

NEW ISSUE - BOOK ENTRY ONLY

RATINGS: S&P: “A+” (Stable Outlook) (Underlying)
S&P: “AA” (Stable Outlook) (AG Insured)
(See “RATINGS” herein)

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds, including interest in the form of original issue discount, if any, will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the School District with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on corporations under the Code for tax years beginning after December 31, 2022. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See “TAX MATTERS” herein.

The School District has designated and determined under and for purposes of Section 265(b)(3) of the Code to qualify each of the Bonds as a “qualified tax-exempt obligation” as such phrase is defined in the Code.

\$10,000,000*
MIDDLETOWN AREA SCHOOL DISTRICT
(Dauphin County, Pennsylvania)
General Obligation Bonds, Series of 2026

Bonds Dated: Date of delivery
Principal Due: March 1, as shown on inside cover
Denomination: Integral multiples of \$5,000

Interest Payable: March 1 and September 1
First Interest Payment: September 1, 2026
Form: DTC Book-Entry Only

Legal Investment for Fiduciaries in Pennsylvania: The Bonds 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.

General: The General Obligation Bonds, Series of 2026 (the “Bonds” or “2026 Bonds”) in the aggregate principal amount of \$10,000,000* are being issued by the Middletown Area School District (the “School District”), a public school district located in Dauphin County, Pennsylvania. The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Purchases of the Bonds can be made only under the book-entry system of DTC, and purchasers will not receive certificates representing their interests in the Bonds. While 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 Manufacturers and Traders Trust Company (the “Paying Agent”), as 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 “BOOK-ENTRY ONLY SYSTEM” herein. Interest on the Bonds is payable initially on September 1, 2026, and thereafter, semiannually on March 1 and September 1 of each year.

Security: The Bonds are payable from the tax and other general revenues of the School District. The School District has covenanted that 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 due on the Bonds for such year and will duly and punctually pay or cause to be paid from funds deposited by the School District in the respective sinking funds established under the Resolution adopted by the School District on June 25, 2024, authorizing and securing the Bonds, or from any other of its legally available revenue or funds, the principal of every Bond and the interest thereon at the dates and 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, which taxing power includes the power to levy *ad valorem* taxes on all taxable property in the School District, within limitations provided by law (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”, APPENDIX A - “TAXING POWERS AND LIMITS” and “PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS” – “Taxpayer Relief Act (Act 1)” herein).

Optional Redemption: The Bonds are subject to optional redemption prior to their stated maturity dates, as described herein.

Proceeds of the Bonds will be used to provide funds to: (1) various capital projects of the School District; and (2) pay the costs of issuing and insuring the Bonds.

Bond Insurance: The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY INC.**



The Bonds are offered for delivery when, as and if issued by the School District and received by the Underwriter, subject to the approving legal opinion of Saxton & Stump, LLC, Lancaster, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain legal matters will be passed upon by Saxton & Stump, LLC, Lancaster, Pennsylvania, Solicitor for the School District, and for the Underwriter by its limited scope underwriter’s counsel, McNees Wallace & Nurick LLC, Lancaster, Pennsylvania. It is expected that the Bonds will be available for delivery through the facilities of DTC, on or about June __, 2026.

RAYMOND JAMES®

*Preliminary, subject to change.

This Preliminary Official Statement and the information herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the 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 any such jurisdiction. The School District deems this Preliminary Official Statement to be final for the purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1) except for certain information on the cover hereof and certain pages herein which have been omitted in accordance with such Rule and which will be supplied in the final Official Statement.

\$10,000,000*

**Middletown Area School District
(Dauphin County, Pennsylvania)
General Obligation Bonds, Series of 2026**

Bonds Dated: Date of delivery
Principal Due: March 1, as shown below
Denomination: Integral multiples of \$5,000

Interest Payable: March 1 and September 1
First Interest Payment: September 1, 2026
Form: DTC Book-Entry Only

BOND MATURITY SCHEDULE

| (March 1) | Principal | Interest | | | CUSIP |
|--------------------|----------------------|--------------------|---------------------|---------------------|--------------------------------------|
| <u>Year</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>Numbers</u> ⁽¹⁾ |
| | | | | | 597212 |

⁽¹⁾The CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriter has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

*Preliminary, subject to change.

No dealer, broker, salesman or other person has been authorized by the School District or the Underwriter 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 Underwriter. 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 Underwriter 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS ARE MADE ONLY BY THE MEANS OF THIS ENTIRE 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.

Assured Guaranty Inc. (“AG”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading “BOND INSURANCE” and “Appendix G - Specimen Municipal Bond Insurance Policy”.

TABLE OF CONTENTS

| | |
|---|----|
| SUMMARY PAGE..... | 1 |
| BOARD OF SCHOOL DIRECTORS..... | 2 |
| INTRODUCTION..... | 3 |
| PURPOSE OF THE ISSUE..... | 3 |
| SOURCES AND USES OF FUNDS..... | 3 |
| DESCRIPTION OF THE BONDS..... | 4 |
| Payment of Principal and Interest..... | 4 |
| Transfer, Exchange and Registration of Certificated Bonds..... | 4 |
| REDEMPTION OF BONDS..... | 5 |
| Mandatory Sinking Fund Redemptions..... | 5 |
| Optional Redemption..... | 5 |
| Notice of Redemption..... | 5 |
| Manner of Redemption..... | 5 |
| BOOK-ENTRY ONLY SYSTEM..... | 6 |
| SECURITY AND SOURCES OF PAYMENT FOR THE BONDS..... | 7 |
| General Obligation Pledge..... | 7 |
| Actions in the Event of Default on the Bonds..... | 7 |
| Sinking Fund..... | 8 |
| Commonwealth Enforcement of Debt Service Payments..... | 8 |
| Pennsylvania Budget Adoption Impasses..... | 8 |
| Act 85 of 2016 (State Subsidy Intercept During a Budget Impasse)..... | 9 |
| BOND INSURANCE..... | 9 |
| BONDHOLDER CONSIDERATIONS..... | 11 |
| Bond Insurance Risk Factors..... | 11 |
| Cybersecurity..... | 11 |
| Climate Change..... | 12 |
| Risk of Audit by Internal Revenue Service..... | 12 |
| CONTINUING DISCLOSURE UNDERTAKING..... | 12 |
| NO LITIGATION..... | 13 |
| TAX MATTERS..... | 13 |
| Federal..... | 13 |
| Pennsylvania..... | 13 |
| Other Jurisdictions..... | 13 |
| Other..... | 14 |
| LEGAL OPINIONS..... | 14 |
| RATINGS..... | 14 |
| UNDERWRITING..... | 14 |
| PAYING AGENT..... | 14 |
| CERTAIN OTHER MATTERS..... | 15 |

