 7/1/2003	N/A - Already retired	Same as III.A.	Same as I.
B) Retired 7/1/2003 - 6/30/2006	N/A - Already retired	Same as III.B.	Same as I.
C) Retired 7/1/2006 - 6/30/2013	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: Retiree pays \$100 per month and District pays remainder of premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Same as I.
D) Retired 7/1/2013 - 6/30/2019	Same as II. B.	Same as II. B.	Same as I.
E) Retired 7/1/2019 - 6/30/2020	Same as II. B.	Same as II. C.	Same as I.
F) Retired 7/1/2020 and later	Same as II. B.	Same as III. F.	Same as I.
V. MAINTENANCE AND CUSTODIAL STAFF			
A) Retired prior to 7/1/2016	N/A - Already retired	Same as IV.C.	Same as I.
B) Retired 7/1/2016 - 6/30/2019	Same as II. B. Two grandfathered actives are eligible after age 55 and 25 years of service within MASD.	Same as II. B.	Same as I.
C) Retired 7/1/2019 - 6/30/2020	Same as II. B. Two grandfathered actives are eligible after age 55 and 25 years of service within MASD.	Same as II. C.	Same as I.
D) Retired 7/1/2020 and later	Same as II. B. Two grandfathered actives are eligible after age 55 and 25 years of service within MASD.	Same as III. F.	Same as I.

Notes: PSERS Supplement: A retiree may receive a \$100 monthly medical reimbursement from PSERS if he (or she) meets one of the following qualifications at retirement: 1) 24.5 years of PSERS service. 2) Upon superannuation retirement with at least 15 years of PSERS service.

PSERS Superannuation Retirement: 1) Pension Class T-C or T-D: An employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. In general, these pension classes apply to individuals who were members of PSERS prior to July 1, 2011. 2) Pension Class T-E or T-F: An employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. In general, these pension classes apply to individuals who became members of PSERS on or after July 1, 2011 and prior to July 1, 2019. 3) Pension Class T-G: An employee is eligible for PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 97 with a minimum of 35 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019. 4) Pension Class T-H: An employee is eligible for PSERS superannuation retirement upon reaching age 67 with 3 years of PSERS service. In general, this pension class applies to individuals who became members of PSERS on or after July 1, 2019.

Retirees receiving subsidized coverage under the Qualified High Deductible plan will receive a HSA account provided by the district. The account will be contributed to annually in the amount determined by the current contract.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefit payments	34
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	325
	<u>359</u>

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

At June 30, 2021, the District reported a liability of \$7,983,206 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2020, and was determined by an actuarial valuation as of July 1, 2020. The OPEB liability is composed of the following:

	Amount
Total OPEB Liability, beginning	\$ 7,396,186
Changes for the year	
Service cost	457,771
Interest	256,991
Changes of benefit terms	(447,595)
Differences between expected and actual experience	(216,316)
Changes in assumptions	915,370
Estimated benefit payments	(379,201)
Net changes	<u>587,020</u>
Total OPEB Liability, ending	<u>\$ 7,983,206</u>

For the year ended June 30, 2021, the District recognized OPEB expense of \$230,547. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 574,418
Changes in assumptions	849,986	502,777
Benefit payments subsequent to the measurement date	360,113	-
	<u>\$ 1,210,099</u>	<u>\$ 1,077,195</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$360,113 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ending June 30:</u>	<u>Total</u>
2022	\$ (36,620)
2023	(36,620)
2024	(36,620)
2025	(36,620)
2026	(36,620)
Thereafter	(44,109)
	<u>\$ (227,209)</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

	1% Decrease 0.86%	Current Discount Rate 1.86%	1% Increase 2.86%
Total OPEB liability	\$ 8,610,379	\$ 7,983,206	\$ 7,391,664

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

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

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

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 7,043,140	\$ 7,983,206	\$ 9,121,775

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

System Administration

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

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

Plan Description and Benefits Provided - Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Employer Contributions

The District’s contractually required contribution rate for the fiscal year ended June 30, 2021, was 0.82% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$156,324 for the year ended June 30, 2021.

