

NEW ISSUE

Rating: S&P “AA-” (Stable Outlook)

BOOK-ENTRY ONLY

In the opinion of Bond Counsel, the interest on the Bonds (including any original issue discount) (a) is excludable from the gross income of the registered owners thereof for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax. For a more complete discussion of tax exemption, see “TAX MATTERS” and “TAX EXEMPTION” herein.

\$37,763,078.35*

MIDDLETOWN AREA SCHOOL DISTRICT

Dauphin County, Pennsylvania

\$ 33,700,000 General Obligation Bonds, Series A of 2014

\$ 4,063,078.35 General Obligation Bonds, Series B of 2014 (Capital Appreciation Bonds)

2014A Bonds Dated: Date of Delivery
2014A Bonds Due: March 1, as shown on the inside cover
2014A Bonds Denomination: Integral multiples of \$5,000

2014A Bonds Interest Payable: March 1 and September 1
2014A Bonds First Interest Payment: September 1, 2014
2014A Bonds Form: Book-Entry Only

2014B Bonds Dated: Date of Delivery
2014B Bonds Due: March 1, as shown on the inside cover
2014B Bonds Denomination: Integral multiples of \$5,000

2014B Bonds Interest Payable: At Maturity
2014B Bonds Form: Book-Entry Only

Legal Investment for Fiduciaries in Pennsylvania: The Bonds (hereinafter defined) are a legal investment for fiduciaries in the Commonwealth of Pennsylvania under the Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508 as amended and supplemented.

Payable: The General Obligation Bonds, Series A of 2014, in the aggregate amount of \$33,700,000 (the “2014A Bonds”) will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). The General Obligation Bonds, Series B of 2014 will be issued as Capital Appreciation Bonds (“CABs”) in the aggregate original issuance amount of \$4,063,078.35 (the “2014B Bonds”), will pay interest at maturity as described herein and will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). The 2014A Bonds and the 2014B Bonds are herein referred to collectively as the “Bonds”. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made only in book-entry form, and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal and interest on the Bonds will be made by the Paying Agent directly to Cede & Co. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursements of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See “BOOK-ENTRY ONLY SYSTEM” herein.

Optional Redemption: The Bonds are subject to redemption prior to maturity as described herein.

Purpose: Proceeds of the Bonds will be used to provide funds to: (1) finance the construction of a new High School and various capital projects of the School District; (2) pay capitalized interest; and (3) pay the costs of issuing the Bonds.

Security: The Bonds are payable from tax and other general revenues of the School District. The School District has covenanted that, subject to statutory restrictions and limitations, it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from funds in the sinking fund established in the Resolution or from any Bonds, and for such budgeting, appropriation and payment the School District irrevocably has, subject to statutory restrictions and limitations, pledged its full faith, credit and taxing power, which taxing power includes the power to levy *ad valorem* taxes on all taxable property with the School District, within limitations provided by law (see “Security for the Bonds” and “Act 1 of Special Session 2006 (“Taxpayer Relief Act”)” herein).

The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter and subject to the approving legal opinion of Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel. It is expected that the Bonds in definitive form will be available for delivery, through the facilities of DTC, on or about _____.



RBC Capital Markets®

The date of this Official Statement is _____.

*Preliminary, subject to change.

THIS PRELIMINARY OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO COMPLETION AND AMENDMENT. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$33,700,000
MIDDLETOWN AREA SCHOOL DISTRICT
Dauphin County, Pennsylvania
General Obligation Bonds, Series of 2014

2014A Bonds Dated: Date of Delivery

2014A Bonds Interest Payable: March 1 and September 1

2014A Bonds Due: March 1, as shown on the inside cover

2014A Bonds First Interest Payment: September 1, 2014

2014A Bonds Denomination: Integral multiples of \$5,000

2014A Bonds Form: Book-Entry Only

Maturity Schedule

<u>Year</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Price</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Price</u>
2016				2024			
2017				2025			
2018				2026			
2019				2027			
2020				2028			
2021				2029			
2022				2030			
2023				2031			

\$4,063,078.35
MIDDLETOWN AREA SCHOOL DISTRICT
Dauphin County, Pennsylvania
General Obligation Bonds,, Series B of 2014
(Capital Appreciation Bonds)
MATURITIES, MATURITY VALUE, YIELD TO MATURITY,
INITIAL STATED VALUE, AND PRICE

2014B Bonds Dated: Date of Delivery

2014B Bonds Interest Payable: At Maturity

2014B Bonds Due: March 1, as shown on the inside cover

2014B Bonds Denomination: Integral multiples of \$5,000

2014B Bonds Form: Book-Entry Only

Maturity Schedule

<u>Year</u>	<u>Maturity Value</u>	<u>Yield to Maturity</u>	<u>Initial Stated Value</u>	<u>Price</u>
2031				
2032				
2033				

No dealer, broker, salesman or other person has been authorized by the School District or the Underwriters to give any information or to make any representation, other than that given or made in this Official Statement, and if given or made, any such other information or representation may not be relied upon as having been authorized by the School District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement has been approved by the School District and, while the information set forth in this Official Statement has been furnished by the School District and other sources which are believed to be reliable, such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters or, as to information obtained from other sources, by the School District. The information and expressions of opinion set forth in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that the affairs of the School District have remained unchanged since the date of this Official Statement.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT PURSUANT TO ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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MIDDLETOWN AREA SCHOOL DISTRICT

Board of School Directors

Barbara N. Layne	President
David S. John	Vice President
Gordon A. Einhorn	Treasurer
David A. Franklin	Secretary*
Michael P. Corradi.....	
.....	Member
Newton H. Davis	Member
Melvin A. Fager	Member
Terry A. Gilman.....	Member
Pamela M. Price.....	Member
Michael S. Richards.....	Member

* Non-Voting

Administrative Staff

Lori A. Suski, Ed.D.	Superintendent
David A. Franklin	Assistant to the Superintendent for Finance and Operations

Bond Counsel

Kegel Kelin Almy & Lord LLP
Lancaster, Pennsylvania

Solicitor

Kegel Kelin Almy & Lord LLP
Lancaster, Pennsylvania

Certified Public Accountants

Boyer & Ritter
Camp Hill, Pennsylvania

Underwriter

RBC Capital Markets, LLC
Lancaster, Pennsylvania

Paying Agent

Manufacturers and Traders Trust Company
Harrisburg, Pennsylvania

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information set forth in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without the entire Official Statement.

Issuer.....Middletown Area School District, Dauphin County, Pennsylvania.

Bonds.....\$33,700,000 aggregate principal amount of General Obligation Bonds, Series A of 2014 (the “2014A Bonds”), dated the date of delivery, maturing in various principal amounts (as herein described) March 1, 2016 through 2031 inclusive, with interest payable March 1 and September 1, beginning September 1, 2014. See “DESCRIPTION OF THE BONDS” herein.

\$4,063,078.35 aggregate original issuance amount of General Obligation Bonds, Series B of 2014 (CABs, the “2014B Bonds”), dated the Date of Delivery of the Bonds and stated to mature on March 1, 2031 through and including March 1, 2033. Interest on the Bonds will be paid at maturity as part of the maturity value. See “DESCRIPTION OF THE BONDS” herein.

Redemption Provisions The 2014A Bonds maturing on or after _____ are subject to redemption prior to maturity in whole or, from time to time, in part, in such order of maturity or portion of a maturity as Middletown Area School District, Dauphin County, Pennsylvania, (the “School District”) shall select and within a maturity by lot, at any time on or after _____. See “REDEMPTION PROVISIONS” herein.

The 2014B Bonds maturing on and after March 1, 2025, will be subject to redemption prior to maturity, at the option of the School District, as a whole, or in part, on or after March 1, 2024. In the event that less than all the 2014B Bonds of a particular maturity are to be redeemed, the 2014B Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent. Any such redemption shall be upon payment of 102% of the compound accreted value from the call date through the last day of February 2025, then declining to 101% of the compound accreted value beginning March 1, 2025 through the last day of February 2026 and 100% of the compound accreted value beginning March 1, 2026 and thereafter. See “REDEMPTION PROVISIONS” herein.

Form.....Book-Entry Only, fully registered Bonds, without coupons.

Application of ProceedsProceeds of the Bonds will be used to provide funds to: (1) finance the construction of a new High School and various capital projects of the School District; (2) pay capitalized interest; and (3) pay the costs of issuing the Bonds.

SecurityThe Bonds are general obligations of the Middletown Area School District. See “SECURITY FOR THE BONDS” and “TAXING POWERS OF THE SCHOOL DISTRICT” herein.

Rating.....See “MISCELLANEOUS - Ratings” herein.

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OFFICIAL STATEMENT

\$37,763,078.35

**MIDDLETOWN AREA SCHOOL DISTRICT
Dauphin County, Pennsylvania**

\$ 33,700,000 General Obligation Bonds, Series A of 2014

\$ 4,063,078.35 General Obligation Bonds, Series B of 2014 (Capital Appreciation Bonds)

INTRODUCTION

This Official Statement is furnished by the Middletown Area School District, Dauphin County, Pennsylvania (the "School District") in connection with the offering of its General Obligation Bonds, Series A of 2014 in the aggregate principal amount of \$33,700,000 (the "2014A Bonds") and the General Obligation Bonds, Series B of 2014 as Capital Appreciation Bonds (the "2014B Bonds") in the aggregate original issuance amount of \$4,063,078.35 (the 2014A Bonds and the 2014B Bonds are herein referred to collectively as the "Bonds").

The Bonds are being issued pursuant to a Resolution of the Board of School Directors of the School District, adopted March 24, 2014 (the "Resolution"), and in accordance with the Act of the General Assembly of the Commonwealth of Pennsylvania, known as the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996 (53 Pa. Cons. Stat. Chs. 80-82), (the "Act").

The Bonds will be issued as fully registered Bonds and when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made only in book-entry form, and purchasers will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Paying Agent directly to Cede & Co. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of the DTC Participants and the Indirect Participants. See "DESCRIPTION OF THE BONDS" and "BOOK-ENTRY ONLY SYSTEM" herein. The Bonds are subject to optional redemption as more fully described herein.

The information which follows contains summaries of the Resolution, the School District's Budget and the School District's Financial Statements. Such summaries do not purport to be complete and reference is made to the Resolution, the School District's Budget and the School District's Financial Statements, copies of which are on file and available for examination at the offices of the School District.

PURPOSE OF THE ISSUE

Proceeds of the Bonds will be used to provide funds to: (1) finance the construction of a new High School and various capital projects of the School District; (2) pay capitalized interest; and (3) pay the costs of issuing the Bonds.

SOURCES AND USES OF FUNDS

Sources of Funds 2014A Bonds

Par Amount of the 2014A Bonds.	\$
Plus: Original Issue Premium	
Total Sources of Funds	\$

Uses of Funds

Capital Improvements Fund	\$
Costs of Issuance (1)	
Total Uses of Funds	\$

Sources of Funds 2014B Bonds

Original Issue Amount of the 2014B Bonds.	\$
Total Sources of Funds	\$

Uses of Funds

Capital Improvements Fund	\$
Costs of Issuance (1)	
Total Uses of Funds	\$

(1) Includes bond discount, legal, printing, rating, Paying Agent, CUSIP, and miscellaneous

DESCRIPTION OF THE BONDS

Payment of Principal and Interest

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal of and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the School District with respect to, and to the extent of, principal and interest so paid.

If the use of the Book-Entry Only System for the Bonds is discontinued for any reason, Bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal and interest on the Bonds shall be made as described in the following paragraphs.

The 2014A Bonds

Interest on the 2014A Bonds is payable to the registered owner of a 2014A Bond from the interest payment date next preceding the date of registration and authentication of the 2014A Bond, unless: (a) such 2014A Bond is registered and authenticated as of an interest payment date, in which event such 2014A Bond shall bear interest from said interest payment date, or (b) such 2014A Bond is registered after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such 2014A Bond shall bear interest from such interest payment date, or (c) such 2014A Bond is registered and authenticated on or prior to the Record Date preceding September 1, 2014 in which event such 2014A Bond shall bear interest from the date of delivery or, (d) as shown by the records of the Paying Agent, interest on such 2014A Bond shall be in default, in which event such 2014A Bond shall bear interest from the date on which interest was last paid on such 2014A Bond. Interest shall be paid semiannually on March 1 and September 1 of each year, beginning September 1, 2014, until the principal sum is paid. Interest on each 2014A Bond is payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth day (whether or not a business day) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the 2014A Bond subsequent to such Record Date and prior to such interest payment date. In the event that interest is not paid on or provided for within five (5) business days of an interest payment date when due, such defaulted interest shall cease to be payable to the registered owner of a 2014A Bond as of the Record Date applicable to such defaulted interest payment and shall be payable to the person in whose name the 2014A Bond is registered at the close of business on a special record date established for the payment of such defaulted interest by notice mailed by the Paying Agent to the registered owners of 2014A Bonds not less than fifteen (15)

days preceding such special record date. Principal of the 2014A Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the Bonds at the corporate trust office of the Paying Agent located in Harrisburg, Pennsylvania.

The 2014B Bonds

The 2014B Bonds will be dated the date of delivery and will have the issuing principal values and will bear yields and will mature at the maturity values on the dates set forth on the Inside Cover Page hereof. The 2014B Bond will not bear current interest but will accrete interest which will accrue and be compounded initially on September 1, 2014, and semi-annually thereafter on each March 1 and September 1 (each a "Compound Date") to produce the yields to maturity at their respective maturity dates, as set forth on the Inside Cover Page hereof. Interest will accrue from the date of original issuance and delivery of the 2014B Bonds and will be payable at maturity. The maturity value (the "Maturity Value") of each 2014B Bonds consists of the issuing principal value thereof, together with interest at a rate calculated to produce the stated yield to maturity set forth on the Inside Cover page hereof (when compounded semiannually on the issuing principal value thereof). The maturity value of the 2014B Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the Bonds at the corporate trust office of the Paying Agent located in Harrisburg, Pennsylvania.

The accreted values of the 2014B Bonds on each Compound Date commencing September 1, 2014, are calculated to produce the stated yield to maturity set forth on the Inside Cover Page hereof. The accreted values as of each Compound Date are set for in Appendix F hereto.

The accreted value of a 2014B Bond on any date other than a Compound Date will be an amount equal to the sum of (i) the accreted value on the immediately preceding Compound Date plus (ii) the difference between (x) the accreted value on the next succeeding Compound Date and (y) the accreted value on such immediately preceding Compound Date, multiplied by a fraction, the numerator of which equals the number of days (computed on the basis of a 360-day year) elapsed since such immediately preceding Compound Date, and the denominator of which is 180.

Compound Accreted Value of any 2014B Bond shall be determined by the following formula:

$$CAV = OP(1+(IY/2))^T$$

Where

CAV = Compound Accreted Value

OP = Original price at which 2014B Bonds are offered to the public

IY = Initial yield to maturity at which 2014B Bonds are offered to the public expressed as a decimal

T = Number of semi-annual periods from initial dated date of 2014B Bonds to the Compound Date assuming 30-day months and 360-day years.

The Compound Accreted Value of the 2014B Bonds on each March 1 and September 1 is shown on the Schedule in Appendix "F" hereof. The Compound Accreted Value of any 2014B Bond with respect to any date other than a Compound Date will be the amount set forth in Appendix "F" hereto with respect to the last preceding Compound Date plus the product of the difference between such amount and the amount set forth in such appendix with respect to the next succeeding Compound Date times a fraction consisting of the number of days from the last preceding Compound Date to the date for which such determination is being calculated (base on 30-day months) divided by 180.

The Maturity Value of each 2014B Bond is its Compound Accreted Value at maturity.

Transfer, Exchange and Registration of Bonds

Subject to the provision described below under "Book-Entry Only System," Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, at its principal corporate trust office, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter

any transfer of ownership of Bonds in the registration books and shall at the earliest practicable time authenticate and deliver in the name of the transferee or transferees a new fully registered Bond or Bonds of authorized denominations of the same Series, maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.

The School District and the Paying Agent shall not be required to issue or transfer or exchange any Bonds (a) during the period from the date of selection of Bonds to be redeemed to the date of mailing of the related notice of redemption or, (b) selected for redemption in whole or in part. Bonds may be exchanged for a like aggregate amount of Bonds of other authorized denominations, of the same maturity and interest rate.

BOOK-ENTRY ONLY SYSTEM

The information under this heading has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information and such information is not to be construed as a representation of the School District or the Underwriter.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds of each separate maturity and interest rate, in the aggregate principal amount of such maturity and interest rate, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial

Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Disclaimer of Liability for Failures of DTC

The School District and the Underwriter cannot and do not give any assurances that DTC, the Direct and Indirect Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the owner of Bonds, or will distribute any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The School District and the Underwriter are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds, or any error or delay relating thereto.