APPENDIX A - SUMMARIES OF OPERATING DATA REGARDING THE SCHOOL DISTRICT

DESCRIPTION OF THE SCHOOL DISTRICT A-1
 Introduction A-1
 School Facilities..... A-1
 Pupil Enrollment..... A-1
SCHOOL DISTRICT FINANCES..... A-2
 Financial Reporting..... A-2
 Budgeting Process in accordance with the Public School Code and Act 1 of 2006 (Taxpayer Relief Act)..... A-2
 Summary and Discussion of Financial Results A-3
TAXING POWERS AND LIMITS A-4
 In General..... A-4
PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS..... A-4
Taxpayer Relief Act (Act 1)..... A-4
 Status of the Bonds Under the Taxpayer Relief Act (Act 1) A-5
 Limitations on School District Fund Balance..... A-6
TAX REVENUES OF THE SCHOOL DISTRICT..... A-6
 Tax Levies A-6
 Real Estate Tax Collection Record A-7
 Trends in Market and Assessed Valuations..... A-7
 Ten Most Valuable Taxable Parcels in the School District A-7
COMMONWEALTH AID TO SCHOOL DISTRICTS..... A-8
 Current Lack of Commonwealth Appropriations for Debt Service Reimbursement A-8
DEBT STATEMENT AND DEBT LIMITS A-9
FUTURE FINANCING A-9
BORROWING CAPACITY A-10
LABOR RELATIONS A-10
 Employees and Labor Contracts A-10
 Pension Program..... A-10
 Other Post-Employment Benefits (“OPEB”) A-11

APPENDIX B – LOCAL DEMOGRAPHIC AND STATISTICAL; AND ECONOMIC INFORMATION

APPENDIX C – FORM OF OPINION OF BOND COUNSEL

APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E – AUDITED FINANCIAL STATEMENTS

APPENDIX F – BOND AMORTIZATION SCHEDULE

APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY

SUMMARY PAGE

This Summary Statement is subject in all respects to more complete information in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without the entire Official Statement. A full review of the entire Official Statement should be made by potential Bond purchasers.

| | |
|--|--|
| Issuer | Middletown Area School District, Dauphin County, Pennsylvania (the "School District"). |
| Bonds | <p>The General Obligation Bonds, Series of 2026 in the principal amount of \$10,000,000* (the "Bonds"), dated as of the date of delivery, maturing on March 1, ____ through March 1, ____.</p> <p>Interest on the Bonds shall be payable semiannually on March 1 and September 1. See "DESCRIPTION OF THE BONDS" herein.</p> |
| Optional Redemption | The Bonds stated to mature on or after March 1, ____, are subject to redemption prior to maturity at the option of the School District in whole or, from time to time, in part, in any order of maturities as the School District shall select, on any date or dates on or after March 1, ____, at a price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for such optional redemption. |
| Form | Book-Entry Only. |
| Application of Proceeds | Proceeds of the Bonds will be used to provide funds to: (1) various capital projects of the School District; and (2) pay the costs of issuing and insuring the Bonds. |
| Security | The Bonds are general obligations of the School District, for the payment of which the School District has pledged its full faith, credit and taxing power. |
| Ratings | S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal Bond rating to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal Bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by AG. Currently, AG's financial strength is rated "AA" (stable outlook) by S&P. S&P has also assigned the School District an underlying rating of "A+" (stable outlook). (See " RATINGS " herein.) |
| Continuing Disclosure Undertaking | The School District has agreed to provide, or cause to be provided, in a timely manner, certain information in accordance with the requirements of Rule 15c2-12, as promulgated under the Securities Exchange Act of 1934, as amended and interpreted (the "Rule"). (See " CONTINUING DISCLOSURE UNDERTAKING " and " APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE – for the School District's respective filing deadline, see " Section 3. Time period within which annual information must be filed " herein.) |

[Remainder of Page Intentionally Blank]

MIDDLETOWN AREA SCHOOL DISTRICT
(Dauphin County, Pennsylvania)
 55 West Water Street
 Middletown, Pennsylvania 17057

BOARD OF SCHOOL DIRECTORS

| | |
|------------------------------------|----------------|
| John A. Ponnett, Jr..... | President |
| Jennifer M. Scott..... | Vice President |
| Andrew T. Kinsey..... | Treasurer |
| David A. Franklin, CPA, PCSBA..... | Secretary * |
| Andrew B. Cohran..... | Member |
| Dr. Julie Gomboc-Hellam..... | Member |
| Marianne Moore..... | Member |
| Amy M. Schreffler..... | Member |
| Matthew Sessa..... | Member |
| Thomas Strawbridge..... | Member |

* Non-Voting

SCHOOL ADMINISTRATION

| | |
|------------------------------------|---------------------------|
| Dr. Chelton L. Hunter | Superintendent of Schools |
| David A. Franklin, CPA, PCSBA..... | Chief Financial Officer |