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

At June 30, 2021, the District reported a liability of \$2,865,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2019 to June 30, 2020. The District’s proportion of the net OPEB liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District’s proportion was .1326%, which was an increase of .0011 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized OPEB expense of \$162,100. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 26,000	\$ -
Changes in assumptions	117,000	63,000
Net difference between projected and actual investment earnings	5,000	-
Changes in proportion	58,000	-
Difference between employer contributions and proportionate share of total contributions	2,900	-
Contributions subsequent to the measurement date	157,000	-
	\$ 365,900	\$ 63,000

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$157,000 resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	Amount
2022	\$ 25,900
2023	24,900
2024	23,900
2025	37,200
2026	22,000
Thereafter	12,000
	<u>\$ 145,900</u>

Actuarial Assumptions

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

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

The actuarial assumptions used in the June 30, 2019 valuation, was based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

The following assumptions were used to determine the contribution rate:

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

Investments

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

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Discount Rate

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

Change in Actuarial Assumptions

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

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

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

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
District's proportionate share of the net OPEB liability	\$ 3,267,000	\$ 2,865,000	\$ 2,533,000

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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

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

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,865,000	\$ 2,865,000	\$ 2,865,000

OPEB Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2021, the District has an amount due to the OPEB plan of \$58,053.

Note 12. Restricted Net Position

The District has certain funds that are legally restricted for a specific future use or are not appropriable for expenditure. At June 30, 2021, the District has included the following amounts as restricted net position:

	Amount
Debt payments - Reid Elementary	\$ 467,268
Capital Reserve Fund Balance	5,550,553
Student Sponsored Activity Fund Balance	119,098
	<u>\$ 6,136,919</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Fund Balance Designations

Nonspendable

The District has certain amounts recorded as prepaid expense. Accordingly, such amounts have been classified as nonspendable fund balance.

Restricted

The District has third-party restrictions on certain amounts as follows:

Restricted to, reported in:	General Fund	Capital Projects Fund	Student Sponsored Activity Fund
Debt payments - Reid Elementary	\$ 467,268	\$ -	\$ -
Capital projects	-	5,550,553	-
Student sponsored activities	-	-	119,098
	\$ 467,268	\$ 5,550,553	\$ 119,098

Committed

The District has committed certain portions of the general fund balance as follows:

Committed Funds Description	Amount
Technology equipment replacement	\$ 476,532
WAN construction	39,632
Future debt service	8,953,312
Special education cost stabilization	151,313
	\$ 9,620,789

Assigned

The District has assigned certain portions of the general fund balance as follows:

Assigned Funds Description	Amount
Athletic equipment	\$ 19,000
Budgetary reserve	450,000
Nonrecurring revenue loss	943,670
	\$ 1,412,670

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Joint Ventures

Dauphin County Technical School (DCTS)

The District is one of the seven-member school districts of the Dauphin County Technical School (DCTS). DCTS provides vocational-technical training and education to participating students of the member districts. DCTS is controlled and governed by the Dauphin County Technical School Joint Board (Joint Board) which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of DCTS. The DCTS is not reported as part of the District's reporting entity. The District's share of annual operating costs for DCTS fluctuates, based upon a five year rolling average of the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2021, was approximately \$1,039,286. In 2015, DCTS issued bonds to refund debt incurred in 2007, to construct improvements to the school's premises and facilities. The Middletown Area School District has a financial responsibility to the DCTS for a portion of the debt obligation relating to these improvements. The balance of the District's share of this obligation at June 30, 2021, was \$1,216,489. The amount paid for debt service for the year ended June 30, 2021, was \$141,515, which has been reported in the District's general fund and is detailed in Note 5. Complete general purpose financial statements for DCTS can be obtained from the Administrative Office at 6001 Locust Lane, Harrisburg, PA 17109.