REDEMPTION PROVISIONS

Optional Redemption

The 2014A Bonds stated to mature on and after _____, are subject to redemption prior to maturity at the option of the School District, in whole or in part, on _____, or any date thereafter, upon not less than thirty (30) nor more than sixty (60) days notice, to be given in the manner required by the Resolution, at 100% of principal, together with accrued interest to the redemption date.

The 2014B Bonds maturing on and after March 1, 2025, will be subject to redemption prior to maturity, at the option of the School District, as a whole, or in part, on or after March 1, 2024. In the event that less than all the 2014B Bonds of a

particular maturity are to be redeemed, the 2014B Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent. Any such redemption shall be upon payment of 102% of the compound accreted value from the call date through the last day of February 2025, then declining to 101% of the compound accreted value beginning March 1, 2025 through the last day of February 2026 and 100% of the compound accreted value beginning March 1, 2026 and thereafter.

Notice of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, the School District and the Paying Agent shall send redemption notices only to Cede & Co. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding conveyance of notices and Beneficial Owners.

If at a time of mailing of a notice of redemption the School District has not deposited with the Paying Agent (or, in the case of a refunding, with another bank or depository acting as refunding escrow agent) money sufficient to redeem all Bonds called for redemption, the notice of redemption may state that it is conditional, *i.e.*, that it is subject to the deposit of sufficient redemption money with the Paying Agent not later than the opening of business on the redemption date, and such notice shall be of no effect unless such money is so deposited.

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not less than thirty (30) days prior to the date fixed for redemption, addressed to each of the registered owners of any certificated Bonds to be redeemed, at the addresses shown on the registration books kept by the Paying Agent as of the date such Bonds are selected for redemption; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect thereto, except to receive payment of the principal to be redeemed and accrued interest thereon to the date fixed for redemption.

Manner of Redemption

So long as Cede & Co., nominee of DTC, is the registered owner of the Bonds, however, payment of the redemption price shall be made by Cede & Co. in accordance with the existing arrangements by and among the School District, the Paying Agent and DTC and, if less than all of the Bonds in a particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner on such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding redemption of Bonds registered in the name of Cede & Co.

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing the number of Bonds that is equal to the principal amount thereof divided by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a certificated Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for certificated Bonds of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

SECURITY FOR THE BONDS

General Obligations

The Bonds are general obligations of the School District and are payable from the general taxes and revenues of the School District. The taxing powers of the School District are described more fully herein. The School District has covenanted in the Resolution that it will provide in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay, or cause to be paid, the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power.

Sinking Fund

In the Resolution, the School District has set forth that a "Sinking Fund - General Obligation Bonds, Series A of 2014 and General Obligation Bonds, Series B of 2014 (the "Sinking Funds"), to be maintained with the Paying Agent (the "Sinking Fund Depository"), and segregated from all other funds of the School District. The School District shall deposit in the Sinking Funds, not later than the date when principal or interest is to become due on the Bonds, an amount sufficient to provide for the payment of interest and principal becoming due on the Bonds.

The Sinking Funds shall be held by the Sinking Fund Depository and separately invested by the Sinking Fund Depository in such securities or shall be deposited in such deposit accounts as are authorized by the Act, upon direction of the School District. Such deposits and securities shall be in the name of the School District but subject to withdrawal or collection only by the Sinking Fund Depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Funds.

The Paying Agent is authorized and directed to pay from the Sinking Funds the principal of and interest on the Bonds when due and payable.

Actions in the Event of Default

In the event the School District defaults in the payment of the principal of or the interest on any of the Bonds after same shall become due, whether at the stated maturity or upon call for prior redemption, and such default shall continue for thirty days, or if the School District fails to comply with any provision of the Bonds or the Resolution, the Act provides that the holders of 25% in aggregate principal amount of the Bonds then outstanding may, upon appropriate action, appoint a trustee to represent the Bondholders. The trustee may, and upon request of the holders of 25% in principal amount of the Bonds then outstanding, and upon being provided with indemnity satisfactory to it, shall take such action on behalf of the Bondholders as is more specifically set forth in the Act. Such representation by the trustee shall be exclusive.

Security for General Obligation Bonds Under Section 633 of the Public School Code of 1949

Section 633 of the Public School Code of 1949 (Act of February 150, 1949, P.L. 30, as amended by Act 150 of 1975) (the "School Code") presently provides that if any school district fails to pay or to provide for the payment of any indebtedness, at the date of maturity or mandatory redemption, or any interest due on such indebtedness, in accordance with the schedule under which the bonds or notes were issued, the Secretary of Education of the Commonwealth shall notify the board of school directors of its obligation and shall withhold from any Commonwealth appropriation due such school district an amount equal to the sum of such principal amount and shall pay over such amount directly to the bank acting as sinking fund depository for the bond issue.

The withholding provisions of Section 633 are not part of any contract with the registered owners of the Bonds and may be amended or repealed by future legislation. The effectiveness of Section 633 may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

TAX EXEMPTION

In the opinion of Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel, interest on the Bonds (a) is excludible from the gross income of the registered owners thereof for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining "adjusted current earnings" of corporations (as defined for federal income tax purposes) for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") and any regulations thereunder, now or hereafter enacted, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludible from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in the gross income of the registered owners thereof retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except for the discussion of original issue discount below, Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Bond Counsel is of the opinion, based on existing law, that the original issue discount in the selling price of the Bonds, if any, to the extent properly allocable to each holder of such Bonds, is excluded from gross income for federal income tax purposes with respect to such holder. The original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds were sold. Original issue discount on tax-exempt Bonds accrues on a compound basis. The amount of original issue discount that accrues to holders of such Bonds who acquire the Bonds in this offering during any accrual period generally equals (i) the issue price of such Bonds plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Bonds (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Bonds during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the holder's tax basis in such Bonds. Any gain realized by a holder from a sale, exchange, payment or redemption of a Bond would be treated as gain from the sale or exchange of such Bond.

Prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, except with respect to certain financial institutions (within the meaning of Section 265 (b)(5) of the Code), (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, for taxable years beginning after December 31, 1986, Section 832 (b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) for taxable years beginning after December 31, 1986, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Bonds.

In the opinion of Bond Counsel, under the existing statutes, regulations and decisions, the interest on the Bonds is exempt from taxation for state and local purposes within the Commonwealth of Pennsylvania. Such exemption, however, does not extend to profits, gains or income derived from the sale, exchange or other disposition of the Bonds, nor to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the interest on the Bonds. Under the laws of the Commonwealth profits, gains, or income derived from the sale, exchange, or other disposition of certain government obligations, including the Bonds, may be subject to state and local taxation within the Commonwealth of Pennsylvania. Pennsylvania Act 68 of 1993 enacted a statutory provision allowing taxation of such profits, gains or income; although the statute is unclear as to its applicability to obligations of political subdivisions, the Pennsylvania Department of Revenue interprets the statute as applicable to obligations of political subdivisions.

The Bonds are **not** "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

The issuer of the Bonds will issue its certificate to the effect that on the basis of the facts, estimates and circumstances in existence on the date of delivery of the Bonds, it is not expected that proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage Bonds" under Section 103 (b)(2) and Section 148 of the Internal Revenue Code of 1986, as amended, or as contemplated by the United States Treasury regulations relating to "arbitrage Bonds".

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the School District (being an "obligated person" with respect to \$10,000,000 or more of outstanding securities, including the Bonds, within the meaning of the Rule) will agree to provide the following to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format as prescribed by the MSRB, either directly or indirectly through a designated agent:

(A) Annually, not later than 210 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2014, the following financial information and operating information for the School District:

- the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards
- a summary of the budget for the current fiscal year
- the assessed value and market value of all taxable real estate for the current fiscal year
- the taxes and millage rates imposed for the current fiscal year
- the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year's levy and as an aggregate dollar amount)
- a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year
- pupil enrollment figures, including enrollment at the end of the most recent fiscal year, current enrollment and projected enrollment for the beginning of the next fiscal year, including a breakdown between elementary and secondary enrollment (to the extent reasonably feasible).

(B) If not submitted as part of the annual financial information, then when and if available, audited financial statements for the School District;

(C) In a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to

perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue IRS Form 5701-TEB or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership or similar event of the School District, (13) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change in name of a trustee, if material.

(iii) in a timely manner, to file with the MSRB notice of a failure to provide the required annual financial information specified above, on or before the date specified above.

With respect to the filing of annual financial and operating information, the School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the School District or its operations or financial reporting, but the School District will agree that any such modification will be done in a manner consistent with the Rule.

The events listed in (C) above are those specified in the Rule, not all of which may be relevant to the Bonds. The School District may from time to time choose to file notice of the occurrence of other events, in addition to the events listed in (C) above, but the School District does not commit to provide notice of the occurrence of any events except those specifically listed in (C) above.

The School District acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the School District's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the School District to comply with the provisions of the undertaking shall not be an Event of Default with respect to the Bonds.

The School District's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the School District is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other "obligated persons" with respect to municipal securities issues) are made available through the MSRB's Electronic Municipal Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>.

Any filing with the MSRB may be made solely by transmitting such filing to the MSRB through its Electronic Municipal Market Access (EMMA) system (<http://www.emma.org>).

During the past five years the School District has complied with all prior written undertakings under the Rule to provide timely ongoing disclosure of annual financial information and notice of material events affecting its securities.

MISCELLANEOUS

Underwriting

RBC Capital Markets, LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the School District at an aggregate price of \$_____, which includes an underwriting discount of \$_____ and a net original issue premium of \$_____. The Underwriter's obligations are subject to certain conditions precedent, however, the Underwriter will be obligated to purchase all such Bonds if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

No Litigation

As of the date of this Official Statement, there is no litigation, of any nature, pending or threatened against the School District to restrain or enjoin the issuance, sale, execution or delivery of the Bonds.

Legal Opinion

The issuance and delivery of these General Obligation Bonds is subject to the unqualified approving legal opinion of Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, Bond Counsel for the School District, and to the delivery at settlement of a certificate that there is no litigation pending affecting the validity of the issue. Certain legal matters will be passed on for the School District by Kegel Kelin Almy & Lord LLP, Lancaster, Pennsylvania, Solicitor to the School District.

Rating

Standard & Poor's has assigned the School District an underlying rating of "AA-" (Stable Outlook).

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds.

Changes in Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Other

All references to the provisions of the Act, the Bonds and the Resolution set forth in this Official Statement are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and this Official Statement does not purport to set forth complete statements of any or all such provisions.

All information, estimates and assumptions herein have been obtained from officials of the School District, other governmental bodies, trade and statistical services, and other sources which we believe to be reliable; but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended as such and not representations of fact.

Use of the words “shall,” “will,” “must,” or other words of similar import or meaning in summaries of documents or law in this Official Statement to describe future events of continuing obligations is not intended as a representation that such event will occur or such obligations will be fulfilled, but only that the document or law requires or contemplates such event to occur or such obligation to be fulfilled.

The School District has authorized the distribution of this Official Statement.

MIDDLETOWN AREA SCHOOL DISTRICT
Dauphin County, Pennsylvania

BY: _____
President, Board of School Directors

APPENDIX A

**Summaries of
Financial Factors of
The School District**

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FINANCIAL REVIEW

The following Exhibit is a summary only and is not intended to be a complete report. For more complete information, the individual financial statements and the 2013-14 Budget of the School District should be reviewed at the Business Office, Middletown Area School District Administrative Offices, 55 West Water Street, Middletown, Pennsylvania.

Accounting Method

The School District keeps its books and prepares its financial reports according to a modified accrual basis. Major accrual items are payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units. Its financial statements are audited annually by a firm of independent certified public accountants, as required by Commonwealth law. The firm of Boyer & Ritter, Camp Hill, Pennsylvania has been appointed as the School District auditor. *Boyer & Ritter, the School District's independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statement addressed in that report. Boyer & Ritter also has not performed any procedure relating to this Official Statement.*

Budgeting Process in School Districts under the Taxpayer Relief Act

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

Procedures for Adoption of the Annual Budget. Under the Taxpayer Relief Act, all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see "The Taxpayer Relief Act"* herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see "The Taxpayer Relief Act"* herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal

year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

Middletown Area School District
Audited Financial Statements
Budget and Estimated Actual Revenues and Expenditures
(Years ending June 30)

	For the Year Ending June 30,				
	Audited <u>2010</u>	Audited <u>2011</u>	Audited <u>2012</u>	Audited <u>2013</u>	Budgeted <u>2014</u>
REVENUES & OTHER FINANCING SOURCES:					
Revenues					
Local Sources	\$ 23,777,235	\$ 24,799,285	\$ 24,781,408	\$ 26,563,435	13,258,645
State Sources	11,994,808	11,924,115	12,394,689	12,704,807	13,256,621
Federal Sources	1,592,788	1,982,411	950,957	844,505	624,642
Other	<u>5,537</u>	<u>107,692</u>	<u>285,414</u>	<u>7,826</u>	<u>0</u>
Total Revenues	<u>37,370,368</u>	<u>38,813,503</u>	<u>38,412,468</u>	<u>40,120,573</u>	<u>39,173,622</u>
EXPENDITURES & OTHER FINANCING USES:					
Expenditures					
Instruction	20,399,185	20,558,739	18,394,945	19,767,682	20,610,977
Support Services	10,342,878	11,003,243	10,633,270	11,119,302	11,603,414
Non Instructional Services ⁽¹⁾	200,071	785,100	773,880	887,524	1,014,323
Facilities Acq. Constr. & Imprv.	5,022	114,598	829,005	37,586	2,000
Debt Service	4,421,502	4,456,180	4,451,166	4,473,979	4,851,724
Other	<u>1,250,195</u>	<u>944,915</u>	<u>704,085</u>	<u>3,527,719</u>	<u>1,260,520</u>
Total Expenditures	<u>36,611,853</u>	<u>37,862,775</u>	<u>35,786,351</u>	<u>40,115,200</u>	<u>39,342,958</u>
Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>758,515</u>	<u>950,728</u>	<u>2,626,117</u>	<u>5,373</u>	<u>(169,336)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>4,249,956</u>	<u>5,008,471</u>	<u>5,950,578</u>	<u>8,576,695</u>	<u>8,582,068</u>
CHANGE IN INV/RS EQUITY TRANS/PRIOR ADJ.	<u>0</u>	<u>(8,621)</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,008,471</u>	<u>\$ 5,950,578</u>	<u>\$ 8,576,695</u>	<u>\$ 8,582,068</u>	<u>\$ 8,412,702</u>

(1) Beginning in YE 2011 reflects change due to GASB No. 54 (collapse of athletic fund, which became part of general fund).

REVENUE FROM STATE SOURCES

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

A basic education subsidy is allocated to all school districts based on a complex formula that considers such factors as (1) the poverty level of the school district; (2) the size of the school district; (3) the number of students with limited English proficiency; (4) the location of the school district; and (5) per pupil spending. School districts also receive state aid for special education, pupil transportation, and health services, among other things.

Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of the debt service on the Bonds after said Bonds have received final approval of the Department of Education. Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the greater of the Permanent Capital Account Reimbursement Fraction, the minimum fraction for density or the School District's Market Value Aid Ratio. In future years, this percentage may change as the School District's aid ratio changes, or by future legislation. Currently, Commonwealth reimbursement is based upon the School District's Market Value Aid Ratio, which is a function of the market value per weighted average daily membership of the School District relative to that of the Commonwealth.

SCHOOL DISTRICT PENSION PROGRAM

School Districts in Pennsylvania are required to participate in a statewide pension program administered by the Public School Employees Retirement System (PSERS). All of the School District's full-time employees, part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year participate in the program. However, please note a Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for current members of PSERS regarding the purchase of credit for their part-time school service rendered prior to their being members of PSERS, for purposes of increasing their pension benefits.