BOND COUNSEL/SOLICITOR

Saxton & Stump, LLC
 Lancaster, Pennsylvania

UNDERWRITER

Raymond James & Associates, Inc.
 Lancaster, Pennsylvania

LIMITED SCOPE UNDERWRITER'S COUNSEL

McNees Wallace & Nurick LLC
 Lancaster, Pennsylvania

PAYING AGENT

Manufacturers and Traders Trust Company
 Harrisburg, Pennsylvania

OFFICIAL STATEMENT

\$10,000,000*

Middletown Area School District

(Dauphin County, Pennsylvania)

General Obligation Bonds, Series of 2026

INTRODUCTION

This Official Statement is furnished by the Middletown Area School District (the "School District"), a public school district located in Dauphin County, Pennsylvania, in connection with the offering of its General Obligation Bonds, Series of 2026 (the "Bonds") in the aggregate principal amount of \$10,000,000*, to be dated their date of delivery (the "Delivery Date") when the Bonds are issued and delivered to DTC (described below) or its agent. The Bonds are general obligations of the School District, which are secured by a parity pledge of its full faith, credit and taxing power to pay the principal of and interest due on the Bonds.

The Bonds are being issued pursuant to, and are secured by, a Resolution adopted by the Board of School Directors of the School District on June 25, 2024 (the "Resolution"), in accordance with the laws of the Commonwealth of Pennsylvania (the "Commonwealth" or "State"), including the Local Government Unit Debt Act, 53 Pa.C.S. Chs. 80-82 (the "Debt Act"). Copies of the Resolution may be obtained from the School District.

The Bonds shall be issued in fully registered form, without certificates or coupons, in the denomination of \$5,000 principal amount and integral multiples thereof. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2026. Interest on any Bond is payable to the Beneficial Owner as of the applicable Record Date (defined below). The interest on and principal of the Bonds is payable by the School District to Manufacturers and Traders Trust Company (the "Paying Agent"), serving as paying agent and sinking fund depository, for transfer to DTC. When issued, the Bonds will be registered in the name of Cede & Co., as nominee for the Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any bond certificates, and beneficial ownership of the Bonds will be evidenced only by electronic book entries. See "**BOOK-ENTRY ONLY SYSTEM**" herein.

The information which follows contains summaries of the Resolution, the Bonds, the Debt Act, Act 1 (herein defined) and other laws, the School District's Budget and its Financial Statements. Such summaries do not purport to be complete, and reference is made to such documents and laws in their entirety, copies of which are on file and available for examination at the offices of the School District.

Neither the delivery of the Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create an implication that there have been no changes in the affairs of the School District, or in the communities or areas in or about the School District, since the date of the Official Statement of the earliest date as of which certain information contained herein is given.

PURPOSE OF THE ISSUE

Proceeds of the Bonds will be used to provide funds to: (1) various capital projects of the School District; and (2) pay the costs of issuing and insuring the Bonds.

SOURCES AND USES OF FUNDS

| | <u>Total</u> |
|---|---------------------|
| <u>Sources of Funds</u> | |
| Proceeds of the Bonds..... | |
| [Net] Original Issue [Premium / Discount] | |
| Total Sources of Funds | |
| <u>Uses of Funds</u> | |
| Construction Fund Deposit | |
| Costs of Issuance ⁽¹⁾ | |
| Total Uses of Funds | |

⁽¹⁾Includes legal fees, underwriter's discount, paying agent fees, rating fee, CUSIP, printing, municipal bond insurance premium and miscellaneous fees.

*Preliminary, subject to change.

DESCRIPTION OF THE BONDS

The Bonds will be issued in book-entry form, in denominations of \$5,000 principal amount and integral multiples thereof. The Bonds will bear interest from the Delivery Date at the rates and mature in the amounts and on the dates set forth on the inside front cover of this Official Statement. Interest on the Bonds will be payable initially on September 1, 2026, and thereafter, semiannually on March 1 and September 1 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for.

When issued, the Bonds will be registered in the name of Cede & Co., as partnership nominee for The Depository Trust Company (“DTC”), New York, New York. Purchasers of the Bonds (the “Beneficial Owners”) will not receive any physical delivery of bond certificates, and beneficial ownership of the Bonds will be evidenced only by book entries. See “BOOK-ENTRY ONLY SYSTEM” herein.

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. See “BOOK-ENTRY ONLY SYSTEM” herein. 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 principal of any certificated Bonds, when due upon maturity or any earlier mandatory or optional redemption, will be paid to the registered owners of such Bonds, or registered assigns, upon surrender of such Bonds to the Paying Agent at its designated corporate trust office (or to any successor paying agent at its designated office(s)).

Interest on any certificated Bonds will be payable to the registered owner of such a Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date, or (c) such Bond is registered and authenticated on or prior to the Record Date preceding, September 1, 2026, in which event such Bond shall bear interest from the Delivery Date, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest on a certificated Bond will be 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 (15th) of the month (whether or not a day on which the Paying Agent is open for business) 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 such Bond subsequent to such Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of such Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names such certificated Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

If the date for payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday or 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 or interest 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 established for such payment.

Transfer, Exchange and Registration of Certificated Bonds

Subject to the provisions herein under “BOOK-ENTRY ONLY SYSTEM”, any certificated Bonds are transferable or exchangeable by the registered owners thereof upon surrender of such Bonds to the Paying Agent, 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 such Bonds in the registration books and shall authenticate and deliver in the name of the transferee or transferees a new fully registered and certificated bond or bonds of authorized denominations of the same, maturity and interest rate for the aggregate principal amount that the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any certificated Bond as the absolute owner thereof (whether such 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: (a) to register the transfer of or exchange any certificated Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15th) day next preceding any date of selection of such Bonds to be redeemed and ending at the close of business on the day of mailing of the applicable notice of redemption; or (b) to register the transfer of or exchange any portion of any certificated Bond selected for redemption until after the redemption date. Certificated Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same series, maturity, and interest rate.