Dauphin County Area Vocational-Technical School Authority

The District is also a member of the Dauphin County Area Vocational-Technical School Authority (Authority). In 1983, the Authority entered into an agreement with the member school districts and the Joint Board to acquire land and construct buildings to provide the facilities for the operation of DCTS. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 6001 Locust Lane, Harrisburg, PA 17109.

Capital Area Intermediate Unit (CAIU)

The CAIU Board of Directors consists of members from the IU's constituent school districts. The CAIU Board members are school district board members who are elected by the public and are appointed to the CAIU Board by the member school districts' Boards of Directors. Middletown Area School District and one other school district alternate responsibility for appointing one of these members. The CAIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Middletown Area School District contracts with the CAIU for special education, hospitalized education and nonpublic education services for District students as well as online learning, software support and professional development. The amount paid for these services in the year ended June 30, 2021, was approximately \$888,206. Complete financial information for CAIU can be obtained from the Administrative Office at 55 Miller Street, Enola, PA 17025-1640.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15. Risk Management

Risk of Loss and Insurance

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. During the year ended June 30, 2021, the District did not incur any significant losses that were not covered by insurance.

COVID-19 Pandemic

The coronavirus pandemic and efforts to mitigate the disease's domestic and global impacts continue to influence the operations and finances of school districts. Changes in education models, labor and personnel shortages, contracted service disruptions, personal protective equipment purchases, and technological equipment needs have affected all school districts. Unstable conditions have the potential to enhance school district's risk factors as they have significant reliance on revenues from taxpayers and governmental agencies to fund their operations. To date, the District has not experienced a shortfall in revenue as a result of the pandemic with the exception of the patron parking tax that is reliant upon airline operations, which have not yet returned to pre-pandemic levels. Unstable conditions could impact revenue recognition, cash flows and liquidity and contingencies. Presently, the ultimate effects of this crisis on financial position, results of operations and cash flows have been negligible, but are ultimately indeterminable because the duration of the crisis is also not known; however, management continues to monitor developments.

REQUIRED SUPPLEMENTARY INFORMATION

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULES OF
DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Year Ended June 30,

	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.1328%	0.1315%	0.1313%	0.1302%	0.1278%	0.1236%	0.1228%
District's proportionate share of the net pension liability	\$ 65,389,000	\$ 61,519,000	\$ 63,031,000	\$ 64,304,000	\$ 63,334,000	\$ 53,537,000	\$ 48,605,000
District's covered payroll	\$ 18,616,768	\$ 18,131,566	\$ 17,685,850	\$ 17,329,599	\$ 16,547,296	\$ 15,905,088	\$ 15,666,722
District's proportionate share of net pension liability as a percentage of its covered payroll	351.24%	339.29%	356.39%	371.06%	382.75%	336.60%	310.24%
Plan fiduciary net position as a percentage of the total pension liability	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%

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

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULES OF
DISTRICT'S PENSION CONTRIBUTIONS
Year Ended June 30,**

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 6,422,616	\$ 6,246,755	\$ 5,936,716	\$ 5,629,884	\$ 5,075,833	\$ 4,186,586	\$ 3,216,244
Contributions in relation to the contractually required contribution	(6,422,616)	(6,246,755)	(5,936,716)	(5,629,884)	(5,075,833)	(4,186,586)	(3,216,244)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 18,952,643	\$ 18,625,051	\$ 18,132,468	\$ 17,685,850	\$ 17,331,406	\$ 16,547,296	\$ 15,904,120
Contributions as a percentage of covered payroll	33.89%	33.54%	32.74%	31.83%	29.29%	25.30%	20.22%

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

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULES OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -
DISTRICT'S SINGLE EMPLOYER PLAN
Years Ended June 30,**