Beginning July 1, 1976, certain revisions were made in the pension program. The Retirement Board, previously under the Department of Education of the Commonwealth, became an independent agency. However, the program is still guaranteed by the Commonwealth. Currently, each party to the program contributes a fixed percentage of the employee's salary. Employees belonging to the Public School Employees Retirement System ("PSERS") prior to July 22, 1983 contribute 5.25% of their salary, and employees who joined the PSERS on or after July 22, 1983 contribute 6.25% of their salary. On February 17, 2002, Governor Ridge signed Act 9 which created a new membership class that sets the employee contribution rate at 7.50% of the employee's salary for those employees hired on or after July 1, 2001. Act 9 also provides an option for those employees hired prior to July 1, 2001 to elect a contribution rate of 6.50%, if they were hired before July 22, 1983, or 7.50% if they were hired on or after July 22, 1983. Act 120 of 2010 was passed by the General Assembly on November 15 and signed by Governor Rendell on November 23, 2010. The benefit reductions contained in this legislation will only impact individuals who become new members of PSERS on or after July 1, 2011. New members will have the option of selecting one of 2 new classes. The members selecting class T-E will contribute a base rate of 7.5% with "shared risk" contribution levels between 7.5% and 9.5% and a pension multiplier of 2.0%. Members selecting class T-F will contribute a base rate of 10.3% with shared risk contribution levels between 10.3% and 12.3% and a pension multiplier of 2.5%. The PSERS Board certified the employer rate, to be paid by the School District, of 16.93% for the 2013-14 fiscal year. The PSERS Board certified a new employer rate, to be paid by the School District, of 21.40% for the 2014-15 fiscal year. According to Act 120 of 2010 the employer contribution rate is suppressed for future years by using rate caps to keep the rate from rising too high, too fast. Both the School District and the Commonwealth are responsible for paying a portion of the employer's share. School entities are responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for not less than 50% of the payment for employees. The School District contributions are made on a quarterly basis and employee contributions are deducted bi-weekly for each paycheck and remitted monthly. Recent School District employer payments, net of reimbursement, have been as follows:

2007-08	\$ 552,445
2008-09	401,007
2009-10	398,680
2010-11	480,707
2011-12	655,676
2012-13	941,907
2013-14 (Budgeted)	1,367,505

The School District is current in all payments.

PSERS is the 18th largest state-sponsored defined benefit pension fund in the nation. PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. In the fall of 2013, the PSERS completed its process of publishing financial statements for the year ended June 30, 2013, in compliance with reporting standards established by the Government Accounting Standards Board's Statement No. 25 and Statement No. 26. PSERS' total plan net assets increased by \$500 million from \$48.8 billion at June 30, 2012 to \$49.3 billion at June 30, 2013. This increase was due in large part to net investment income plus member and employer contributions. The change in total plan net assets from June 30, 2011 to June 30, 2012 was a decrease of \$2.6 billion from \$51.4 billion at June 30, 2011 to \$48.8 billion at June 30, 2012. This decrease was due in large part to deductions for benefits and administrative expenses exceeding net investment income plus member and employer contributions. The Fund's complete report is available on the PSERS website on the Internet: www.psers.state.pa.us

Source: PSERS Website.

LABOR RELATIONS

The current collective bargaining agreement between the School District and its professional employees, represented by the Middletown Area Education Association, extends until June 30, 2015. Relations between the School District and Association have been good.

The current collective bargaining agreement between the School District and its maintenance and custodial staff, represented by the Middletown Area Education Support Personnel Association, extends until June 30, 2016. Relations between the School District and the Association have been good.

There are presently 321 employees of the School District, including 212 teachers, administrators, and other professional employees, and 109 support personnel including secretaries, maintenance staff and aides.

OTHER POST-EMPLOYMENT BENEFITS

The School District provides certain health care insurance benefits for its retirees (commonly referred to as "other post-employment benefits" or "OPEB"). The School District annually appropriates funds to meet its obligation to pay such benefits on a "pay-as-you-go" basis, and has not established any fund or irrevocable trust for the accumulation of assets with which to pay such benefits in future years. In the fiscal years ended June 30, 2012 and 2013, the School District's "pay as you go" cost was approximately \$350,424 and \$428,816, respectively, and its fiscal year 2014 and 2015 budgets estimate "pay as you go" costs at \$347,490 and \$416,535, respectively.

Pursuant to Governmental Accounting Standards Board Statement No. 45, released on June 1, 2012, the School District's obligations to make OPEB payments will be required to be measured, recognized and displayed in its financial statements for the fiscal year ended June 30, 2009, and thereafter. In preparation for such reporting, the School District has retained a consulting firm to provide valuation services to measure its OPEB liabilities for future years. The School District has not yet adopted or considered any program for funding OPEB payments other than from annual appropriations on a "pay-as-you-go" basis. No assurances can be given that the District's future OPEB obligations will not have a material impact on the District's ability to pay its debts, including the Bonds.

SCHOOL DISTRICT FINANCIAL HISTORY

The School District and its predecessors have never defaulted on the payment of lease rentals or debt service.

The status of the School District's present indebtedness is shown in the table entitled "Current Long-Term School Financings," in Appendix A.

FUTURE FINANCING

The School District has been improving its facilities. Two new school buildings (an elementary school and a middle school) have been constructed within the last ten years. Minor renovations have occurred to two other elementary schools over the past several years. The School District is concluding the design process for a new high school. The construction of the new high school (to replace the existing one) will require long-term financing (the bonds to be issued under this 2014 financing) which at this time can be structured with a zero millage impact. The School District took action in July 2012 to authorize a feasibility study for the construction of the new high school. The School District approved PlanCON Parts A & B in September 2012 prior to a moratorium instituted by the Pennsylvania Department of Education. The School District approved PlanCON Part D in December 2013 and Parts E & F in January 2014. The School District is looking to begin construction in 2014.

DEBT LIMIT AND BORROWING CAPACITY

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The Borrowing Base is calculated as the annual arithmetic average of total revenues (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Total Revenues	\$ 38,813,503	\$ 38,412,468	\$ 40,120,573
Less: Required Deductions			
(a) Rental and Sinking Fund Reimbursement	528,350	521,691	538,000
(b) Revenues for Self-Liquidating Debt	30,038	89,983	175,281
(c) Interest Earned on Sinking Funds	0	0	0
(d) Grant and Gifts for Capital Projects	0	392,750	2,250
(e) Sale of Equipment and Non-Recurring Items	107,692	285,414	7,826
Total Deductions	\$ 666,080	\$ 1,289,838	\$ 723,357
Net Revenues	\$ 38,147,423	\$ 37,122,630	\$ 39,397,216
Total Net Revenues for Three Years	\$ 114,667,269		
Borrowing Base—Average Net Revenues for Three-Year Period	\$ 38,222,423		

Calculation of Borrowing Capacity

A. Electoral Debt		\$ 0
B. Non-Electoral Debt		
Computation of Net Non-Electoral Debt		
(a) Outstanding Principal		\$ 68,542,078
(b) Less: Subsidized Debt		0
(c) Net Non-Electoral		\$ 68,542,078
C. Lease Rental Debt		\$
Computation of Borrowing Capacity		
(a) Debt Limitation – 225% of Borrowing Base		\$ 86,000,452
(b) Less: Net Non-Electoral and Lease Rental Debt ⁽¹⁾		68,542,078
(c) Current Non-Electoral and Lease Rental Borrowing Capacity		\$ 17,458,374

-
- The School District may, at any time, claim a credit against the gross principal of debt outstanding equal to the amount estimated to be reimbursed by Commonwealth.

TAXING POWERS OF THE SCHOOL DISTRICT

The School District, being a school district of the Third Class under the School Code, is empowered by the School Code to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An **unlimited tax** on all real property taxable for school purposes to provide funds:
 - (a) for minimum salaries and increments of the teaching and supervisory staff;
 - (b) to pay rentals due any municipal authority or non-profit corporation or due the State Public School Building Authority;
 - (c) to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
 - (d) to pay for the amortization of a bond issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax, not less than one dollar (\$1.00) and not more than five dollars (\$5.00) on each resident or inhabitant over 18 years of age.

The School District may also levy additional taxes, subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (the "Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, wage and other earned income taxes, real estate transfer taxes, gross receipts taxes, and occupation taxes, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – "STEB") multiplied by twelve mills. A recent amendment to the Local Tax Enabling Act authorized all taxing authorities to increase at their individual discretion, the exemption level for per capita, occupational, earned income and similar taxes from \$5,000 to \$10,000.

The Local Tax Enabling Act was amended by Act 222 of 2012 to authorize all taxing authorities to exempt from per capita, occupation, emergency and municipal service or earned income taxes any person whose total income from all source is less than \$12,000 per year.

The taxing powers of the School District described above may be modified by the provisions of the Taxpayer Relief Act or certain other legislation. See "PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS" below.

PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

The Taxpayer Relief Act (Act 1)

Under Act 1, a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2012, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2012, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2012; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;

2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and

3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Index applicable to the School District for the current and previous fiscal years is as follows:

2013-14	2.2%
2012-13	2.2
2011-12	1.8
2010-11	3.7
2009-10	5.2
2008-09	5.5

In accordance with the Taxpayer Relief Act, the Board of School Directors of the School District placed a referendum on the ballot for the May 15, 2007 primary election seeking voter approval to levy (or increase the rate of) an earned income tax or personal income tax and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was not approved by a majority of the voters at the primary election

A board of school directors may submit, but is not required to submit, a further referendum question to the voters at the municipal election in 2009 or any later year seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of further funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate which, when combined with any tax rate authorized at the 2007 primary election, is required to provide the maximum homestead and farmstead exclusions allowable under law.

The fiscal year for Pennsylvania school districts begins July 1st and the fiscal year budgets must be adopted by school boards no later than June 30th. Certain provisions of Act 1 impact all budgets for Fiscal Year 2006-07 adopted or to be adopted with a millage increase in excess of the Index permitted by Act 1. Corrective legislation was passed by the General Assembly July 1, 2006 as House Bill 185 and signed by the Governor on July 11, 2006 as Act 114 of 2006, that delays effectiveness of certain provisions of Act 1, including the limitations on tax increase, until Fiscal Year 2007-08.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 1. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 1 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 1. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 1 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Status of the Bonds Under Act 1

The Bonds described in this Official Statement do not represent debt that was approved ("incurred") by the Board of School Directors prior to the effective date of Act 1, therefore the Board of School Directors may not apply to PDE to use the Act 1 referendum exception for previously incurred debt if a tax increase greater than the Index is needed to provide for payment of principal or interest on the Bonds. The School District, however, has sufficient millage in its current year budget, along with

the use of Capital Reserve Funds, to cover the full amount of the debt service on the Bonds without exceeding the Act I Index (although the actual tax increase may have exceeded the Index as a result of the application of other approved exceptions to the Index.)

Act 130 of 2008

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District currently does not levy an occupation tax.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 24. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 24 NOR A LEGAL INTERPRETATION OF ANY PROVISION OF ACT 24. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 24 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Act 48 of 2003 – Limitation on Fund Balances

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<u>Total Budgeted Expenditures:</u>	<u>Estimated Ending Unassigned Fund Balance as a Percentage of Total Budgeted Expenditures:</u>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

“Estimated ending unreserved fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

The total budgeted expenditures in the School District’s budget for the 2013-14 fiscal year including fund transfers and budgeted reserves are \$39,342,958, and the School District’s estimated ending unassigned fund balance as a percentage of total budgeted expenditures for the 2013-14 fiscal year is 6.4%.

SET FORTH ABOVE IS A SUMMARY OF PORTIONS OF ACT 48. THIS SUMMARY IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF THE PROVISIONS OF ACT 48 NOR A LEGAL INTERPRETATION OF ANY PROVISIONS OF ACT 48. A PROSPECTIVE PURCHASER OF THE BONDS SHOULD REVIEW THE FULL TEXT OF ACT 48 AS A PART OF ANY DECISION TO PURCHASE THE BONDS.

Ten Largest Taxpayers

The ten largest real estate taxpayers in the School District and the 2013-14 assessed valuation of their real estate are as follows:

<u>Company</u>	<u>2013.14 Assessed Value</u>
AMP Incorporated	\$26,347,200
Third Clabell Company	24,403,600
Keystone Capital LP	21,872,900
Keystone CBC LP	15,310,200
Keystone Operating Partners LP	13,244,200
Keystone American DE LP	12,659,900
Virginia Street Associates LP	8,320,900
Capitol Region Economic Development	6,488,800
Heartland Realty LLC	6,310,200
Watkins Terminals Inc.	<u>6,296,400</u>
 Total	 \$141,254,300

The largest taxpayers listed above represents approximately 15.0% of the total 2013 assessed valuation of the School District.

Source: School District

Valuation of Real Estate

<u>Year</u>	<u>Current Assessed Valuation</u>	<u>Market Valuation</u>	<u>Common Level Ratio</u>
2006	\$ 869,141,100	\$1,218,991,725	71.3%
2007	887,171,500	1,295,140,876	68.5
2008	902,316,400	1,278,881,418	70.5
2009	909,727,800	1,288,566,289	70.6
2010	935,375,000	1,272,619,048	73.5
2011	933,638,700	1,286,003,719	72.6
2012	927,070,600	1,215,033,552	76.3

Source: Pennsylvania State Tax Equalization Board

Tax Collection Record

<u>School Year</u>	<u>Assessed Valuation</u>	<u>Adjusted Millage</u>	<u>Levy</u>	<u>Collected in Year of Levy</u>		<u>Total Collections (1)</u>	
				<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
2001-02	440,038,900	27.35	12,035,064	11,361,384	94.40	11,404,601	94.76
2002-03*	830,833,300	14.90	12,379,416	11,714,609	94.63	11,772,109	95.09
2003-04	844,424,600	15.55	13,130,803	12,490,546	95.12	13,142,895	100.00
2004-05	856,755,000	16.29	13,956,543	13,257,382	94.99	13,785,031	98.77
2005-06	868,611,000	17.48	15,183,320	14,462,958	95.26	14,989,421	98.72
2006-07	873,457,596	18.23	15,923,132	15,175,066	95.30	15,750,737	98.92
2007-08	894,068,200	18.95	16,942,610	16,126,238	95.18	16,750,885	98.87
2008-09	903,925,100	19.948	18,031,501	17,091,525	94.79	17,827,524	98.87
2009-10	930,152,700	19.948	18,554,673	17,552,086	94.60	18,324,423	98.76
2010-11 ⁽²⁾	922,941,219	20.66	19,067,966	17,914,900	93.95	18,619,013	97.65
2011-12 ⁽²⁾	924,959,200	20.99	19,414,894	18,305,338	94.29	19,244,586	99.12
2012-13	928,437,000	21.40	19,868,789	18,770,371	94.47	19,931,058	100.31
2013-14 ⁽³⁾	938,856,600	21.81	20,476,462	19,305,930	94.28	20,267,489	98.98

Source: School District

(1) Taxes Collected plus Delinquent Real Estate.

(2) The original tax duplicate on July 1, 2010 was \$937,943,000. The tax duplicate was reduced during the fiscal year by \$15,001,781 as a result of tax assessment appeals to the amount that is listed on the schedule above. The majority of the reduction was derived from several large commercial properties that filed tax assessment appeals as a result of the downturn in the economy. The original tax duplicate on July 1, 2011 was \$934,608,200. The tax duplicate was reduced during the fiscal year by \$9,649,000 to the amount that is listed on the schedule above. Several of the tax assessment appeal reductions that were made in the prior fiscal year were not correctly reflected on the original tax duplicate and subsequently required reduction. The remainder of the adjustment resulted from property losses as a result of Tropical Storm Lee.

(3) Estimated

* In 2002, municipalities within Dauphin County had an adjustment to their assessed valuation to approximate market value.

2014 Tax Rates

Realty Tax Rates

Municipality	<u>Real Estate (Mills)</u>			
	<u>School District</u>	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Lower Swatara Township	21.81	4.240	7.226	33.276
Middletown Borough	21.81	5.631	7.226	34.667
Royalton Borough	21.81	3.000	7.226	32.036

Source: PA Department of Community and Economic Development.

Non-Realty Tax Rates

Municipality	<u>Local Services</u>		<u>Real Estate Transfer</u>		<u>Earned Income</u>		<u>Per Capita</u>	
	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>	<u>Municipal</u>	<u>School</u>
Lower Swatara Twp	\$ 47.00	\$ 5.00	0.5%	0.5%	0.5%	1.25%	\$10.00	\$0.00
Middletown Borough	42.00	10.00	0.5	0.5	0.5	1.25	10.00	0.00
Royalton Borough	0.00	10.00	0.5	0.5	0.5	1.25	10.00	0.00

Municipality	<u>Occupation</u>	
	<u>Municipal</u>	<u>School</u>
Lower Swatara Twp(mills)	100.00	0.00
Middletown Borough (dollars)	\$ 10.00	0.00
Royalton Borough	0.00	0.00

Source: PA Department of Community and Economic Development.

**Middletown Area School District
Current Long-Term School Financings (As of May 8, 2014)**

The School District is responsible for annual debt service in support of the following general obligation issues (including this issue).