REDEMPTION OF BONDS

Mandatory Sinking Fund Redemptions

In the manner and upon the terms and conditions provided in the Resolution, the following Bond maturities are subject to mandatory redemption in direct order of maturity, pursuant to operation of the Mandatory Sinking Fund in the manner set forth in the Resolution at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest, on March 1st of the following years and in the following principal amounts:

| <u>(Year)</u> | <u>Amount</u> |
|---------------|---------------|
|---------------|---------------|

*Maturity

Optional Redemption

The Bonds maturing on and after March 1, _____, are subject to redemption prior to maturity at the option of the School District, in whole or in part, in any order of maturities as the School District shall select, on any date on or after March 1, _____, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for such optional redemption. In the event that less than all Bonds of a particular maturity are to be redeemed, the Bonds of such maturity shall be drawn by lot by the Paying Agent.

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.

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.

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 or other escrow agent on the redemption date in sufficient time to effectuate the redemption of Bonds. If, after issuing a notice of redemption, the School District is unable or otherwise fails to deposit with the Paying Agent (or other bank or depository acting as refunding escrow agent) money sufficient to redeem the Bonds called for redemption, such notice may be withdrawn or be of no effect until such money is so deposited.

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.

If any maturity of the Bonds which is subject to mandatory sinking fund redemption shall be called for optional redemption in part, the School District shall be entitled to designate whether the principal amount redeemed is to be credited against the principal amount of the Bonds of such maturity required to be called for mandatory sinking fund redemption on any particular future date or dates, or shall be credited against the principal amount of such Bonds to be due and payable at stated maturity, in each case in a whole multiple of \$5,000 principal amount.

BOOK-ENTRY ONLY SYSTEM

The information in this section 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

The Depository Trust Company ("DTC"), New York, NY, 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 Bond certificate will be issued for each series of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities 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 regulated 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 of 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 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 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 affect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments 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 Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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.

NEITHER THE SCHOOL DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The School District and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Obligation Pledge

The Bonds are general obligations of the School District, payable from its local taxes and other general revenues, including available state subsidies, on a parity basis with each other, and other existing or future general obligation debt of the School District. The taxing powers of the School District are described more fully in **APPENDIX A – TAXING POWERS AND LIMITS**. The School District has covenanted in the Resolution that it will include in its budget for each fiscal year, and will appropriate in each such year, the amount of the debt service due 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.

Actions in the Event of Default on the Bonds

In the event of a failure by the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to remedies specified by the Debt Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Debt Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Debt Act also provides that upon a default of at least 30 days, holders of at least 25% of the Bonds may appoint a trustee to represent them. The Debt Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

Sinking Fund

Under the Resolution, the School District has created a “Sinking Fund - General Obligation Bonds, Series of 2026” (the “Sinking Fund Depository”) as required by the Debt Act and segregated from all other funds of the School District. The School District shall deposit in the respective 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 Fund shall be held by the Sinking Fund Depository and invested by the Sinking Fund Depository in such securities as are authorized by the Debt 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 Fund the principal of and interest on the respective Bonds when due and payable.

Commonwealth Enforcement of Debt Service Payments

Section 633 of the Pennsylvania Public School Code of 1949, as amended by Act 150 of 1975, and as further amended and supplemented (the “Public School Code”), provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness on the date of maturity or date of mandatory redemption or on any sinking fund deposit date, or any interest due on such indebtedness on any interest payment date or on any sinking fund deposit date, in accordance with the schedule under which the bonds were issued, the Secretary of Education of the Pennsylvania Department of Education (“PDE”) shall notify such board of school directors of its obligation and shall withhold out of any Commonwealth appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, or sinking fund deposit due by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such Bond issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

The effectiveness of Section 633 of the Public School Code 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. In addition, enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors’ rights generally. See “**Pennsylvania Budget Adoption**” herein.

Pennsylvania Budget Adoption Impasses

The Commonwealth’s fiscal year begins on July 1st; however, over several of the past years, the Commonwealth has started its fiscal year without a fully adopted state budget.

The Governor timely signed the state’s 2021-22 fiscal year budget on June 30, 2021. That budget included an increase of \$300 million for basic education, with \$100 million of that targeted to the 100 historically underfunded school districts that included some in both urban and rural areas of the state. Special education received a \$50 million increase, boosting that budget line to \$1.24 billion, while preschool and Head Start programs received a \$30 million increase, to \$311.5 million. All told, funding for K-12 schools reached a then record high of \$13.55 billion in the 2021-22 budget.

After a week’s delay and intense negotiations, a \$42.7 billion budget for the state’s 2022-23 fiscal year was signed by then Governor Tom Wolf on July 8, 2022, which included \$7.6 billion for the basic education funding appropriation and \$225 million to supplement school districts with a higher at risk student population. The total amount was a \$525 million increase over the 2021-22 fiscal year appropriation.

After over a month delay, a \$44.9 billion budget for the state’s 2023-24 fiscal year was signed by Governor Josh Shapiro on August 3, 2023, which included \$7.87 billion for the basic education funding appropriation. The total amount was a \$567 million increase over the 2022-23 fiscal year appropriation. The budget also provided \$50 million in additional aid to school districts for special education services for a total of \$1.4 billion. Certain funds authorized within the 2023-24 Budget required companion implementation language amending the Fiscal Code to be fully implemented. On December 13, 2023, multiple code bills were passed finalizing the 2023-24 Budget for education.