	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 457,771	\$ 465,753	\$ 511,659	\$ 524,096
Interest	256,991	226,153	252,702	195,075
Changes of benefit terms	(447,595)	-	-	-
Differences between expected and actual experience	(216,316)	-	(485,618)	-
Changes in assumptions	915,370	(228,147)	(323,572)	(87,860)
Benefit payments	(379,201)	(416,394)	(367,100)	(394,518)
Net change in total OPEB liability	587,020	47,365	(411,929)	236,793
Total OPEB Liability - beginning	7,396,186	7,348,821	7,760,750	7,523,957
Total OPEB Liability - ending	<u>\$ 7,983,206</u>	<u>\$ 7,396,186</u>	<u>\$ 7,348,821</u>	<u>\$ 7,760,750</u>
District's covered payroll	<u>\$ 17,761,408</u>	<u>\$ 17,447,189</u>	<u>\$ 17,447,189</u>	<u>\$ 16,243,608</u>
Total OPEB liability as a percentage of covered payroll	44.95%	42.39%	42.12%	47.78%

Notes to Schedule:

Changes in Assumptions: The discount rate changed from 3.36% to 1.86%.

Changes of Benefit Terms: Administrators retired on or after July 1, 2019 are now responsible for 25% of the premium share. Teachers retired on or after July 1, 2019, are now responsible for 25% of the premium share for the first 84 months of retirement and 50% thereafter.

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

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULES OF
DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -
PSERS COST SHARING PLAN
Years Ended June 30,**

	2021	2020	2019	2018
District's proportion of the net OPEB liability	0.1326%	0.1315%	0.1313%	0.1302%
District's proportionate share of the net OPEB liability	\$ 2,865,000	\$ 2,797,000	\$ 2,738,000	\$ 2,653,000
District's covered payroll	\$ 18,616,768	\$ 18,131,566	\$ 17,685,850	\$ 17,329,599
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.39%	15.43%	15.48%	15.31%
Plan fiduciary net position as a percentage of the total OPEB liability	5.69%	5.56%	5.56%	5.73%

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

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULES OF
DISTRICT'S OPEB CONTRIBUTIONS - PSERS COST SHARING PLAN
Years Ended June 30,**

	2021	2020	2019	2018
Contractually required contribution	\$ 156,324	\$ 156,869	\$ 151,150	\$ 147,221
Contributions in relation to the contractually required contribution	(156,324)	(156,869)	(151,150)	(147,221)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 18,952,643	\$ 18,625,051	\$ 18,132,468	\$ 17,685,850
Contributions as a percentage of covered payroll	0.82%	0.84%	0.83%	0.83%

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

SUPPLEMENTARY INFORMATION

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

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Middletown Area School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Middletown Area School District's basic financial statements, and have issued our report thereon dated December 17, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Camp Hill, Pennsylvania
December 17, 2021

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

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

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

Camp Hill, Pennsylvania
December 17, 2021

MIDDLETOWN AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
21.019	Coronavirus Relief Fund
84.425	Education Stabilization Fund

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

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 compliance findings relating to the financial statement audit required to be reported.