(2013-14 MVAR = 51.81%)

	Long-Term Debt <u>Outstanding</u>	Percent Reim- bursable	Effective Reim- bursable	Commonwealth <u>Share</u>	Local <u>Share</u>
Series B of 2014	\$ 4,062,078	0.00%	0.00%	\$ 0	\$ 4,062,078
Series A of 2014	33,700,000	0.00	0.00	0	33,700,000
Series of 2013	23,485,000	22.26 ⁽¹⁾	11.53	2,707,820	20,777,180
Series of 2009	1,185,000	26.91	13.94	165,189	1,019,811
Series of 2008A	4,925,000	17.04	8.83	434,877	4,490,123
Series of 2008	1,185,000	40.90	21.19	251,101	933,899
	<u>\$68,542,078</u>			<u>\$3,558,987</u>	<u>\$64,983,091</u>

(1) Estimated

**Middletown Area School District
Financial Factors and Ratios**

STEB Market Valuation of Real Estate (2012)	\$1,215,033,552
STEB Assessed Valuation of Real Estate (2012)	927,070,600
Common Level Ratio	76.3%
Population: 2010 U.S. Census	18,076
Market Valuation of Real Estate to Population	\$67,218
Assessed Valuation of Real Estate to Population	\$51,287

Bonded Indebtedness

Obligations of the Residents of the School District	
School District General Obligation and Lease Rental	\$64,542,078
Dauphin County*	<u>9,081,285</u>
Total Obligations	\$77,623,363
Ratio of Total Obligations to:	
Market Valuation of Real Estate	6.39%
Assessed Valuation of Real Estate	8.37%
Population	\$4,294
Obligations of the Residents after State Reimbursement	
School District General Obligations and Lease Rental	\$64,983,091
Dauphin County*	<u>9,081,285</u>
Total Obligations After State Reimbursement	\$74,064,376
Ratio of Total Obligations after State Reimbursement to:	
Market Valuation of Real Estate	6.10%
Assessed Valuation of Real Estate	7.99%
Population	\$4,097

(6) The General Obligation debt of Dauphin County totals \$143,464,223 as reported by the Department of Community and Economic Development in May 2014. The School District's proportionate share, 6.33%, is determined by dividing the School District's 2012 assessed value by the total 2012 assessed value of all the municipalities within the County.

APPENDIX B

School District Audit Report 2012-13

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MIDDLETOWN AREA SCHOOL DISTRICT
FINANCIAL REPORT
JUNE 30, 2013

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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 the Middletown Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Middletown Area School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, Middletown Area School District has implemented a reporting model to account for deferred inflows of resources, deferred outflows of resources, and net position as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions on these statements are 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 the Middletown Area School District’s basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 information 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 12, 2013, on our consideration of the 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 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 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 12, 2013

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Year Ended June 30, 2013

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, 2013. 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 supplemental 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, 2013, are as follows:

- In total, net position increased approximately \$4.5 million. The net position of governmental activities increased approximately \$4.5 million or 12.5 percent from 2012. The net position of business-type activities increased approximately \$6,000 or 1.0 percent from 2012.
- Revenues totaled \$41.1 million. General revenues accounted for \$33.7 million or 82.0 percent of total revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$7.4 million or 18.0 percent of total revenues.
- The District had \$35.5 million in expenses related to governmental activities; \$6.2 million of these expenses were offset by program-specific charges for services, grants, or contributions. General revenues (primarily taxes and subsidies) of \$33.7 million were sufficient to fund the remaining cost of programs and add \$4.5 million to net position.
- Among governmental funds, the general fund had \$40.1 million in revenues and \$32.1 million in expenditures. The general fund also had \$8.0 million in net other financing uses (primarily consisting of transfers to the debt service fund to meet obligations and to the capital reserve fund for future capital needs). The general fund's fund balance increased by approximately \$5,000.

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.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Using this Annual Report (Continued)

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 and the WMSS radio station fund. 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 looks at 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.

The government-wide statements report the District's net position - the difference between the District's assets, DIO and liabilities, 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 whereby it charges students, staff, and other users in order to cover the costs of the food provided. The District also operates a student-run radio station, which is primarily funded by charges for services, contributions and fundraisers.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

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 18 and 19.
- *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 (CONTINUED)
Year Ended June 30, 2013

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, 2013 and 2012.

Table 1 - Net Position (In Millions)

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Assets						
Current Assets	19.5	17.3	0.5	0.5	20.0	17.8
Capital & Non-Current Assets	57.5	60.2	0.2	0.2	57.7	60.4
Total assets	77.0	77.5	0.7	0.7	77.7	78.2
Deferred Outflows of Resources	1.5	0.0	0.0	0.0	1.5	0.0
Liabilities						
Current Liabilities	(3.1)	(2.6)	0.0	(0.1)	(3.1)	(2.7)
Long-Term Liabilities	(34.8)	(38.6)	0.0	0.0	(34.8)	(38.6)
Total liabilities	(37.9)	(41.2)	0.0	(0.1)	(37.9)	(41.3)
Deferred Inflows of Resources	0.0	0.0	0.0	0.0	0.0	0.0
Net Position						
Net investment in capital assets	(32.4)	(22.9)	(0.2)	(0.2)	(32.6)	(23.1)
Restricted	(0.5)	(0.5)	0.0	0.0	(0.5)	(0.5)
Unrestricted	(7.7)	(12.9)	(0.5)	(0.4)	(8.2)	(13.3)
Total net position	(40.6)	(36.3)	(0.7)	(0.6)	(41.3)	(36.9)

Approximately 4/5 of the District's net position is invested in capital assets (buildings, land and equipment). The restricted net position consists of the proceeds from the sale of one of the District's elementary school buildings. The proceeds must be used for payment of debt service on the school building that replaced the property that was sold, thereby requiring that the proceeds be considered restricted. The unrestricted net position is combined of designated and undesignated amounts. The designated balances are amounts set aside for future retirement rate increases, funding of health insurance costs and one-time costs in the 2013-2014 budget.

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 for the year.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Analysis of the District as a Whole (Continued)

Table 2 - Changes in Net Position (In Millions)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services	0.1	0.3	0.6	0.6	0.7	0.9
Operating Grants and Contributions	5.6	4.9	0.6	0.6	6.2	5.5
Capital Grants and Contributions	0.5	0.9	0.0	0.0	0.5	0.9
General Revenue:						
Property Taxes	19.0	18.5	0.0	0.0	19.0	18.5
Other Taxes	6.4	5.3	0.0	0.0	6.4	5.3
Grants, Subsidies, and Contributions	8.2	8.2	0.0	0.0	8.2	8.2
Investment Earnings	0.1	0.1	0.0	0.0	0.1	0.1
Miscellaneous Income	0.0	0.3	0.0	0.0	0.0	0.3
Gain (Loss) on Disposition of Capital Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total revenues	39.9	38.5	1.2	1.2	41.1	39.7
Expenses						
Instruction	21.5	20.4	0.0	0.0	21.5	20.4
Support Services:						
Instructional Student Support	2.8	2.6	0.0	0.0	2.8	2.6
Administrative and Financial Support Services	4.0	3.8	0.0	0.0	4.0	3.8
Operation and Maintenance of Plant Services	3.2	3.2	0.0	0.0	3.2	3.2
Pupil Transportation	1.5	1.4	0.0	0.0	1.5	1.4
Student Activities	0.9	0.8	0.0	0.0	0.9	0.8
Community Services	0.1	0.1	0.0	0.0	0.1	0.1
Interest on Long-Term Debt	1.4	1.2	0.0	0.0	1.4	1.2
Food Services	0.0	0.0	1.1	1.1	1.1	1.1
Radio Station	0.0	0.0	0.1	0.1	0.1	0.1
Total expenses	35.4	33.5	1.2	1.2	36.6	34.7
Changes in net position	4.5	5.0	0.0	0.0	4.5	5.0
Net position - beginning	36.3	31.3	0.6	0.6	36.9	31.9
Prior period adjustment	(0.2)	0.0	0.0	0.0	(0.2)	0.0
Net position - beginning, as restated	36.1	31.3	0.6	0.6	36.7	31.9
Net position - ending	40.6	36.3	0.6	0.6	41.2	36.9

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Analysis of the District as a Whole (Continued)

Table 2 shows that total revenues exceeded total expenses for the District as a whole by \$4.5 million for the year ended June 30, 2013. 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 (In Millions)

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction	21.5	20.4	17.5	16.6
Support Services:				
Instructional Student Support	2.8	2.6	2.4	2.3
Administrative and Financial Support Services	4.0	3.8	3.7	3.6
Operation and Maintenance of Plant Services	3.2	3.2	3.1	2.6
Pupil Transportation	1.5	1.4	0.8	0.8
Student Activities	0.9	0.8	0.8	0.7
Community Services	0.1	0.1	0.1	0.1
Interest on Long-Term Debt	1.4	1.2	0.9	0.7
Total Expenses	35.4	33.5	29.3	27.4
Less: Unrestricted Grants, Subsidies and Contributions			8.2	8.2
Total Required Local Taxes and Other General Revenues			21.1	19.2

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Analysis of the District as a Whole (Continued)

The dependence upon local taxes for governmental activities is apparent. Program revenue provides only 19.1% 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 more than 42% of the funding for instruction to come from local taxes and other general revenues. Put another way, Table 3 reveals that approximately 42% 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 Middletown Area School District students.

The District has two business-type activities - food service and the radio station. The total cost of food service operations was approximately \$1.1 million. These costs were offset by charges for services (primarily fees paid by students and employees for lunches and breakfasts consumed) of approximately \$518,000 and operating grants (federal and state participation in the National School Lunch Program) of approximately \$608,000. The total cost of radio station operations was approximately \$50,000. These costs were offset by charges for services, contributions and fundraising of approximately \$46,000. Generally, the business-type activities receive no support from local tax revenues; however, the radio station received approximately \$4,000 in support for engineering and broadcast costs.

Analysis of the District by Funds

As previously noted, the District uses a number of funds, in accordance with the Pennsylvania 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 \$40.1 million, expenditures of \$38.4 million and net other financing sources of approximately \$134,000. The net change in fund balance for the year was an increase of approximately \$1.9 million.

The general fund increased its fund balance by approximately \$5,000. The District had budgeted for a fund balance decline of approximately \$410,000, associated with a planned use for non-recurring costs. The positive variance (addition to the fund balance instead of use of the fund balance) of approximately \$5,000 is attributed to revenues being realized beyond budgeted amounts and total expenditures falling below estimates. These variances are discussed in the "Budget Highlights" sections of this report.

The fund balance for the debt service fund did not change. Transfers from the general fund offset expenditures of approximately \$1.6 million in the capital projects funds and added approximately \$1.9 million to the fund balance.

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.

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.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Budget Highlights (Continued)

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 actually 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 from all sources was approximately \$2.5 million higher than budgeted. Expenditures and other financing uses were approximately \$2.1 million higher than budgeted. The end result is that the District added approximately \$5,000 to its fund balance instead of using \$410,000 as budgeted.

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

- Earned income tax collections exceeded the budget by approximately \$1.1 million or 28.7 percent. The District received a final distribution from Lancaster County Tax Collection Bureau in the amount of approximately \$324,000 in December 2012 for the 2011 tax year. This distribution was anticipated and was included in budget estimates; however, the District anticipated that collections from the new collector, Keystone Collections Group, would have slowed based upon the collection transition. Instead, collections from Keystone increased. The District adjusted the budget for 2013-2014 to reflect several years of earned income tax revenue exceeding budget estimates.
- Real estate transfer tax collections exceeded the budget by approximately \$249,000 or 139.7 percent. There were five extraordinary (tax revenue >\$10,000) transfers that occurred during 2012-2013, accounting for revenue collections of approximately \$282,000. Without these extraordinary transfers, revenue collections would have actually fallen below budget estimates by approximately \$33,000.
- Patron parking tax collections exceeded budget estimates by approximately \$58,000 or 11.3 percent. The budget estimate was based upon collections in the 2009-2010 school year and should have been updated to reflect collections realized in excess of \$560,000 for the 2010-2011 and 2011-2012 school years.
- Delinquent real estate tax collections exceeded budget estimates by approximately \$308,000 or 36.2 percent. The District switched its methodology for budgeting delinquent real estate taxes for 2012-2013 from using an average of several prior years of actual collections to a percentage of the prior year tax turnover. The District's estimated collections were based upon 90% of the 2011-2012 tax turnover. In fact, actual delinquent real estate tax collections exceeded the turnover amount for 2011-2012 by \$270,000.
- Delinquent earned income tax collections exceeded the budget by approximately \$392,000 as no budget estimate was made for delinquent earned income taxes. The District's new earned income tax collector, Keystone Collections Group, has increased efforts to collect delinquent taxes and has provided information that better segregates collections between current and delinquent amounts.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Budget Highlights (Continued)

- Refunds of prior year expenditures exceeded the budget estimates by approximately \$175,000. The largest portion of this variance relates to a receipt from Dauphin County Technical School (DCTS) in the amount of approximately \$155,000 that was not budgeted.
- The District's state building reimbursement subsidy fell below budget estimates by approximately \$78,000 or 12.6 percent. The District's debt portfolio consists of approximately 20% variable rate bonds and 40% variable rate bonds that have been synthetically fixed. The District has consistently budgeted for its variable rate debt at a fixed rate level that is consistent with the rate used in decision-making when the bonds were issued. The variable interest rate during 2012-2013 was lower than the budget rate. In a manner that corresponds with the state subsidy falling below budget estimates, the District's actual debt service payments fell below budget estimates.
- Accountability block grant funding from the state exceeded budget estimates by approximately \$164,000. The District did not budget for this grant as the state had proposed the elimination of this funding at the time when the District's budget was adopted.
- The District's Title I grant revenue exceeded budget estimates by approximately \$92,000 or 17.5 percent. The District's Title I allocation increased by approximately \$143,000 for the 2012-2013 school year. The District only records grant revenue to the extent of expenditures incurred. The grant period lasts longer than a fiscal year, so the current year revenue recognized includes a portion of the 2011-2012 and the 2012-2013 allocations.
- Regular instruction program expenditures fell below budget estimates by approximately \$327,000 or 2.4 percent. The most notable reason for the favorable budget variance is that benefit costs were \$473,000 less than budgeted. Actual costs for social security, tuition reimbursement, unemployment compensation and retirement incentives fell below budget amounts. The District's actual costs for professional and technical services fell below budget amounts by approximately \$56,000 primarily related to the District's Raider Academy. The most notable item that exceeded budget estimates was technology supplies that were \$166,000 more than budgeted because of technology initiatives that were refined after the budget was developed. Equipment exceeded budget estimates by \$69,000 primarily related to the refinement of the technology initiative.
- Pupil personnel support services expenditures exceeded budget estimates by approximately \$252,000 or 17.1 percent. Salaries exceeded the budget estimate by approximately \$148,000 due to the reclassification of speech pathologist and career coordinator costs as pupil personnel despite being budgeted elsewhere. Benefit costs exceeded the budget estimate by approximately \$80,000 directly related to the variance for salary costs.
- Instructional staff support services expenditures fell below budget estimates by approximately \$63,000 or 6.2 percent. Salaries fell below budget estimates by \$61,000 primarily related to a reduction in extra compensation costs for staff development.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

Budget Highlights (Continued)

- Operation and maintenance of plant services fell below budget estimates by approximately \$85,000 or 2.7 percent. Property services fell below budget estimates by approximately \$137,000 primarily related to electricity and building repair costs. Benefits exceeded budget estimates by \$39,000 primarily related to medical insurance.
- Central support services expenditures fell below budget estimates by approximately \$104,000 or 10.4 percent. This reduction can primarily be attributed to correctly recording technology expenditures in the regular instruction program function although budgeted in this function.
- Refunds of prior year receipts exceeded budget estimates by approximately \$301,000. The Pennsylvania Department of Education adjusted the building reimbursement subsidy for a previous construction project, reducing revenue that was recorded in prior years by \$287,000. The District did not anticipate this adjustment at the time that the budget was developed. The District also returned approximately \$13,000 to Steelton-Highspire School District for tuition receipts that were calculated incorrectly in the prior year.
- The District's interfund transfers exceeded budget estimates by approximately \$2,479,000 or 44.9 percent. The District approved a transfer of unspent revenue in the amount of \$2,870,000 to the Capital Projects Fund to pay for future capital improvements.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2013

Capital Assets and Debt Administration

Section 1.01 Capital Assets

At June 30, 2013, the District had total assets of \$57.6 million in land, buildings, equipment and books, with \$57.4 million of that figure in governmental activities. Table 4 shows the fiscal 2013 balances compared to 2012:

Table 4 - Capital Assets, Net of Depreciation at June 30 (In Millions)

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Land and Land						
Improvements	4.8	5.0	0.0	0.0	4.8	5.0
Buildings and Building						
Improvements	48.4	49.7	0.0	0.0	48.4	49.7
Furniture and equipment	3.2	3.0	0.2	0.2	3.4	3.2
Construction-in-progress	1.0	0.2	0.0	0.0	1.0	0.2
	57.4	57.9	0.2	0.2	57.6	58.1

Net capital assets decreased by \$479,000 during fiscal 2013. Additions to capital assets of approximately \$1.8 million during fiscal 2013 consisted primarily of building improvements from roof restoration and vertical platform lift repairs at Kunkel Elementary School and other minor improvements at other school buildings in the amount of \$683,000; technology, music, mechanical, maintenance, vehicle and furniture equipment purchases in the amount of \$791,000; and the purchase of library books and textbooks in the amount of \$300,000. Depreciation charges during fiscal 2013 decreased net capital assets by \$3.0 million, more than offsetting the asset purchases. Net capital assets increased by approximately \$743,000 in construction in progress as the District began a renovation project at Fink Elementary School and the design for a new High School.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2013

Capital Assets and Debt Administration (Continued)

Section 1.02 Debt Administration

At June 30, 2013, the District had \$31.9 million in general obligation bonds and notes outstanding; \$24.6 million due within one year. On August 1, 2012, the District refunded the Series of 2004 bonds with a one-year floating rate note. The District entered into this transaction in lieu of renewing a liquidity agreement for the Series of 2004 bonds as this would be a more costly option. Although the 2012 note had a one-year term, the District did not intend to pay off the note upon expiration. Accordingly, the amount reflected in the financial statements as due within one year is not reflective of the District's intended financial position. The District did, in fact, replace the 2012 note with a three-year floating rate note in July 2013. Table 5 summarizes bonds and notes outstanding:

Table 5 - Outstanding Debt at June 30 (In Millions)

	Governmental Activities	
	2013	2012
General Obligation Bonds:		
Series of 2004	0.0	24.4
Series of 2008	1.5	1.9
Series of 2009	1.6	2.7
	<u>3.1</u>	<u>29.0</u>
General Obligation Notes:		
Series of 2008	5.6	6.2
Series of 2012	23.2	0.0
	<u>28.8</u>	<u>6.2</u>

The District's outstanding debt decreased by \$3.3 million during fiscal 2013.