Governor Josh Shapiro signed the state’s budget for the 2024-25 fiscal year 11 days late on July 11, 2024. The \$47.6 billion budget includes \$8.097 billion for the basic education funding appropriation. The total amount is a \$225 million increase over the 2023-24 fiscal year appropriation. The budget also provides \$100 million in additional aid to school districts for special education services for a total of \$1.487 billion and \$100 million for cyber charter school tuition reimbursement. 348 school districts (including the School District) will receive additional funding totaling \$493.8 million under a new Adequacy Supplement. 182 school districts will receive an additional \$60 million in total of Hold Harmless Relief Supplement as a component of their basic education funding.

After months of negotiations, Governor Josh Shapiro signed the state’s budget for the 2025-26 fiscal year late on November 12, 2025. The \$50.1 billion budget includes (i) \$8.262 billion for the basic education funding appropriation, which is more than a \$100 million increase over the basic education funding appropriation for the 2024-25 fiscal year, and (ii) \$1.526 billion for the special education appropriation, which is a \$40,000,000 increase over the same appropriation for the 2024-25 fiscal year. The budget also increases the Ready to Learn Block Grant program appropriation by approximately 68% from the 2024-25 fiscal year. In addition, the budget hopes to provide \$175 million in estimated savings for school districts through reforms to the existing cyber charter school law. (See “**SECURITY FOR THE BONDS**” herein.)

During a state budget impasse, school districts in the Commonwealth cannot be certain that state subsidies and revenues owed them from the Commonwealth will become available. This includes many of the major state subsidies, and overall revenues, that a Pennsylvania school district receives including basic education funding, special education funding, PlanCon reimbursements, and certain block grants, among many others. **Future budget impasses may affect the timeliness or amount of payments by the Commonwealth under the withholding provisions of Section 633 of the Public School Code. Act 85 of 2016 was adopted to address the timeliness of the withholding provisions of Section 633 of the Public School Code during any future budget impasses. See “Act 85 of 2016” below.**

Act 85 of 2016 (State Subsidy Intercept During a Budget Impasse)

On July 13, 2016, the Governor of the Commonwealth signed into law Act No. 85 of 2016, (P.L. 664, No. 85) ("Act 85 of 2016"), an amendment to the Act of April 9, 1929 (P.L. 343, No. 176), known as the Fiscal Code ("Fiscal Code"). Act 85 of 2016 adds to the Fiscal Code Article XVII-E.4, entitled "School District Intercepts for the Payment of Debt Service During Budget Impasse", which provides for intercept of subsidy payments by PDE otherwise due a school district that is subject to an intercept statute or an intercept agreement, in the event of a Commonwealth budget impasse in any fiscal year.

Act 85 of 2016 includes in the definition of "intercept statutes" Sections 633 of the Public School Code. The School District's general obligation debt, including the Bonds, are subject to Section 633 of the Public School Code.

Act 85 of 2016 provides that the amounts as may be necessary for PDE to comply with the provisions of the applicable intercept statute or intercept agreement "shall be appropriated" to PDE from the General Fund of the Commonwealth after PDE submits justification to the majority and minority chairs of the appropriations committees of the Pennsylvania Senate and House of Representatives allowing ten (10) calendar days for their review and comment, if, in any fiscal year:

- (1) annual appropriations for payment of Commonwealth money to school districts have not been enacted by July 1 and continue not to be enacted when a payment is due;
- (2) the conditions under which PDE is required to comply with an intercept statute or intercept agreement have occurred, thereby requiring PDE to withhold payments which would otherwise be due to school districts; and
- (3) the Secretary of PDE, in consultation with the Secretary of the Budget, determines that there are no payments or allocations due to be paid to the applicable school districts from which PDE may withhold money as required by the applicable intercept statute or intercept agreement.

The necessary amounts shall be appropriated on the expiration of the tenth (10th) day following submission of the justification described above to the majority and minority chairs of the appropriations committees, who may comment on the justification but cannot prevent the effectiveness of the appropriation.

The total of all intercept payments under Article XVII-E.4 of Act 85 of 2016 for a school district may not exceed 50% of the total nonfederal general fund subsidy payments made to that school district in the prior fiscal year.

Act 85 of 2016 requires that each school district subject to an intercept statute or intercept agreement must deliver to PDE, in the format PDE directs, information pertaining to each eligible borrowing within thirty (30) days of receipt of the proceeds of the obligations. The School District intends to submit this information to PDE within the prescribed timeframe following the issuance of the Bonds. Act 85 of 2016 provides that any obligation for which PDE does not receive the required documents shall not be subject to the applicable intercept statute or intercept agreement.

The provisions of Act 85 of 2016 are not part of any contract with the holders of the Bonds and may be amended or repealed by future legislation.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. ("AG") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

Assured Guaranty Inc.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL" and together with its subsidiaries, "Assured Guaranty"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-

U.S. public finance (including infrastructure) and structured finance markets, and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates, and in the annuity reinsurance business through Assured Life Reinsurance Ltd. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG ("AGM"), merged with and into AG, with AG as the surviving company (such transaction, the "Merger"). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

Current Financial Strength Ratings

On August 4, 2025, KBRA announced that it had affirmed AG's insurance financial strength rating of "AA+" (stable outlook).

On June 30, 2025, S&P announced that it had affirmed AG's financial strength rating of "AA" (stable outlook).

On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, announced that it had affirmed AG's insurance financial strength rating of "A1" (stable outlook).

AG can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AG's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2025.

Capitalization of AG

At December 31, 2025:

- The policyholders' surplus of AG was approximately \$3,249 million.
- The contingency reserve of AG was approximately \$1,511 million.
- The net unearned premium reserves and net deferred ceding commission income of AG and its subsidiaries (as described below) were approximately \$2,411 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AG and (ii) the net unearned premium reserves and net deferred ceding commissions of AG's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK"), and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserve, and net unearned premium reserves and net deferred ceding commission income of AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2025 filed with the Securities and Exchange Commission (the "SEC") on February 27, 2026 that relate to AG are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

All information relating to AG included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019,

Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG included herein under the caption "BOND INSURANCE – Assured Guaranty Inc." or included in a document incorporated by reference herein (collectively, the "AG Information") shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE".