Section III -- Federal Award Findings and Questioned Costs

A. Compliance Findings

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

B. Significant Deficiency(ies) in Internal Control

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

MIDDLETOWN AREA SCHOOL DISTRICT

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

Grantor Program Title	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received for the Year	Accrued or (Defered) Revenue at July 1, 2020	Revenue Recognized	Expenditures Recognized	Accrued or (Defered) Revenue at June 30, 2021	Provided to Subrecipients
U.S. Department of Education										
Passed through the Pennsylvania Department of Education										
Title I - Grants to Local Educational Agencies	84.010	013-200249	19-20	\$ 550,734	\$ 117,973	\$ 72,405	\$ 45,568	\$ 45,568	\$ -	\$ -
Title I - Grants to Local Educational Agencies	84.010	013-210249	20-21	\$ 896,773	729,662	-	847,242	847,242	117,580	-
					<u>847,635</u>	<u>72,405</u>	<u>892,810</u>	<u>892,810</u>	<u>117,580</u>	<u>-</u>
Title II - Supporting Effective Instruction State Grants	84.367	020-200249	19-20	\$ 108,486	14,401	11,699	2,702	2,702	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-210249	20-21	\$ 122,827	116,020	-	121,678	121,678	5,658	-
					<u>130,421</u>	<u>11,699</u>	<u>124,380</u>	<u>124,380</u>	<u>5,658</u>	<u>-</u>
Title IV - Student Support and Academic Enrichment Program	84.424	144-200249	19-20	\$ 41,743	17,890	5,883	12,007	12,007	-	-
Title IV - Student Support and Academic Enrichment Program	84.424	144-210249	20-21	\$ 41,767	41,767	-	41,767	41,767	-	-
					<u>59,657</u>	<u>5,883</u>	<u>53,774</u>	<u>53,774</u>	<u>-</u>	<u>-</u>
COVID-19 - Special Education - Grants to States	84.027	252-200249	20-21	\$ 15,109	5,036	-	4,067	4,067	(969)	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	200-200249	20-21	\$ 452,342	333,305	-	385,825	385,825	52,520	-
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	200-210249	20-21	\$ 3,311,505	-	-	623,684	623,684	623,684	-
COVID-19 - American Rescue Plan Elementary and Secondary School Emergency Relief	84.425U	223-210249	20-21	\$ 6,698,217	-	-	64,656	64,656	64,656	-
Total passed through the Pennsylvania Department of Education					<u>1,376,054</u>	<u>89,987</u>	<u>2,149,196</u>	<u>2,149,196</u>	<u>863,129</u>	<u>-</u>
Passed through Capital Area Intermediate Unit										
Title III - English Language Acquisition State Grants	84.365	N/A	19-20	\$ -	3,374	3,374	-	-	-	-
Title III - English Language Acquisition State Grants	84.365	N/A	20-21	\$ -	1,234	-	1,591	1,591	357	-
					<u>4,608</u>	<u>3,374</u>	<u>1,591</u>	<u>1,591</u>	<u>357</u>	<u>-</u>
Special Education - Grants to States	84.027	N/A	19-20	\$ 437,790	243,596	243,596	-	-	-	-
Special Education - Grants to States	84.027	N/A	20-21	\$ 410,246	333,057	-	433,295	433,295	100,238	-
					<u>576,653</u>	<u>243,596</u>	<u>433,295</u>	<u>433,295</u>	<u>100,238</u>	<u>-</u>
Special Education Preschool Grants	84.173	N/A	20-21	\$ 3,360	3,360	-	3,360	3,360	-	-
Total passed through the Capital Area Intermediate Unit					<u>584,621</u>	<u>246,970</u>	<u>438,246</u>	<u>438,246</u>	<u>100,595</u>	<u>-</u>
Passed through Pennsylvania Commission on Crime and Delinquency										
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	2020-ES-01-35337	20-21	\$ 76,232	28,540	-	75,573	75,573	47,033	-
Total passed through Pennsylvania Commission on Crime and Delinquency					<u>28,540</u>	<u>-</u>	<u>75,573</u>	<u>75,573</u>	<u>47,033</u>	<u>-</u>
Total U.S. Department of Education					<u>1,989,215</u>	<u>336,957</u>	<u>2,663,015</u>	<u>2,663,015</u>	<u>1,010,757</u>	<u>-</u>
U.S. Department of Treasury										
Passed through the Pennsylvania Commission on Crime and Delinquency										
COVID-19 - Coronavirus Relief Fund	21.019	2020-CS-01-34235	20-21	\$ 212,907	212,907	-	212,907	212,907	-	-
Total U.S. Department of Treasury					<u>212,907</u>	<u>-</u>	<u>212,907</u>	<u>212,907</u>	<u>-</u>	<u>-</u>

(Continued)