The District has been assigned a municipal bond rating of "AA-" by Standard & Poor's Corporation. 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 \$84.5 million. Accordingly, the District still has more than 1/2 of its borrowing capacity available. The District has completed capital improvements or new construction in the majority of its school buildings.

Other noncurrent obligations of the District include an estimated liability for accumulated compensated absences of approximately \$977,000. The liability for accumulated compensated absences represents the District's liability for vacation and sick leave payments upon termination of employment. The District does not anticipate that any of these obligations will be paid within the next twelve months.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

The District's Future

The District fulfilled its 2012-2013 District goal to develop a multi-year plan for the integration of technology into curriculum and instruction at all grade levels in order to change instructional practices and meet the needs of students living in a media age. During 2012-2013, the District piloted student use of iPads at the high school level. The District provided a select group of 9th grade students with an iPad and selected four core subject area teachers to work with these students to engage them in learning and improve their academic performance. The District also continued to pilot the use of iPads as a tool for students with disabilities. The results of the pilot programs proved successful and the District prepared its teaching staff for a transition to utilizing Apple Macbooks and iPads at the middle school and elementary school levels. The District developed the plan to provide classroom sets of iPads at the elementary level and an iPad to all students at the middle school in the 2013-2014 school year. The plan would then be finalized in the 2014-2015 school year when all students at the high school would be provided with an iPad. The District is very pleased to be able to provide students and staff with valuable technology resources that will aid instruction while being sensitive fiscal constraints. The District entered into lease agreements that will help to stabilize the operating budget.

In addition to continuing District goals focused on educational advancement, the District's goals for 2012-2013 continued to emphasize facility improvements. The District believes that the school environment also impacts good education. The District updated its facility study early in the 2012-2013 school year in response to Pennsylvania legislation that would limit state funding for construction projects. The facility study confirmed that the most significant needs exist at the high school and that renovation of the existing high school would be more costly than building a new high school. The District started the design process for a new high school and the approval process for a building project with the Pennsylvania Department of Education prior to the legislatively imposed moratorium in order to preserve the potential for state assistance with the construction costs. Regular meetings with design and financial consultants were held during the remainder of 2012-2013 to plan for the construction of a new high school. The District was very pleased to announce that there should be no real estate tax increase in order to build the new high school due to a financing plan that takes advantage of the debt service decline in the next eight years. The ability to build a \$40 million high school without a tax increase is a testament to the District's stewardship and planning.

The District also began a small renovation project at Fink Elementary School during the summer of 2013 to replace windows and wall panels that had deteriorated with age. The renovation project also included updates to the systems in the building, so that the majority of items identified in the facility study would be addressed. Other minor mechanical and efficiency improvements occurred in the other school buildings during the year based upon equipment failures and to realize energy savings.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended June 30, 2013

The District's Future (Continued)

The District's goals for 2013-2014 continue to primarily emphasize the education of the 2,300 students that have been entrusted to its dedicated staff and administrators. District goals for 2013-2014 also continue to stress identifying strategies to obtain cost reductions or efficiency improvements through better utilization of District resources. Over the past several years this has been an important goal for the District as state funding reductions occurred in 2011-2012 while drastic increases began in the employer share of retirement costs. Although the employer retirement rate continues to climb, the District has developed a plan to level off the increases once they have reached a certain levels. The District has committed more than \$4.6 million of fund balance to address future retirement costs. The District has also committed nearly \$400,000 in fund balance to cover health insurance costs associated with the District's funding arrangement.

Although each fiscal year's budget stands on its own, the District keeps an eye on future years as the budget is developed. Accordingly, multi-year planning has become an important part of the District's budget development process. Significant revenue growth is not expected in the District. Proposed construction in the District has not moved quickly. Additional housing near the Pennsylvania State University campus in the District has been constructed by private developers, thereby generating some additional real estate tax revenue. A new housing development across from the high school has been proposed for almost one decade. Recent discussions indicate that construction could begin during the 2013-2014 school year. The District welcomes additional real estate tax revenue from the proposed development and is hopeful that its school buildings would be able to house any additional students that move into the sites. The District has experienced increases in earned income tax collections over the past few years. The District attributes these increases to a change in tax collector, rather than an economic boom and does not expect that these increases will continue. Expenditure increases continue to outpace revenue gains, thereby necessitating the District's goal to seek cost reductions and efficiency improvements. The District is very proud that more than two dozen strategies have already been implemented to allow the District to balance its annual budget for the past few years with real estate tax increases that fall below Pennsylvania's Act 1 index. A number of these strategies have focused on energy efficiency so that cost reductions have not impacted student learning.

The District has been successful in "living within its means" and yet is able to witness academic progress. The District takes seriously its mission to instruct the leaders of tomorrow, but recognizes the need to not be burdensome on the residents of today. In conclusion, Middletown Area School District has committed itself to financial excellence that corresponds with its mission of educational excellence.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's financial operations and to show 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 Assistant to the Superintendent for Finance and Operations, David A. Franklin, CPA, PRSBA, at Middletown Area School District, 55 West Water Street, Middletown, PA 17057.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,170,039	\$ 242,138	\$ 14,412,177
Investments	2,224,003	-	2,224,003
Receivables	3,116,314	227,307	3,343,621
Inventories	-	42,205	42,205
Prepaid expenses	12,434	-	12,434
Capital assets			
Land, improvements and construction in progress	3,221,652	-	3,221,652
Other capital assets, net of depreciation	54,238,660	184,838	54,423,498
Total capital assets	57,460,312	184,838	57,645,150
Total assets	\$ 76,983,102	\$ 696,488	\$ 77,679,590
Deferred Outflows of Resources			
Deferred amounts on refunding debt	\$ 20,404	\$ -	\$ 20,404
Deferred outflows on derivative instruments	1,511,816	-	1,511,816
Total deferred outflows of resources	\$ 1,532,220	\$ -	\$ 1,532,220
Liabilities			
Internal balances	\$ 3,815	\$ (3,815)	\$ -
Accounts payable and accrued expenses	3,124,985	20,101	3,145,086
Unearned revenues	5,881	26,445	32,326
Long-term liabilities			
Due within one year	24,590,000	-	24,590,000
Due in more than one year	10,219,625	-	10,219,625
Total long-term liabilities	34,809,625	-	34,809,625
Total liabilities	\$ 37,944,306	\$ 42,731	\$ 37,987,037
Deferred Inflows of Resources			
	\$ 1,461	\$ -	\$ 1,461
Net Position			
Net investment in capital assets	\$ 32,402,683	\$ 184,838	\$ 32,587,521
Restricted	467,268	-	467,268
Unrestricted	7,699,604	468,919	8,168,523
Total net position	\$ 40,569,555	\$ 653,757	\$ 41,223,312

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

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	\$ 21,586,290	\$ 48,264	\$ 4,075,191	\$ -	\$ (17,462,835)	\$ -	\$ (17,462,835)
Instructional student support	2,772,026	-	391,560	-	(2,380,466)	-	(2,380,466)
Administration and financial support	4,023,069	-	252,653	-	(3,770,416)	-	(3,770,416)
Operation and maintenance of plant services	3,231,550	24,308	129,520	2,250	(3,075,472)	-	(3,075,472)
Pupil transportation	1,456,509	-	622,352	-	(834,157)	-	(834,157)
Student activities	914,179	48,570	83,876	-	(781,733)	-	(781,733)
Community services and scholarships	54,705	-	2,550	-	(52,155)	-	(52,155)
Interest on long-term debt	1,434,541	-	-	538,000	(896,541)	-	(896,541)
Total governmental activities	35,472,869	121,142	5,557,702	540,250	(29,253,775)	-	(29,253,775)
Business-type activities:							
Food Service	1,121,259	518,224	608,148	-	-	5,113	5,113
Radio Station	50,262	45,954	88	-	-	(4,220)	(4,220)
Total business-type activities	1,171,521	564,178	608,236	-	-	893	893
Total school district	\$ 36,644,390	\$ 685,320	\$ 6,165,938	\$ 540,250	\$ (29,253,775)	\$ 893	\$ (29,252,882)
General Revenues:							
Property taxes, levied for general purposes, net					\$ 18,984,886	\$ -	\$ 18,984,886
Public utility, realty transfer, earned income and other taxes for general purposes, net					6,429,596	-	6,429,596
Grants, subsidies and contributions not restricted					8,213,253	-	8,213,253
Investment earnings					117,051	1,819	118,870
Loss on disposition of capital assets					(774)	-	(774)
Miscellaneous income					8,318	-	8,318
Transfers					(3,778)	3,778	-
Total general revenues and transfers					33,748,552	5,597	33,754,149
Changes in net position					4,494,777	6,490	4,501,267
Net position - July 1, 2012, as originally stated					36,254,947	647,267	36,902,214
Prior period adjustment (see note 7)					(180,169)	-	(180,169)
Net position - July 1, 2012, as restated					36,074,778	647,267	36,722,045
Net position - June 30, 2013					\$ 40,569,555	\$ 653,757	\$ 41,223,312

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General	Capital Projects	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 9,953,577	\$ 4,216,462	\$ 14,170,039
Investments	2,209,139	14,864	2,224,003
Taxes receivable	2,479,401	-	2,479,401
Due from other funds	18,082	3,706,059	3,724,141
Due from other governments	619,410	-	619,410
Other receivables	17,948	-	17,948
Prepaid expenses	12,434	-	12,434
Total assets	\$ 15,309,991	\$ 7,937,385	\$ 23,247,376
Liabilities			
Due to other funds	\$ 2,909,270	\$ 819,130	\$ 3,728,400
Due to other governments	12,822	-	12,822
Accounts payable	869,360	270,709	1,140,069
Accrued salaries and benefits	1,573,143	-	1,573,143
Payroll deductions and withholdings	206,764	-	206,764
Unearned revenues	5,881	-	5,881
Total liabilities	5,577,240	1,089,839	6,667,079
Deferred Inflows of Resources	1,150,683	-	1,150,683
Fund Balances			
Nonspendable	12,434	-	12,434
Restricted	467,268	6,847,546	7,314,814
Committed	5,020,599	-	5,020,599
Assigned	169,336	-	169,336
Unassigned	2,912,431	-	2,912,431
Total fund balances	8,582,068	6,847,546	15,429,614
Total liabilities, deferred inflows of resources and fund balances	\$ 15,309,991	\$ 7,937,385	\$ 23,247,376

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total fund balances - governmental funds	\$ 15,429,614
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and; therefore, are not reported as assets in governmental funds. The cost of assets is \$89,710,310 and the accumulated depreciation is \$32,249,998.

	57,460,312
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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.

	1,149,222
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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.

	20,404
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Derivative instruments are recorded at fair value. When the derivative is determined to be effective, the change in fair value is shown as a deferred outflow of resources on the Statement of Net Position.

	1,511,816
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Long-term liabilities; including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period, and; therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable and bond discounts	(31,925,579)	
Accrued interest	(192,188)	
Other post-employment benefit obligation	(395,286)	
Derivative instrument - interest rate swap	(1,511,816)	
Compensated absences	(976,944)	
	<hr/>	<hr/>
		(35,001,813)

Total net position - governmental activities	\$ 40,569,555
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See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

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

Year Ended June 30, 2013

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues				
Local sources	\$ 26,563,435	\$ -	\$ 25,777	\$ 26,589,212
State sources	12,704,807	-	1,773	12,706,580
Federal sources	844,505	-	-	844,505
Total revenues	40,112,747	-	27,550	40,140,297
Expenditures				
Instruction	19,767,682	-	-	19,767,682
Support services	11,119,302	82,255	97,865	11,299,422
Noninstructional services	887,524	-	-	887,524
Capital outlay	37,586	-	1,550,118	1,587,704
Debt service	-	4,521,997	-	4,521,997
Refund of prior year's receipts	301,408	-	-	301,408
Total expenditures	32,113,502	4,604,252	1,647,983	38,365,737
Excess (deficiency) of revenues over expenditures	7,999,245	(4,604,252)	(1,620,433)	1,774,560
Other Financing Sources (Uses)				
Operating transfers in	-	4,473,979	3,523,941	7,997,920
Operating transfers out	(8,001,698)	-	-	(8,001,698)
Issuance of refunding bonds	-	(24,450,000)	-	(24,450,000)
Refunding of general obligation bonds	-	24,370,537	-	24,370,537
Premium on bond issuance	-	209,736	-	209,736
Insurance recoveries	7,726	-	-	7,726
Proceeds from sale of assets	100	-	-	100
Total other financing sources (uses)	(7,993,872)	4,604,252	3,523,941	134,321
Net changes in fund balances	5,373	-	1,903,508	1,908,881
Fund Balances:				
July 1, 2012	8,576,695	-	4,944,038	13,520,733
June 30, 2013	\$ 8,582,068	\$ -	\$ 6,847,546	\$ 15,429,614

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, 2013

Net changes in fund balances - governmental funds	\$	1,908,881
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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 exceeds capital outlays and dispositions in the period.