BONDHOLDER CONSIDERATIONS

The Bonds, like all investment securities, carry a risk of loss of the investment, in whole or in part. This Official Statement does not purport to describe all of the risks of an investment in the Bonds; both the School District and the Underwriter disclaim any responsibility to advise prospective investors of such risks either as they may exist at the date of dissemination of this Official Statement or as they may appear or change from time to time in the future. Prospective purchasers of the Bonds should consult their own legal and tax advisors as to the risks associated with an investment in the Bonds, their ability to bear a loss from an investment in the Bonds and the suitability of investing in the Bonds, in light of their particular, individual circumstances. Prospective purchasers should carefully consider the matters described below, as well as all the information contained within this entire official Statement inclusive of its Appendices.

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the School District which is recovered by the School District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the School District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer's consent may be required in connection with amendments to the applicable agreements.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the applicable agreements. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description under "RATINGS" herein.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the School District or Underwriter has made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

Cybersecurity

The School District, like other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other electronic sensitive information, the School District may be the subject of cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized remote access to the School District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage, or demanding ransom for restored access to files or

information. The School District has never had a material cyber breach or a cyber breach that resulted in a financial loss. No assurance can be given that the School District's current efforts to manage cyber threats and security will, in all cases, be successful. The School District cannot predict what future cyber security events may occur and what impact said events could have on its operations or finances. In addition to the various processes in place to safeguard against cyber security attacks, the School District also maintains a comprehensive insurance policy which includes privacy liability, cyber incident response, data breach, network security, internet media and network extortion coverages.

The School District relies on other entities and service providers in the course of operating the School District, including its accountants, attorneys, the trustee, and banks, as well as vendors with respect to outsourced critical digital network operations and functions. No assurance can be given that future cyber threats and attacks against other third party entities or service providers will not impact the School District, including the possibility of impacting the timely payments of debt service on the Bonds or timely filings pursuant to the Continuing Disclosure Certificate.

Climate Change

Numerous scientific studies have detailed changing global weather patterns and the potential for increasing extreme weather events across the world. The School District cannot predict the timing, extent, or severity of climate change and its impact on its operations and finances. The School District has not experienced increases in extreme weather events, but has established reserves to address severe weather disasters and maintains a comprehensive insurance policy.

Risk of Audit by Internal Revenue Service

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the School District as the taxpayer and Bond purchasers may have no right to participate in such procedure. None of the School District, the Underwriter or Bond Counsel is obligated to defend the tax-exempt status of the Bonds on behalf of the Bond purchasers, nor to pay or reimburse the cost of any Bond purchaser with respect to any audit or litigation relating to the Bonds. See "TAX MATTERS" herein.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirement of Rule 15-c2-12 (the "Rule") of the United States Securities and Exchange Commission (the "SEC"), the School District (being an "obligated person" with respect to the Bonds, within the meaning of the Rule), will agree to provide certain financial information and operating data 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, as set forth in its Continuing Disclosure Agreement substantially in the form attached hereto as Appendix D.

With respect to the filing of annual financial information and operating data, the School District reserves the right to modify from time to time the specific types of information and data 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 School District is required to give notice of certain events as set forth in the Continuing Disclosure Agreement (not all of which will be relevant to the School District). The School District may from time to time choose to file notice of other events in addition to those specified in the Continuing Disclosure Agreement.

The School District acknowledges that its undertaking pursuant to the Rule described herein and in the Continuing Disclosure Agreement is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holder and beneficial owner 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 defeasance, 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 defined "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>.

The School District has previously entered into Continuing Disclosure Agreements with respect to each one of its previously issued bond issues that are currently outstanding. The School District's filing history of its annual financial and operating information during the past five (5) years is outlined in the following table.

| Fiscal Year Ending | Filing Due Date | Filing Date: Audit/Operating Data & Budget |
|-----------------------------------|----------------------------|---|
| 6/30/2025 | 1/26/2026 | 2/06/2026 ⁽¹⁾ |
| 6/30/2024 | 1/26/2025 | 12/20/2024 |
| 6/30/2023 | 1/26/2024 | 1/22/2024 |
| 6/30/2022 | 1/26/2023 | 1/13/2023 |
| 6/30/2021 | 1/26/2022 | 12/23/2021 ⁽²⁾ |

⁽¹⁾The School District subsequently filed a “Failure to Timely File Notice” to EMMA on 5/5/2026.

⁽²⁾The School District subsequently filed a corrective notice relating to the ten largest taxpayer’s in the operating data filing to EMMA on 11/14/2022.

The School District has reasonable procedures in place designed to ensure ongoing timely filings of its material continuing disclosure requirements.

NO LITIGATION

As a condition to the settlement for the Bonds, the School District will deliver a certificate, and the School District’s Solicitor’s opinion will include a paragraph, stating that there is no pending litigation challenging or pertaining to the Bonds.

TAX MATTERS

Federal

Exclusion of Interest From Gross Income. In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the School District with the requirements of the Code. Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on corporations under the Code for tax years beginning after December 31, 2022.

In rendering its opinion, Bond Counsel has assumed compliance by the School District with its covenants contained in the Resolution and the representations in the Tax Compliance Certificate executed by the School District on the date of issuance of the Bonds relating to actions to be taken by the School District after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes. These covenants and representations relate to the use and investment of proceeds of the Bonds and the rebate to the United States Department of Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

Other Federal Tax Matters. Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, holders of an interest in a financial asset securitization investment trust, property and casualty insurance companies, individuals who otherwise qualify for the earned income credit and taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions, subject to Code Section 265, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

The Bonds are designated, as “qualified tax-exempt obligations” for purposes and effected by Section 265 of the Code (relating to expenses and interest relating to tax-exempt income of certain financial institutions).