MIDDLETOWN AREA SCHOOL DISTRICT

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

Grantor Program Title	Assistance Listing Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2020	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2021	Provided to Subrecipients
U.S. Department of Health and Human Services										
Passed through the Pennsylvania Department of Public Welfare										
Medicaid Cluster										
Medical Assistance Program; Title XIX	93.778	ACCESS	19-20	\$ 24,251	21,508	21,508	-	-	-	-
Medical Assistance Program; Title XIX	93.778	ACCESS	20-21	\$ 25,745	3,055	-	25,463	25,463	22,408	-
Total Medicaid Cluster					24,563	21,508	25,463	25,463	22,408	-
Total U.S. Department of Health and Human Services					24,563	21,508	25,463	25,463	22,408	-
U.S. Department of Homeland Security										
Passed through the Pennsylvania Emergency Management Agency										
COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4506-DR	19-20	N/A	-	17,440	-	-	17,440	-
Total U.S. Department of Homeland Security					-	17,440	-	-	17,440	-
U.S. Department of Agriculture										
Passed through Pennsylvania Department of Education										
National School Lunch Program										
National School Lunch Program	10.555	N/A	19-20	N/A	27,042	27,042	-	-	-	-
National School Lunch Program	10.555	N/A	20-21	N/A	378,629	-	378,629	378,629	-	-
					405,671	27,042	378,629	378,629	-	-
Summer Food Service Program for Children										
Summer Food Service Program for Children	10.559	N/A	19-20	N/A	21,935	21,935	-	-	-	-
Summer Food Service Program for Children	10.559	N/A	20-21	N/A	240,021	-	259,788	259,788	19,767	-
					261,956	21,935	259,788	259,788	19,767	-
School Breakfast Program										
School Breakfast Program	10.553	N/A	19-20	N/A	14,423	14,423	-	-	-	-
School Breakfast Program	10.553	N/A	20-21	N/A	142,785	-	142,785	142,785	-	-
					157,208	14,423	142,785	142,785	-	-
Fresh Fruit and Vegetable Program										
Fresh Fruit and Vegetable Program	10.582	N/A	19-20	N/A	-	-	-	-	-	-
Fresh Fruit and Vegetable Program	10.582	N/A	20-21	N/A	16,707	-	21,719	21,719	5,012	-
					16,707	-	21,719	21,719	5,012	-
Total passed through the Pennsylvania Department of Education					841,542	63,400	802,921	802,921	24,779	-
Passed through the PA Department of Agriculture										
National School Lunch Program - Food Donations (a)										
	10.555	N/A	20-21	N/A	(b) 82,872	(c) (4,299)	82,679	(d) 82,679	(e) (4,492)	-
Total U.S. Department of Agriculture					924,414	59,101	885,600	885,600	20,287	-
Total Expenditures of Federal Awards					\$ 3,151,099	\$ 435,006	\$ 3,786,985	\$ 3,786,985	\$ 1,070,892	\$ -
Child Nutrition Clust (Assistance Listing Numbers - 10.553, 10.555 and 10.559)					\$ 907,707	\$ 59,101	\$ 863,881	\$ 863,881	\$ 15,275	\$ -
Special Education Cluster (Assistance Listing Numbers - 84.027 and 84.173)					\$ 585,049	\$ 243,596	\$ 440,722	\$ 440,722	\$ 99,269	\$ -
Education Stabilization Fund (Assistance Listing Number - 84.425)					\$ 361,845	\$ -	\$ 1,149,738	\$ 1,149,738	\$ 787,893	\$ -

Legends:

- (a) Donated commodities value at local market rates
- (b) Total amount of commodities received from Department of Agriculture
- (c) Inventories at July 1, 2020

- (d) Total amount of commodities used
- (e) Inventories at June 30, 2021

See Notes to Schedule of Expenditures of Federal Awards.

MIDDLETOWN AREA 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 award activity of Middletown Area School District under programs of the Federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Middletown Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Middletown Area 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has not elected to use the 10-percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Access Program

The ACCESS Program is a medical assistance program that reimburses local education agencies for direct, eligible health-related services provided to enrolled special needs students. ACCESS reimbursements are Federal monies but are classified as fee-for-service revenues and are not considered Federal financial assistance and are not included on the Schedule. The amount of ACCESS funding expended, but not included on the Schedule for the year ended June 30, 2021, was \$171,688.

MIDDLETOWN AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2021

There were no prior year's audit findings.