Capital outlays	2,523,469	
Loss on sale of capital assets	(874)	
Less depreciation expense	<u>(2,946,942)</u>	(424,347)

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 increased by this amount this year. (175,824)

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. (24,057)

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. (72,523)

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	3,360,000	
Refunding of general obligation debt	24,450,000	
Issuance of general obligation bonds	(24,659,736)	
Amortization of bond-issuance discounts	196,505	
Amortization of refunding loss	<u>(64,122)</u>	3,282,647

Changes in net position of governmental activities	\$	<u>4,494,777</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, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Local sources				
Real estate taxes	\$ 18,898,995	\$ 18,898,995	\$ 19,163,522	\$ 264,527
Other taxes	4,632,950	4,632,950	6,426,784	1,793,834
Investment earnings	105,500	105,500	91,274	(14,226)
Other revenue	578,636	578,636	881,855	303,219
Total local sources	24,216,081	24,216,081	26,563,435	2,347,354
State sources	12,648,972	12,648,972	12,704,807	55,835
Federal sources	750,014	750,014	844,505	94,491
Total revenues	37,615,067	37,615,067	40,112,747	2,497,680
Expenditures				
Instruction				
Regular programs	13,376,862	13,376,862	13,050,331	326,531
Special programs	4,862,272	4,893,272	4,887,483	5,789
Vocational education	1,228,125	1,228,125	1,223,258	4,867
Other instructional	292,128	309,128	303,408	5,720
Nonpublic school programs	14,240	16,740	16,270	470
Adult education programs	286,932	286,932	286,932	-
Support services				
Pupil personnel services	1,471,848	1,728,848	1,724,089	4,759
Instructional staff services	1,007,273	1,007,273	944,585	62,688
Administrative services	2,032,083	2,077,083	2,067,809	9,274
Pupil health	453,870	453,870	441,618	12,252
Business services	487,343	495,343	494,078	1,265
Operation and maintenance of plant services	3,165,676	3,165,676	3,080,523	85,153
Student transportation services	1,413,800	1,449,300	1,445,655	3,645
Central support services	1,001,836	1,001,836	897,370	104,466
Other support services	23,319	23,819	23,575	244
Operation of noninstructional services				
Student activities	875,781	875,781	832,816	42,965
Community services	87,000	87,000	54,708	32,292
Capital outlay	2,000	39,000	37,586	1,414
Refund of prior year's receipts	-	302,000	301,408	592
Total expenditures	32,082,388	32,817,888	32,113,502	704,386
Excess of revenues over expenditures	5,532,679	4,797,179	7,999,245	3,202,066
Other Financing Sources (Uses)				
Operating transfers out	(5,523,014)	(5,207,514)	(8,001,698)	(2,794,184)
Insurance recoveries	-	-	7,726	7,726
Sale of capital assets	-	-	100	100
Budgetary reserve	(420,000)	-	-	-
Total other financing uses	(5,943,014)	(5,207,514)	(7,993,872)	(2,786,358)
Net changes in fund balance	\$ (410,335)	\$ (410,335)	5,373	\$ 415,708
Fund Balance:				
July 1, 2012			8,576,695	
June 30, 2013			<u>\$ 8,582,068</u>	

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2013

	Enterprise Funds		
	Food Service	Radio Station	Total
Assets			
Cash and cash equivalents	\$ 225,646	\$ 16,492	\$ 242,138
Due from other funds	1,018	2,797	3,815
Receivables			
State sources	5,283	-	5,283
Federal sources	81,186	-	81,186
Other receivables	139,193	1,645	140,838
Inventories	42,205	-	42,205
Other capital assets, net of depreciation	173,568	11,270	184,838
Total assets	\$ 668,099	\$ 32,204	\$ 700,303
Liabilities			
Accounts payable	\$ 19,964	\$ 137	\$ 20,101
Unearned revenue	26,445	-	26,445
Total liabilities	\$ 46,409	\$ 137	\$ 46,546
Net Position			
Net investment in capital assets	\$ 173,568	\$ 11,270	\$ 184,838
Unrestricted	448,122	20,797	468,919
Total net position	\$ 621,690	\$ 32,067	\$ 653,757

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
 PROPRIETARY FUNDS
 Year Ended June 30, 2013

	Enterprise Funds		
	Food Service	Radio Station	Total
Operating Revenues			
Food service revenue	\$ 518,224	\$ -	\$ 518,224
Station services	-	45,954	45,954
Total operating revenues	<u>518,224</u>	<u>45,954</u>	<u>564,178</u>
Operating Expenses			
Salaries	20,164	821	20,985
Employee benefits	10,181	167	10,348
Purchased professional and technical services	-	29,373	29,373
Purchased property services	20,802	232	21,034
Other purchased services	951,475	8,191	959,666
Supplies	43,791	2,966	46,757
Depreciation	73,394	6,056	79,450
Other operating expenses	1,452	2,456	3,908
Total operating expenses	<u>1,121,259</u>	<u>50,262</u>	<u>1,171,521</u>
Operating loss	(603,035)	(4,308)	(607,343)
Nonoperating Revenues			
Investment earnings	1,716	103	1,819
State sources	38,436	88	38,524
Federal sources	569,712	-	569,712
Total nonoperating revenues	<u>609,864</u>	<u>191</u>	<u>610,055</u>
Income (loss) before transfers	6,829	(4,117)	2,712
Transfers in	-	3,778	3,778
Total transfers	<u>-</u>	<u>3,778</u>	<u>3,778</u>
Changes in net position	6,829	(339)	6,490
Net Position:			
July 1, 2012	614,861	32,406	647,267
June 30, 2013	<u>\$ 621,690</u>	<u>\$ 32,067</u>	<u>\$ 653,757</u>

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds		
	Food Service	Radio Station	Total
Cash Flows From Operating Activities			
Cash received from meal sales	\$ 522,729	\$ -	\$ 522,729
Cash received from charges for services	(3,297)	44,309	41,012
Cash payments for goods and services	(1,011,513)	(43,765)	(1,055,278)
Cash payments to employees for services	(30,345)	(988)	(31,333)
Net cash used in operating activities	(522,426)	(444)	(522,870)
Cash Flows From Noncapital Financing Activities			
State sources	39,219	88	39,307
Federal sources	523,989	-	523,989
Transfers	-	3,778	3,778
Net cash provided by noncapital financing activities	563,208	3,866	563,296
Cash Flows From Investing Activities			
Investment income	1,716	103	1,819
Purchase of fixed assets	(22,210)	(2,694)	(24,904)
Net cash used in investing activities	(20,494)	(2,591)	(23,085)
Net increase in cash and cash equivalents	20,288	831	17,341
Cash and Cash Equivalents:			
July 1, 2012	205,358	15,661	221,019
June 30, 2013	\$ 225,646	\$ 16,492	\$ 238,360
Reconciliation of Operating Loss to Net Cash used in Operating Activities			
Operating loss	\$ (603,035)	\$ (4,308)	\$ (607,343)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	73,394	6,056	79,450
Value of donated commodities	40,533	-	40,533
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables	(20,285)	(1,645)	(21,930)
Inventories	(18,590)	-	(18,590)
(Decrease) increase in:			
Internal balances	355	3,839	4,194
Accounts payable	4,788	(4,386)	402
Unearned revenue	414	-	414
Net cash used in operating activities	\$ (522,426)	\$ (444)	\$ (522,870)

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 399,375	\$ 117,265
Due from other funds	444	-
Other receivables	-	226
Total assets	\$ 399,819	\$ 117,491
Liabilities		
Accounts payable	\$ 23,530	\$ 1,723
Other current liabilities	-	115,768
Total liabilities	\$ 23,530	\$ 117,491
Net Position		
Held in trust for scholarships	\$ 376,289	\$ -
Total net position	\$ 376,289	\$ -

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2013

	Private-Purpose Trust Fund
<hr/>	
Additions	
Gifts and contributions	\$ 21,589
Investment earnings	2,448
Refund of prior year's expenditures	4,099
Total additions	<hr/> 28,136 <hr/>
 Deductions	
Scholarships awarded	24,331
Other deductions	208
Total deductions	<hr/> 24,539 <hr/>
 Change in net position	 3,597
 Net Position:	
July 1, 2012	372,692
June 30, 2013	<hr/> \$ 376,289 <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, Royalton Borough, and Lower Swatara Township. These include regular, advanced academic programs, vocational education programs, and special education programs for gifted and handicapped 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 2,300 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 13.

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. GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance provided by the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific 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, or unassigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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)

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

The District reports the following major governmental funds:

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.

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).

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. The District operates two proprietary funds, the food service fund and radio station fund.

The food service fund accounts for the activities of the District's food service program. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's proprietary 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 radio station.

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:

Agency Fund - Student Activities - The student activities fund accounts for assets held by the District as an agent for various student groups.

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 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 School Board at the sub-function/major object level. Transfers between departments, whether between funds or within a fund or revisions that alter 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.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budget and Budgetary Accounting (Continued)

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, the District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2013.
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.

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

Cash and Cash Equivalents: Cash and cash equivalents include amounts in demand and interest bearing bank deposits.

Investments: Investments are stated at fair value.

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, 2013, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government at June 30, 2013, were reported as deferred revenue since title does not pass to the School 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.

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)

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:

<u>Asset Class</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements	20-40
Furniture and equipment	5-12
Vehicles	5-10
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.

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.

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)

Derivative Instruments: Derivatives instruments used by the District are swap contracts that have a variable or fixed payment based on the price of an underlying interest rate or index. Hedging-derivative instruments are used to reduce financial risks, such as offsetting increases in interest costs by offsetting changes in cash flows of the debt, the hedged item. These derivative instruments are evaluated to determine if the derivative instruments are effective in significantly reducing the identified financial risk at year end. If the derivative instrument is determined to be an effective hedge, its fair value is an asset or liability with a corresponding debit or credit to deferred outflows or inflows on the Statement of Net Position. Deferred outflows or inflows constitute changes in fair values of effectively-hedged derivative instruments. This account is neither an asset nor a liability. If the derivative instrument is determined to be an ineffective hedge or when there is no item to be hedged, the derivative instrument is considered to be an investment derivative; its fair value is an asset or liability on the Statement of Net Position and the change in fair value is recognized against investment revenue in the Statement of Activities.

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.

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

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)

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

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

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

- Nonspendable - Amounts that cannot be spent because they are in a nonspendable form (e.g. inventory) or legally or contractually required to be maintained intact (e.g. principal of a permanent fund).
- Restricted - Amounts limited by external parties, or legislation (e.g. grants or donations).
- Committed - Items that have been committed by formal action by the entity's "highest level of decision-making authority"; which the District considers to be Board Resolutions (e.g. future anticipated costs). This level of approval has been reported in the general fund in establishing the retirement rate and health insurance rate stabilization funds.
- Assigned - Items that have been allocated by committee action or individual authorized by the governing board. These amounts are intended for a particular purpose, such as a rate stabilization fund or segregation of an amount intended to be used at some time in the future. The District considers this level of authority to be the Finance/Operations Committee and/or the Assistant to the Superintendent for Finance and Operations.
- Unassigned - Amounts available for consumption or not restricted in any manner.

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 five percent and not more than eight percent of the budgeted expenditures for that year.

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 Equity (Continued)

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. They are presented along with other designations of fund balance in funds that are restricted, committed or assigned and are not separately classified in the financial statements. As of June 30, 2013, the District had no encumbrances.

Pension Plan: Substantially all full time and part time employees of the District participate in a cost sharing multiple employer defined benefit pension plan. The District recognizes annual pension expenditures or expenses equal to its contractually required contributions. The District made all required contributions for the year ended June 30, 2013, and has recognized them as expenditures and expenses in the governmental and proprietary fund, respectively.

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.

Implementation of New Accounting Principles: GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides financial reporting guidance for deferred outflow of resources and deferred inflows of resources. The requirements of this statement improve financial reporting by standardizing the presentation of deferred outflow and deferred inflow of resources and their effects on the government's net position. This standard was adopted for fiscal year ended June 30, 2013, by retroactively reformatting the financial statement presentation. The adoption of this statement reclassified net assets to net position, and identified two new elements to make up a Statement of Net Position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to properly classify previously reported assets and liabilities as deferred outflows or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. The Standard was issued in March 2012 and is effective for the period beginning after December 15, 2012. This Standard was adopted for year ended June 30, 2013.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through December 12, 2013, the date the financial statements were available to be issued.

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 failure, the District's investments may not be returned to it. As of June 30, 2013, \$15,366,879 of the District's total bank balances of \$15,866,879 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72 of 1971	<u>\$ 15,366,879</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, 2013, the District had the following investments:

Investment	Months to Maturity			Fair Values	Rating
	0-6	6-12	13+		
PSDLAF PSDMAX	\$ 1,244,003	\$ -	\$ 980,000	\$ 2,224,003	AAAm

Portfolio Assets

PSDLAF - This 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.

Interest-Rate Risk

The District has 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. The District has no investment policy that would further limit its investment choices. As of June 30, 2013, the District's investments in PSDLAF was rated AAAm by Standard & Poor's.

Concentration-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments are entirely 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 2012-2013 is as follows:

July 1, 2012	Tax levy date
Through September 30, 2012	2% discount
October 1 - November 30, 2012	Face payment period
December 1 - December 31, 2012	10% penalty period
January 1, 2013	Lien filing date

The School District’s tax rate for all purposes in 2012-2013 was 21.40 mills (\$21.40 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania’s accounting system. Current tax collections for the School District were approximately 96% of the total tax levy.

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

A summary of the taxes receivable and related accounts at June 30, 2013, are as follows:

	Amount
Uncollected Taxes	\$ 3,923,159
Estimated uncollectible taxes	(1,443,758)
Taxes Receivable - Net	<u>\$ 2,479,401</u>
Taxes to be collected within 60 days	\$ 1,330,179
Deferred inflows of resources - delinquent propert taxes	1,149,222
Taxes Receivable - Net	<u>\$ 2,479,401</u>
Deferred Inflows of Resources	
Delinquent taxes	\$ 1,149,222
2014 Swap Interest Received	1,461
Total Deferred Inflows of Resources	<u>\$ 1,150,683</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, 2013, are as follows:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 18,082	\$ 2,909,270
Capital Projects	3,706,059	819,130
Proprietary Funds		
Food Service	1,018	-
Radio Station	2,797	-
Fiduciary Funds		
Private Purpose Trust	444	-
Total governmental funds	\$ 3,728,400	\$ 3,728,400

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, 2013, are as follows:

Fund	Transfers In	Transfers Out
Governmental Funds		
General	\$ -	\$ 8,001,698
Capital Projects	3,523,941	-
Debt Service	4,473,979	-
Proprietary Funds		
Radio Station	3,778	-
	\$ 8,001,698	\$ 8,001,698

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 bonds. Transfers are made from the general fund to the enterprise funds for operation of the radio station. 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. General Fixed Assets

Capital asset activity for governmental-type activities for the year ended June 30, 2013, was as follows:

	July 1, 2012	Additions	Deletions	June 30, 2013
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,263,301	\$ -	\$ -	\$ 2,263,301
Construction-in-progress	215,526	958,351	(215,526)	958,351
Total capital assets not being depreciated	<u>2,478,827</u>	<u>958,351</u>	<u>(215,526)</u>	<u>3,221,652</u>
Capital assets being depreciated				
Land improvements	3,397,072	6,268	-	3,403,340
Buildings and building improvements	70,688,999	683,100	-	71,372,099
Furniture and equipment	7,687,380	769,018	-	8,456,398
Vehicles	429,738	22,027	(17,516)	434,249
Textbooks	2,016,635	269,886	-	2,286,521
Library books	505,706	30,345	-	536,051
Total capital assets being depreciated	<u>84,725,530</u>	<u>1,780,644</u>	<u>(17,516)</u>	<u>86,488,658</u>
Less accumulated depreciation				
Land improvements	721,047	172,906	-	893,953
Buildings and building improvements	20,991,511	1,831,244	-	22,822,755
Furniture and equipment	5,267,157	738,137	-	6,005,294
Vehicles	237,087	37,939	(16,642)	258,384
Textbooks	1,760,371	133,347	-	1,893,718
Library books	342,525	33,369	-	375,894
Total accumulated depreciation	<u>29,319,698</u>	<u>2,946,942</u>	<u>(16,642)</u>	<u>32,249,998</u>
Total capital assets being depreciated - net	<u>55,405,832</u>	<u>(1,166,298)</u>	<u>(874)</u>	<u>54,238,660</u>
Total Governmental Activities, Capital Assets - Net	<u>\$ 57,884,659</u>	<u>\$ (207,947)</u>	<u>\$ (216,400)</u>	<u>\$ 57,460,312</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2013, was as follows:

	July 1, 2012	Additions	Deletions	June 30, 2013
Business-Type Activities				
Furniture and equipment	\$ 1,936,098	\$ 24,904	\$ -	\$ 1,961,002
Less accumulated depreciation				
Furniture and equipment	1,696,714	79,450	-	1,776,164
Business-Type Activities, Capital Assets - Net	\$ 239,384	\$ (54,546)	\$ -	\$ 184,838

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

	Amount
Governmental Activities	
Instruction	\$ 2,448,006
Instructional student support	151,526
Administration and financial support	133,839
Operation and maintenance of plant services	108,780
Pupil transportation	10,875
Student activities	93,916
Total governmental activities	<u>2,946,942</u>
Business-Type Activities	
Food service	73,394
Radio station	6,056
Total business-type activities	<u>79,450</u>
Total school district	<u><u>\$ 3,026,392</u></u>

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, 2013, and transactions during the year then ended follows:

	July 1, 2012	Increases	Decreases	June 30, 2013	Due within one year
General Obligation Bonds					
Series of 2004	\$ 24,450,000	\$ -	\$ (24,450,000)	\$ -	\$ -
Series of 2008	1,900,000	-	(355,000)	1,545,000	360,000
Series of 2009	2,715,000	-	(1,160,000)	1,555,000	370,000
General Obligation Notes					
Series of 2008	6,180,000	-	(615,000)	5,565,000	640,000
Series of 2012	-	24,450,000	(1,230,000)	23,220,000	23,220,000
Unamortized bond premium/(discount)	(38,258)	209,736	(130,899)	40,579	-
Total Long-Term Debt	35,206,742	24,659,736	(27,940,899)	31,925,579	24,590,000
Other Long-Term Obligations					
Derivative instruments - interest-rate swap	2,111,801	-	(599,985)	1,511,816	-
Other post-employment benefit obligations	401,190	-	(5,904)	395,286	-
Compensated absences	898,517	78,427	-	976,944	-
Total Other Long-Term Obligations	3,411,508	78,427	(605,889)	2,884,046	-
Total General Long-Term Obligations	\$ 38,618,250	\$ 24,738,163	\$ (28,546,788)	\$ 34,809,625	\$ 24,590,000

General Obligation Bonds - Series of 2004 - On October 1, 2004, the District issued General Obligation Bonds - Series of 2004, in the principal amount of \$29,750,000. These bonds were issued to provide funds for capital improvement projects of the District and provided funds to pay the cost and expenses related to the issuance of the bonds. The bonds bore interest at the weekly rate determined by the remarketing agent on the Wednesday proceeding each weekly rate period. The District entered into an interest rate swap agreement for \$20,865,000 of the outstanding bonds at a synthetic fixed rate of 3.73% upon issuance of the bonds. The Bonds were refunded with the General Obligation Notes - Series of 2012. The swap agreement was then attached to the General Obligation Notes - Series of 2012.