Bond Counsel is not rendering any opinion as to any federal tax matters other than as described under the caption “Exclusion of Interest from Gross Income” above and expressly stated in the form of Bond Counsel opinion included as APPENDIX C. Purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.

Pennsylvania

In the opinion of Bond Counsel, under the laws of the Commonwealth, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax; however, under the laws of the Commonwealth, as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

Other Jurisdictions

The Bonds and the interest thereon may be subject to state or local taxes in jurisdictions other than the Commonwealth under applicable state or local tax laws.

Other

The Inflation Reduction Act, H.R. 5376 (the “IRA”), has been passed by both houses of Congress and signed by the President; as passed, the IRA includes a 15% alternative minimum tax to be imposed on the “adjusted financial statement income”, as defined in the IRA, of certain corporations for tax years beginning after December 31, 2022. If the IRA is enacted as passed, interest on the Bonds will be included in the “adjusted financial statement income” of such corporations for purposes of computing such alternative minimum tax.

LEGAL OPINIONS

The issuance of the Bonds is subject to the approving legal opinion of Saxton & Stump, LLC, Lancaster, Pennsylvania, as Bond Counsel to the School District, substantially in the form of Appendix C. Certain legal matters will be passed on for the School District by Saxton & Stump, LLC, Lancaster, Pennsylvania, Solicitor to the School District, and McNeese Wallace & Nurick LLC, in Lancaster, Pennsylvania, will pass upon certain legal matters as limited scope undertaking counsel to the underwriter.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) is expected to assign its municipal Bond insured rating to this issue of Bonds with the understanding that upon issuance and delivery of the Bonds, a municipal Bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by AG. Currently, AG’s financial strength is rated “AA” (stable outlook) by S&P. S&P has also assigned the School District an underlying rating of “A+” (stable outlook).

The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating 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.

UNDERWRITING

Raymond James & Associates, Inc., Lancaster, Pennsylvania (the “Underwriter”) subject to certain conditions, has purchased the Bonds from the School District at a purchase price of \$_____ (representing the par amount of the Bonds of \$_____, plus an original issue premium of \$_____ and less an underwriter’s discount of \$_____). The Underwriter’s obligations are subject to certain conditions precedent; however, the Underwriter will be obligated to purchase all such Bonds on the Delivery Date 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.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the School District. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the School District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

PAYING AGENT

Pursuant to the provisions of the Resolution, as paying agent and sinking fund depository, the Paying Agent has the limited duty of receiving payments from the School District, depositing such payments in a sinking fund and making payments to the owners of the Bonds of the principal of, interest on, and premium, if any, on the Bonds when due, but only to the extent such moneys have been received. As registrar and transfer agent, the Paying Agent has the limited duty of handling the registration and transfer of the Bonds. Accordingly, the Paying Agent performs ministerial duties not involving the exercise of discretion and assumes no fiduciary relationship with respect to the owners of the Bonds.

The Paying Agent may now or in the future have banking relationships with the School District which involve making loans to the School District; these loans may have a security feature which is different from that of the security feature associated with the Bonds. The Paying Agent may also serve as trustee or paying agent and sinking fund depository on other obligations issued by or on behalf of the School District.

CERTAIN OTHER MATTERS

All references to sections or language of the Debt Act, Act 1, 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 be 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.

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

**Middletown Area School District
Dauphin County, Pennsylvania**

By: _____
President, Board of School Directors

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

SUMMARIES OF OPERATING DATA REGARDING THE SCHOOL DISTRICT

[THIS PAGE INTENTIONALLY LEFT BLANK]

DESCRIPTION OF THE SCHOOL DISTRICT

Introduction

The Middletown Area School District is located in southern portion of Dauphin County, Pennsylvania (the “School District”) 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 School District is governed by a board of nine School Directors who are citizens of the School District and who are elected to serve four-year terms on a staggered basis. The daily operations and management of the School District are performed by a central administrative staff which is led by the Superintendent and the Director of Business Services who are appointed by the Board of School Directors.

School Facilities

| <u>School</u> | <u>Year Constructed</u> | <u>Additions/ Alterations</u> | <u>Grades</u> | <u>Rated Pupil Capacity</u> | <u>2025-26 Enrollment</u> |
|------------------------------------|-------------------------|-----------------------------------|---------------|---------------------------------|-------------------------------|
| <i>Elementary:</i> | | | | | |
| Lyall J. Fink | 1964 | 1998, 2008 | K-5 | 375 | 268 |
| Robert G. Reid | 2002 | | K-5 | 675 | 390 |
| John C. Kunkel | 1962 | 1996 | K-5 | 600 | 376 |
| <i>Secondary:</i> | | | | | |
| Middle School..... | 2007 | --- | 6-8 | 946 | 537 |
| Senior High..... | 2016 | --- | 9-12 | 887 | 676 |
| Total School District | | | | 3,533 | 2,247 |

Source: School District Officials

Pupil Enrollment

The present, current and projected enrollments within the School District are shown below:

| <u>Year</u> | <u>Elementary</u> | <u>Secondary</u> | <u>Total</u> |
|--------------------------|-------------------|------------------|--------------|
| 2021-22 | 1,263 | 1,123 | 2,386 |
| 2022-23 | 1,248 | 1,112 | 2,360 |
| 2023-24 | 1,246 | 1,102 | 2,348 |
| 2024-25 | 1,224 | 1,057 | 2,281 |
| 2025-26 (Current)..... | 1,209 | 1,038 | 2,247 |
| 2026-27 (Projected)..... | 1,180 | 1,025 | 2,205 |

Source: School District Officials – October 1st “Enrollment Report” as filed with the Pennsylvania Department of Education.

SCHOOL DISTRICT FINANCES

Financial Reporting

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.