General Obligation Bonds - Series of 2008 - On January 1, 2008, the District issued General Obligation Bonds - Series of 2008, in the principal amount of \$3,435,000. The proceeds provided funds for current 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. Interest is payable semi-annually on March 1 and September 1 at rates between 3.25% and 3.70%, with principal maturing through March 1, 2017.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

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. The interest rate of the note is 3.45% with principal maturing through March 15, 2021.

General Obligation Bonds - Series of 2009 - On September 8, 2009, the District issued General Obligation Bonds - Series of 2009, in the principal amount of \$6,120,000. The proceeds provided funds for current refunding of the District's outstanding Series A and B of 2003 general obligation bonds and provided funds to pay the cost and expenses related to the issuance of the bonds. The economic gain on the refunding of the bonds was \$157,780. Interest is payable semi-annually on March 15 and September 15 at rates between 2.00% and 3.00%, with principal maturing through March 15, 2017.

General Obligation Note - Series of 2012 - On August 1, 2012, the District issued General Obligation Note - Series of 2012, in the principal amount of \$24,450,000. The proceeds provided funds for current refunding of the District's outstanding Series of 2004 general obligation bonds and provided funds to pay the cost and expenses related to the issuance of the bonds. There was no economic gain or loss on this transaction. The District entered into an interest rate swap agreement for \$15,700,000 of the outstanding bonds at a synthetic fixed rate of 3.73% upon issuance of the bonds. Interest is payable quarterly beginning November 1, 2012, at a rate of 1.25%, with principal maturing through August 15, 2013.

The maturity of the long-term debt issues are as follows:

Years	General Obligation Debt		
	Principal	Interest	Total
2013-2014	\$ 24,590,000	\$ 911,107	\$ 25,501,107
2014-2015	1,435,000	705,812	2,140,812
2015-2016	1,480,000	581,152	2,061,152
2016-2017	1,540,000	448,526	1,988,526
2017-2018	705,000	309,098	1,014,098
2018-2022	2,135,000	246,257	2,381,257
	<u>\$ 31,885,000</u>	<u>\$ 3,201,952</u>	<u>\$ 35,086,952</u>

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Swap Payments and Associated Debt

As of June 30, 2013, debt service requirements of the variable-rate debt and net interest-rate swap payments, assuming current interest rates remain constant, were as follows:

Year	Variable-Rate Note			
	Principal	Interest	Swaps, net	Total
2013-2014	\$ 23,220,000	\$ 85,101	\$ 500,413	\$ 23,805,514
2014-2015	-	-	428,481	428,481
2015-2016	-	-	355,189	355,189
2016-2017	-	-	277,318	277,318
2017-2018	-	-	196,325	196,325
2018-2020	-	-	83,221	83,221
	<u>\$ 23,220,000</u>	<u>\$ 85,101</u>	<u>\$ 1,840,947</u>	<u>\$ 25,146,048</u>

Prior Period Adjustment - GASB 65 Implementation

Implementation of GASB 65 recognizes cost of issuance as an expense, therefore the adoption of this statement resulted in a decrease of bond-issuance cost and net position of \$180,169 as of July 1, 2012.

The unrealized loss on the bond refunding was reclassified from bonds payable to deferred inflows of resources. Beginning balances were changed to reflect this as of July 1, 2012.

Derivative Instruments - Interest-Rate Swap

Objective - As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of the issuance in 2004, the District entered into an interest-rate swap in connection with a portion (\$20,865,000) of its \$29,750,000 Series of 2004 variable-rate general obligation bonds. The Series of 2004 was currently refunded by Series of 2012. At the time of the refunding, the interest rate swap was attached to Series of 2012. The intention of the swap was to effectively change the government's variable interest rate on that portion of the bonds to a synthetic rate of 3.73%.

Terms - The bonds and the related swap agreement mature on June 1, 2019, and the swap's notional amount of \$20,865,000 is a portion of the total bond issuance of \$29,750,000. Starting in the fiscal year 2005, the notional value of the swap and the principal amount of the associated debt declined. Under the swap, the District pays the counterparty a fixed payment of 3.73% and receives a variable payment computed as 67% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate coupons are based on the weekly rate determined by the remarketing agent.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Derivative Instruments - Interest-Rate Swap (Continued)

Fair Value - Due to interest rate fluctuations, the swap had a negative fair value as of June 30, 2013, of \$1,511,816. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was based upon mid-market quotations for the transactions. Midmarket quotations are based on bid/ask quotations shown on reliable electronic information screens as of close of business on the date specified.

The fair-value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in the fair values of such derivative instruments for the year ended as reported in the 2013 financials are as follows:

	Change in Fair Value		Fair Value at June 30, 2013		Notional
	Classification	Amount	Classification	Amount	
Governmental Activities					
Cash-flow hedges:					
Pay-fixed, interest-rate swap	Deferred Outflows of Resources	\$ (599,985)	Noncurrent Liabilities	\$ 1,511,816	\$ 14,470,000

Credit Risk - As of June 30, 2013, the District was not exposed to credit risk on its outstanding swap since the swap had a negative value. Had the fair value of the swap been positive, the District would be exposed to credit risk in the amount of the derivative's fair value.

Basis Risk - Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swap. The swap has basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax Risk - Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds (e.g., a tax cut that results in an increase in the ration of tax exempt to taxable yields). The District is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Derivative Instruments - Interest-Rate Swap (Continued)

Termination Risk - The District or counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

The Royal Bank of Canada's credit rating is rated Aa3 as determined by Moody's and AA- as determined by Standard & Poor's.

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.

Other Post-Employment Benefits

As described in Note 10, the District provides access to retiree health, and dental care benefits to eligible retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Operating Lease

Lease Rental Debt - Series of 2007, was issued by the Dauphin County Area Vocational-Technical School Authority (Authority) to provide funds to construct improvements and renovations to the Dauphin County Area Vocational-Technical School. The Dauphin County Area Vocational-Technical School Board and six member school districts entered into a lease agreement with the Authority and will pay its 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:

Year	Amount
2014	\$ 140,807
2015	140,708
2016	140,885
2017	140,918
2018	140,744
2018-2023	704,239
2023-2028	704,601
2028-2031	422,488
	<u>\$ 2,535,390</u>

Note 9. Defined-Benefit Pension Plan

Plan Description

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

Type of Plan: Governmental cost-sharing multiple-employer 401(a) defined benefit plan

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

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

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the Publications page of the PSERS website, www.psers.state.pa.us.

Funding Policy

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan (Continued)

Contribution Rates

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 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and 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 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: The District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the District's rate of contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare-insurance premium assistance

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 for the years ended June 30, 2013, 2012 and 2011, were \$1,904,844; \$1,318,205; and \$940,102; respectively, and are equal to the required contributions for each year.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits

The plan description and funding policy for the District is summarized in the chart below:

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
<u>I. FORMER SUPERINTENDENT</u>	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, and Dental and Vision coverage for Retiree</p> <p>Premium Sharing: The District pays 100% of premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p>	Retiree coverage is provided until retiree is eligible for Medicare. Spouse coverage is provided until Spouse is eligible for Medicare. If Retiree dies prior to Medicare eligibility, Spouse coverage may continue until Spouse is Medicare eligible.
<u>II. ADMINISTRATORS</u>			
A) Retired prior to 7/1/2014	Age 55 with 30 years of PSERS Service and 10 years of service within MASD	<p>Coverage: Medical, Prescription Drug, and Dental and Vision coverage for Retiree</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 PSERS Supplement.</p> <p>Spousal Coverage: Available if paid by Retiree.</p>	Same as I.
B) Retired 7/1/2014 and later	Age 55 with 30 years of PSERS Service and 25 years of service within MASD	<p>Coverage: Medical, Prescription Drug, and Dental and Vision coverage for Retiree</p> <p>Premium Sharing: Retiree pays \$100 per month plus the premium-sharing amount paid by active administrators up to an additional \$100 per month and District pays remainder of the premium.</p> <p>Spousal Coverage: Available if paid by Retiree.</p>	Same as I.
<u>III. TEACHERS</u>			
A) Retired prior to 7/1/2003	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, and 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, and 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 7/01/06, 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 paid by Retiree.</p>	Same as I.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits (Continued)

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
III. TEACHERS (continued)			
C) Retired 7/1/2006 - 6/30/2009	N/A - Already retired	<p>Coverage: Medical, Prescription Drug, and 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 paid by Retiree.</p>	Same as I.
D) Retired 7/1/2009 - 6/30/2013	Same as II.A.	Same as II.A.	Same as I.
E) Retired 7/1/13 and later	Same as II.B.	<p>Coverage: Medical, Prescription Drug, and Dental and Vision coverage for Retiree</p> <p>Premium Sharing: Retiree pays \$100 per month plus the premium-sharing amount paid by active teachers up to an additional \$100 per month and District pays remainder of the premium.</p> <p>Spousal Coverage: Available if paid by Retiree.</p>	Same as I.
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 - 6/30/2012	Age 55 with 25 years of within MASD.	<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</p>	Same as I.
D) Retired 7/1/2013 and later	Same as II. B.	<p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree</p> <p>Premium Sharing: Retiree pays \$100 per month plus the premium-sharing amount paid by active support staff up to an additional \$100 per month and District pays remainder of the premium.</p> <p>Spousal Coverage: Available if fully paid</p>	Same as I.
V. MAINTENANCE AND CUSTODIAL STAFF	Same as IV.C.	Same as IV.C.	Same as I.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits (Continued)

Funding Progress

For the year ended June 30, 2013, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental care benefits through an actuarial valuation as of March 1, 2012. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 523,519
Less adjustment to the annual required contribution	(13,803)
Annual OPEB cost	<u>509,716</u>
Amounts contributed:	
Payments of current premiums and claims	(515,620)
Advance funding	<u>-</u>
Increase in net OPEB obligation	(5,904)
OPEB obligation - beginning of year	401,190
OPEB obligation - end of year	<u><u>\$ 395,286</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentag of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 512,384	92.8%	\$ 392,783
June 30, 2012	\$ 511,113	98.4%	\$ 401,190
June 30, 2013	\$ 509,716	101.2%	\$ 395,286

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions

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

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

In the March 1, 2012, actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include an annual health care cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5.5% after eight years. Both rates included a 4.5% inflation assumption. The UAAL is being amortized over 19 years as a level percentage of projected payroll on an open basis, with 18 years remaining.

Note 11. 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, 2013, the District has included the following amounts as restricted net position:

	Amount
Governmental Activities - Reserve for Debt Payments	
Relating to Reid Elementary Project	\$ 467,268

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. 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
Debt payments - Reid Elementary	\$ 467,268	\$ -
Capital projects	-	6,847,546
	\$ 467,268	\$ 6,847,546

Committed

The District has committed certain portions of the General Fund balance as follows:

Committed Funds Description	Amount
Future PSERS expenditures	\$ 4,635,112
Future health insurance expenditures	385,487
	\$ 5,020,599

Assigned

The District has assigned certain portions of the General Fund balance as follows:

Assigned Funds Description	Amount
2013-2014 expenditures	\$ 169,336

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Joint Ventures

Dauphin County Technical School (DCTS)

The District is one of six 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 Area Vocational Technical School Joint Board (Vo-Tech 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 the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2013, was approximately \$1,082,458. In 2007, the DCTS entered into an agreement with the member school districts and the Vo-Tech Board to construct improvements to the school's premise 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, 2013, was \$1,546,431. 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-Technology 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 Vo-Tech Board to acquire land and construct buildings to provide the facilities for the operation of DCTS. In 1997, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the DCTS facilities. The District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements. The District's lease payment to the Authority for the year ended June 30, 2013, was \$140,800, which has been reported in the District's general fund and is detailed in Note 8. 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 services for District students. The amount paid for these services in the year ended June 30, 2013, was approximately \$218,456. 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 14. Risk Management

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

Note 15. Subsequent Event

On July 30, 2013, the District issued General Obligation Note - Series 2013, in the amount of \$23,220,000 for the purpose of refunding the General Obligation Note - Series 2012 and to pay the cost of issuance of the notes. The District also approved a resolution to adopt an Interest Rate Management Plan and authorize the transfer of obligations under the existing swap agreements related to General Obligation Note - Series 2012 to the new Series of 2013 Note.

REQUIRED SUPPLEMENTARY INFORMATION

MIDDLETOWN AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS PLAN

Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
3/1/2008	\$ -	\$ 5,305,558	\$5,305,558	0.00%	\$ 15,150,424	35.02%
3/1/2010	\$ -	\$ 4,388,936	\$4,388,936	0.00%	\$ 15,589,711	28.15%
3/1/2012	\$ -	\$ 4,410,270	\$4,410,270	0.00%	\$ 15,072,960	29.26%

SUPPLEMENTARY INFORMATION

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

Board of School Directors
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, 2013, 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 12, 2013.

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.

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Camp Hill, Pennsylvania
December 12, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2013. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Middletown Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2013.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report 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 12, 2013

MIDDLETOWN AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Identification of the major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs/Cluster</u>
84.010	Title I - Improving Basic Programs

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

Auditee qualified as low-risk auditee? X Yes ___ No

Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

A. Significant Deficiencies 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 .510(a) of OMB Circular A-133.

B. Compliance Findings

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

MIDDLETOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Grantor Program Title	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2012	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2013
U.S. Department of Education										
Passed through the PA Dept. of Education										
Title I - Improving Basic Programs	I	84.010	013-120249	11-12	\$ 372,038	\$ 142,013	\$ 13,715	\$ 128,298	\$ 128,298	\$ -
Title I - Improving Basic Programs	I	84.010	013-130249	12-13	\$ 514,915	372,201	-	490,098	490,098	117,897
Title II - Improving Teacher Quality	I	84.367	020-120249	11-12	\$ 89,136	5,670	5,670	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-130249	12-13	\$ 90,150	77,386	-	90,150	90,150	12,764
Education Jobs Fund	I	84.410	140-120249	11-12	\$ 8,404	8,404	8,404	-	-	-
						605,674	27,789	708,546	708,546	130,661
Passed through Capital Area Intermediate Unit										
Title III - Language Instruction for Limited English Proficient and Immigrant Students	I	84.365	N/A	11-12	\$ 2,699	1,524	1,524	-	-	-
Title III - Language Instruction for Limited English Proficient and Immigrant Students	I	84.365	N/A	12-13	\$ 7,504	6,900	-	7,496	7,496	596
Special Education - Grants to States	I	84.027	N/A	11-12	\$ 465,129	179,233	179,233	-	-	-
Special Education - Grants to States	I	84.027	N/A	12-13	\$ 429,636	341,632	-	429,636	429,636	88,004
Special Education - Preschool Grants	I	84.173	N/A	11-12	\$ 4,802	4,802	4,802	-	-	-
Special Education - Preschool Grants	I	84.173	N/A	12-13	\$ 2,305	2,305	-	2,305	2,305	-
Total passed through the Capital Area Intermediate Unit						536,396	185,559	439,437	439,437	88,600
Total U.S. Department of Education						1,142,070	213,348	1,147,983	1,147,983	219,261
U.S. Department of Health and Human Services										
Passed through the Pennsylvania Department of Public Welfare										
Medical Assistance Reimbursement for Administration	I	93.778	ACCESS	12-13	\$ 8,309	2,188	-	8,309	8,309	6,121
Passed through the Dauphin County Department of Drug and Alcohol Services										
Block Grants for Prevention and Treatment of Substance Abuse	I	93.959	N/A	12-13	\$ 20,054	20,054	-	20,054	20,054	-
Total U.S. Department of Health and Human Services						22,242	-	28,363	28,363	6,121

(Continued)

MIDDLETOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2013

Grantor Program Title	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2012	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2013
U.S. Department of Energy										
Passed through the Pennsylvania Department of Environmental Protection State Energy Program	I	81.041	181098	11-12	\$ 395,000	395,000	392,750	2,250	2,250	-
U.S. Department of Homeland Security										
Passed through PA Department of Emergency Management Agency: Disaster Grants - Public Assistance	I	97.036	FEMA -4030-DR-PA-043-UIIGHE-00	11-12	\$ 23,800	23,800	23,800	-	-	-
U.S. Department of Agriculture										
Passed through PA Department of Education National School Lunch Program	I	10.555	N/A	11-12	N/A	51,460	51,460	-	-	-
National School Lunch Program	I	10.555	N/A	12-13	N/A	348,339	-	404,849	404,849	56,510
Summer Food Service Program for Children	I	10.559	N/A	11-12	N/A	4,944	4,944	-	-	-
Summer Food Service Program for Children	I	10.559	N/A	12-13	N/A	7,125	-	13,427	13,427	6,302
School Breakfast Program	I	10.553	N/A	11-12	N/A	13,232	13,232	-	-	-
School Breakfast Program	I	10.553	N/A	12-13	N/A	82,327	-	98,078	98,078	15,751
Fresh Fruit and Vegetable Program	I	10.582	N/A	12-13	\$ 13,585	10,201	-	12,825	12,825	2,624
Total passed through the Pennsylvania Department of Agriculture						517,628	69,636	529,179	529,179	81,187
Passed through the PA Department of Agriculture National School Lunch Program - Food Donations (a)	I	10.550	N/A	12-13	N/A	(b) 46,893	(c) (6,965)	40,533	(d) 40,533	(e) (13,325)
Total U.S. Department of Agriculture						564,521	62,671	569,712	569,712	67,862
Total Expenditures of Federal Awards						\$ 2,147,633	\$ 692,569	\$ 1,748,308	\$ 1,748,308	\$ 293,244

Test of 50% rule:

Total Federal Expenditures	\$ 1,748,308
Program selected for testing major programs	
Title I - Improving Basic Programs	\$ 618,396
	<u>\$ 618,396 / 1,748,308 = 35.37%</u>

Source Codes:

- D - Direct Funding
- I - Indirect Funding

Legends:

- (a) Donated commodities value at local market rates
- (b) Total amount of commodities received from Department of Agriculture
- (c) Inventories at July 1, 2012
- (d) Total amount of commodities used
- (e) Inventories at June 30, 2013

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-grant activity of the Middletown Area School District under programs of the Federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Middletown Area School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the 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 OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the Schedule of Expenditures of Federal Awards, ACCESS reimbursements are not included on the Schedule. The amount of ACCESS funding received for the year ended June 30, 2013, was \$133,631.

MIDDLETOWN AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2013

There were no prior year findings.

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APPENDIX C

**Description of the
School District**

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DESCRIPTION OF THE SCHOOL DISTRICT

The Middletown Area School District is located in the southern portion of Dauphin County, approximately ten miles from the City of Harrisburg and just east of the Susquehanna River. The School District consists of Lower Swatara Township and the Boroughs of Middletown and Royalton. The School District is situated in the eastern part of the United States, on the western fringe of the highly urbanized and industrial region which sprawls from Washington, D.C., to Boston, Massachusetts.

Because of the School District's close proximity to the largest metropolitan communities of the East, the world's largest markets are readily available for the many diverse products of the area. The School District's location and its many other attributes form a nucleus of economic and social activity that is impressive from all points of view.

The School District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth").

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors.

Demographic Characteristics

The following tables provide population trends, age, wealth and housing indices for the School District, the County and the Commonwealth.

Source: The U.S. Census Bureau

Population

	<u>2000</u>	<u>2010</u>
School District	18,354	18,076
Dauphin County	251,798	268,100
Pennsylvania	12,281,054	12,702,379

Age Composition (2010)

	<u>Percent Under 18</u>	<u>Percent 65 and Over</u>
Municipality		
School District	20.6%	15.2%
Dauphin County	23.2	13.7
Pennsylvania	22.0	15.4

Income (2010-5 Year Estimates)

	<u>Median Family Income</u>	<u>Families Below Poverty Level</u>
Middletown Area School District	\$67,478	6.25%
Dauphin County	\$67,762	8.5%
Commonwealth	\$61,890	9.3%

**Occupied Housing
(2010)**

	Total Housing	Occupied Housing	<u>(%)</u>	Owner-Occupied Housing	<u>(%)</u>
	<u>Units</u>	<u>Units</u>		<u>Units</u>	
Middletown Area School District	8,241	7,577	91.9%	5,090	61.8%
Dauphin County	120,406	110,435	91.7	71,491	59.4
Pennsylvania	5,567,315	5,018,904	90.2	3,491,722	69.6

Medical facilities

There are 2 general acute care hospitals, and one long term acute care hospital that serve Dauphin County. These hospitals, their licensed bed capacities and number of full-time and part-time employees are as follows:

<u>Institution</u>	<u>Location</u>	<u>Licensed Beds</u>	<u>Staff</u>	
			<u>Full-Time</u>	<u>Part-Time</u>
Milton S. Hershey Medical Center	Hershey	483	6,751	1,314
Pinnacle Health Hospitals	Harrisburg	577	4,300	1,206
Select Medical at Polyclinic Medical Center	Harrisburg	38	73	35

Source: Pennsylvania Department of Health, Bureau of Health Statistics; 2012 reporting period.

Transportation

The School District and County are served by Interstate 81 which connects the area with Scranton and Wilkes-Barre, Pennsylvania and Binghamton and Syracuse, New York, to the north, and major cities to the south; Interstate 78 which connects the area with Allentown-Bethlehem-Easton and New York City to the east; Interstate 76 which connects the area with Philadelphia and Pittsburgh; and Interstate 83 which connects the area with York, Baltimore and Washington, D.C. to the south. U.S. Routes 11, 15, 22, 322 and 422 and Pa. 283 also serve the area.

The Harrisburg International Airport, located in the School District, serves the area. This facility has a 10,000-foot runway and can handle the nation's largest commercial and military aircraft. The U.S. Commerce Department has simplified export procedures for the Harrisburg Port-of-Entry, so that cargo may now be flown directly from the County to foreign countries as well as any domestic point. The Airport underwent major renovations and construction of a new terminal complex that opened in 2012. The Airport is served by Air Canada, Air Tran Airways, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines and US Airways. General aviation service is also available at the Capitol City Airport and three other airports in the Standard Metropolitan Statistical Area (SMSA).

CONRAIL's facilities, which include the mainline of the former Penn Central Railroad, offer freight transportation to and from the area. The yard at Enola in Cumberland County is one of the largest classification yards on the CONRAIL system. AMTRAK operates regular daily passenger service, with regular stops in Middletown and throughout the County to major eastern, southern and western cities. Recently the Harrisburg station serving AMTRAK and the Trailways bus system was completely renovated. In addition, Greyhound bus lines has constructed its own new terminal facility in the City of Harrisburg.

Utilities

Those utilities serving the School District include the PPL Electric which provides electric service to the area. Verizon, which provides telephone services, and UGI Corporation which provides natural gas service. The Borough of Middletown buys electricity through an 81-member municipal only consortium for the Borough's residents. Several other utilities provide services to customers throughout lesser populated areas of the County not served by those utilities previously discussed.

Higher Education

The County and surrounding area included within the SMSA has a number of institutions of higher learning including the Penn State College of Medicine, the Harrisburg Area Community College, Penn State Harrisburg, Dickinson College, Penn State Dickinson School of Law, Widener University School of Law, Messiah College, and the University Center at Harrisburg which consists of extension programs offered by a consortium of five institutions of higher learning including Temple University, Pennsylvania State University and the University of Pennsylvania.

The largest of these schools in terms of enrollment is the Harrisburg Area Community College ("HACC") which was the first comprehensive community college to be established in the Commonwealth and serves the SMSA. Founded in 1964 and fully accredited, this college occupies a campus of 157 acres. Since HACC's inception it has grown from a single campus of less than 500 students into a multi-campus institution which enrolls nearly 15,000 credit students each semester, in campuses throughout the SMSA including Harrisburg, Gettysburg, Lancaster, Lebanon and York.

The Penn State Harrisburg campus offers baccalaureate and graduate degree programs. Enrollment is approximately 3,416. Dickinson College, located in Carlisle, is the second oldest institution of higher learning in the Commonwealth. Enrollment at this coeducational liberal arts college is 1,990 full-time students. The Penn State Dickinson School of Law, also located in Carlisle, is the second oldest law school in the Commonwealth having been founded in 1834. Messiah College is a liberal arts institution located in Grantham with current enrollment of approximately 2,700 students.

ECONOMY

Classification of Employment by Industry Dauphin County, Pennsylvania

The following is a breakdown of employment in Dauphin County for 2011 from the Pennsylvania Department of Labor & Industry. Average annual earnings for workers are included.

Industry	Average Units	Average Employment	Total Wages (1000s)	Average Annual Wage
Dauphin County	7,359	172,905	\$8,040,010	\$46,500
AGRICULTURE, FORESTRY, FISHING AND HUNTING	18	614	19,994	32,563
MINING	8	120	5,680	47,334
UTILITIES	11	873	85,309	97,719
CONSTRUCTION	484	5,316	291,021	54,744
MANUFACTURING	210	11,643	757,328	65,046
WHOLESALE TRADE	366	6,865	377,687	55,016
RETAIL TRADE	934	14,817	367,875	24,828
TRANSPORTATION AND WAREHOUSING	198	6,734	284,904	42,308
INFORMATION	125	2,343	138,589	59,150
FINANCE AND INSURANCE	438	10,241	613,501	59,906
REAL ESTATE AND RENTAL AND LEASING	215	1,276	60,797	47,646
PROFESSIONAL AND TECHNICAL SERVICES	774	7,139	477,873	66,938
MANAGEMENT OF COMPANIES AND ENTERPRISES	78	3,456	443,023	128,190
ADMINISTRATIVE AND WASTE SERVICES	336	9,164	263,057	28,706
EDUCATIONAL SERVICES	101	3,059	122,524	40,054
HEALTH CARE AND SOCIAL ASSISTANCE	1,137	26,101	1,313,766	50,334
ARTS, ENTERTAINMENT, AND RECREATION	125	6,275	132,195	21,067
ACCOMMODATION AND FOOD SERVICES	688	13,116	219,267	16,718
OTHER SERVICES (EXCEPT PUBLIC ADMINISTRATION)	846	5,809	214,351	36,900
UNCLASSIFIED	0	0	0	0
FEDERAL GOVERNMENT	71	2,581	172,241	66,734
LOCAL GOVERNMENT	192	11,542	501,968	43,491
STATE GOVERNMENT	77	26,403	1,349,300	51,104

Source: Pennsylvania Department of Labor & Industry, report completed Spring 2013.

* Data that might be identified with an individual employer and/or data involving fewer than twenty-five employees are not published.

Trends in Dauphin County Employment and Unemployment

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Total Employment</u>	<u>Percentage Unemployed</u>		
			<u>County</u>	<u>Pennsylvania</u>	<u>U.S.</u>
2003	133,600	127,000	5.0	5.6	6.0
2004	134,400	127,900	4.8	5.5	5.5
2005	135,000	129,200	4.3	5.0	5.1
2006	136,300	130,700	4.1	4.7	4.6
2007	134,900	129,600	3.9	4.4	4.6
2008	136,800	130,300	4.7	5.4	5.8
2009	137,800	127,400	7.5	8.1	9.3
2010	134,900	123,700	8.3	8.7	9.6
2011	137,800	127,300	7.6	7.9	8.5
2012	139,300	128,600	7.7	7.9	8.1
2013 (Nov)	137,200	128,100	6.6	7.3	7.0

Source: Pennsylvania Department of Labor & Industry (“L&I”).

Ten Largest Employers in Dauphin County⁽¹⁾

The following is a list of the top employers in the County, their product or service.

<u>Employer</u>	<u>Product/Service</u>
State Government	Government
Milton S. Hershey Medical Center	Health Care
Hershey Entertainment & Resorts	Entertainment/Recreation
The Hershey Company	Food Conglomerate
Pinnacle Health System	Health Care
PA Higher Ed. Assistance Agency	Finance
Federal Government	Government
Tyco Electronics Corporation	Manufacturing (Electronics)
Pennsylvania State University	Education
Dauphin County	Government

Source: Pennsylvania Center for Workforce Information & Analysis, 1st Quarter 2013.

(2) L & I does not report employee numbers due to employer privacy.

SCHOOL FACILITIES

The school plant presently operated by the School District consists of one senior high school (grades 9-12), one middle school (grades 6-8), and three elementary schools.

School Year 2013-14

<u>School Facilities</u>	<u>Grades</u>	<u>Reimbursable Pupil Capacity</u>	<u>2013-14 Enrollment</u>
ELEMENTARY			
Lyall J. Fink	K-5	375	220
Robert G. Reid	K-5	675	451
John C. Kunkel	K-5	<u>600</u>	<u>443</u>
TOTAL ELEMENTARY		1,650	1,114
MIDDLE SCHOOL		946	550
SENIOR HIGH		<u>887</u>	<u>679</u>
TOTAL SECONDARY		1,883	1,229
TOTAL ALL SCHOOLS		3,533	2,343

Source: School District

Pupil Enrollment - History

<u>School Year</u>	<u>Total</u>
2002-03	2,675
2003-04	2,546
2004-05	2,469
2005-06	2,440
2006-07	2,392
2007-08	2,427
2008-09	2,383
2009-10	2,332
2010-11	2,323
2011-12	2,297
2012-13	2,321
2013-14	2,343
2014-15 *	2,364

* Projected

Source: School District Officials

APPENDIX D

**Proposed Form of
Opinion of Bond Counsel**

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DRAFT

**MIDDLETOWN AREA SCHOOL DISTRICT
GENERAL OBLIGATION BONDS, SERIES A OF 2014
GENERAL OBLIGATION BONDS, SERIES B OF 2014 (CAPITAL APPRECIATION BONDS)**

OPINION

We have acted as Bond Counsel in connection with the issuance by Middletown Area School District, Dauphin County, Pennsylvania (the "School District"), of \$_____,000 General Obligation Bonds, Series A of 2014, and \$_____,000 General Obligation Bonds, Series B of 2014 (Capital Appreciation Bonds), dated _____, 2014 (collectively, the "Bonds").

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds are issued in accordance and in compliance with the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as codified by the Act of December 19, 1996 (53 Pa. Cons. Stat. Chs. 80-82), ("the Act"), without the assent of the electors, and pursuant to a resolution adopted by the Board of School Directors of the School District on March 24, 2014.
2. The Bonds are valid and binding obligations of the School District.
3. The School District has established with the Paying Agent, as Sinking Fund Depository, a sinking fund in which it has covenanted to deposit amounts sufficient to pay the principal of and interest on the Bonds as the same become due and payable and, to the extent required, to apply such amounts to such purposes.
4. The School District has further covenanted that it will, subject to statutory restrictions and limitations, include in its budget for each fiscal year in which the Bonds are outstanding, and will appropriate in each such fiscal year, the amount of the debt service on the Bonds for such year, that it will duly and punctually pay or cause to be paid, the principal of and interest on the Bonds at the dates and place and in the manner stated on the Bonds; and for such budgeting, appropriation and payment, the School District has irrevocably pledged its full faith, credit and taxing power. For purposes of such payments, the School District has covenanted that it will exercise its ad valorem taxing power, within limitations provided by law, upon all taxable property within the School District. The Bonds are additionally secured by the "state aid intercept" provisions of Section 633 of the Public School Code of 1949, as amended by Act 150 of 1975.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the School District comply with all requirements of the Code, and any regulations promulgated thereunder, that must be satisfied subsequent to the issuance of the Bonds, in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds and the interest thereon will be free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of certain government obligations, including the Bonds, may be subject to state and local taxation within the Commonwealth of Pennsylvania.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

Very truly yours,

Kegel Kelin Almy & Lord LLP

_____, 2014

APPENDIX E

Bond Amortization Schedule

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MIDDLETOWN AREA SCHOOL DISTRICT
Dauphin County, Pennsylvania
General Obligation Bonds, Series A of 2014

Dated: Date of Delivery

Due: March 1, as shown below

Denomination: Integral multiples of \$5,000

Interest Payable: March 1 and September 1

First Interest Payment: September 1, 2014

Form: Book-Entry Only

<u>Payment Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Fiscal Year Ended June 30</u>	<u>Fiscal Debt Service</u>
September 1, 2014						
March 1, 2015						
September 1, 2015						
March 1, 2016						
September 1, 2016						
March 1, 2017						
September 1, 2017						
March 1, 2018						
September 1, 2018						
March 1, 2019						
September 1, 2019						
March 1, 2020						
September 1, 2020						
March 1, 2021						
September 1, 2021						
March 1, 2022						
September 1, 2022						
March 1, 2023						
September 1, 2023						
March 1, 2024						
September 1, 2024						
March 1, 2025						
September 1, 2025						
March 1, 2026						
September 1, 2026						
March 1, 2027						
September 1, 2027						
March 1, 2028						
September 1, 2028						
March 1, 2029						
September 1, 2029						
March 1, 2030						
September 1, 2030						
March 1, 2031						

Total

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APPENDIX F

Accreted Value Table