The School District's financial statements are audited annually by a firm of independent certified public accountants, as required by State law. The firm of Boyer & Ritter, of Camp Hill, Pennsylvania currently serves as the School District's auditor. The School District's auditor has not been engaged to perform and has not performed since the date of its report, any procedures on the financial statements addressed in that report. Such auditor also has not performed any procedures relating to this official statement.

Budgeting Process in accordance with the Public School Code and Act 1 of 2006 (Taxpayer Relief Act)

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

Procedures for Adoption of the Annual Budget. Unless the Simplified Procedures described below are utilized, under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (together, the "Taxpayer Relief Act" or "Act 1") all school districts of the first class A, second class, third class and fourth class must adopt a preliminary budget (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election preceding the next fiscal year. This preliminary budget 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 prior public notice of its intent to adopt the preliminary budget prior to its adoption. The board of school directors shall print the final budget and make it available for public inspection at least 20 days prior to its adoption and shall give public notice of its intent to adopt the final budget at least 10 days prior to adoption, and may hold a public hearing prior to adoption. Guidance from PDE suggest that the preliminary budget be converted to a proposed budget adopted by the board of school directors at least 30 days prior to the adoption of the final budget as required by the Public School Code. The School District follows the requirements of Act 1 and the guidance of PDE pursuant to the requirements of the Public School Code.

If the adopted preliminary budget includes an increase in the rate of any tax levied, the school district must submit information on the increase to PDE on a uniform form furnished by PDE. Such information must be submitted no later than 85 days prior to the date of the election immediately preceding the school district's next fiscal year. PDE compares the proposed percentage increase in the rate of any tax with an index established annually (see "**The Taxpayer Relief Act (Act 1)**" herein) and within 10 days of the receipt of the information but not later than 75 days prior to the date of the election immediately preceding the beginning of the school district's next fiscal year, PDE informs the school district whether the proposed tax rate increase is less than or equal to the index. If PDE determines that the proposed percentage increase in the rate of the tax exceeds the index, PDE notifies the school district that: (1) the proposed tax increase must be reduced to an amount less than or equal to the index; or (2) the proposed tax increase must be approved by the electorate at the election immediately preceding the beginning of the school district's next fiscal year; or (3) the School District seek approval to utilize one or more 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 (Act 1)**" 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 applicable 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 that the school district comply with the procedures in Section 687 of the School Code for the adoption of its proposed and final budgets. Section 687 of the School Code requires that the school district adopt a proposed budget at least thirty (30) days prior to the adoption of the annual budget; that the proposed budget be made available for public inspection at least twenty (20) days prior to the date set for the adoption of the annual budget; and that action shall not be taken on the annual budget until after ten (10) days public notice. No referendum exceptions are available to a school district adoption such resolution.

Summary and Discussion of Financial Results

The below table presents a summary of the School District’s General Fund Financial Condition for Fiscal Years ending June 30, 2021 through 2025 and budgeted 2026. For more complete information, the individual financial statements and the budget of the School District may be reviewed at the School District’s Business Office.

**MIDDLETOWN AREA SCHOOL DISTRICT
General Fund Revenues, Expenditures and Fund Balances
(Fiscal Years Ending June 30)**

| | ACTUAL | | | | | Budgeted |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> | <u>2026</u> |
| <u>Revenues</u> | | | | | | |
| Local Sources | \$30,748,276 | \$32,149,303 | \$34,702,260 | \$38,310,728 | \$39,193,006 | \$38,814,070 |
| State Sources..... | 17,232,208 | 17,515,489 | 18,462,611 | 19,707,215 | 21,212,099 | 22,572,338 |
| Federal Sources..... | <u>2,634,828</u> | <u>4,470,898</u> | <u>5,311,852</u> | <u>2,927,671</u> | <u>1,760,816</u> | <u>1,125,783</u> |
| Total Revenues | \$50,615,312 | \$54,135,690 | \$58,476,723 | \$60,945,614 | \$62,165,921 | \$62,512,191 |
| <u>Expenditures</u> | | | | | | |
| Instruction | \$27,741,472 | \$28,034,813 | \$30,535,072 | \$30,985,567 | \$33,122,124 | \$34,306,508 |
| Support Services..... | 15,592,918 | 16,266,839 | 17,423,145 | 18,556,925 | 19,451,522 | 20,168,286 |
| Operation of Non-Instructional Services | 1,196,845 | 1,488,830 | 1,502,907 | 1,589,200 | 1,764,806 | 1,800,173 |
| Capital Outlay..... | 195,471 | 61,109 | 39,302 | 76,824 | 19,483 | 24,850 |
| Debt Service | 251,197 | 245,653 | 359,174 | 248,296 | 225,424 | 136,997 |
| Refund of prior year's receipts | <u>8,985</u> | <u>344</u> | <u>3,185</u> | <u>4,592</u> | <u>870</u> | <u>0</u> |
| Total Expenditures | \$44,986,888 | \$46,097,588 | \$49,862,785 | \$51,461,404 | \$54,584,229 | \$56,436,814 |
| <u>Other Financing Sources (Uses)</u> | | | | | | |
| Interfund Transfers out | (\$5,571,219) | (\$7,687,263) | (\$7,596,749) | (\$9,792,370) | (\$6,377,822) | (\$7,866,547) |
| Insurance Recoveries | 0 | 3,019 | 29,460 | 9,240 | 66,791 | 0 |
| Sale of Capital Assets | 2,283 | 922 | 2,659 | 114,277 | 5,313 | 0 |
| Proceeds from extended-term financing | 0 | 0 | 247,637 | 294,129 | 0 | 0 |
| Special item - LEA joint venture buy-in..... | 0 | 0 | 0 | 0 | 325,771 | 0 |
| Budgetary Reserve..... | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(500,000)</u> |
| Total Other Financing Sources (Uses) | (\$5,568,936) | (\$7,683,322) | (\$7,316,993) | (\$9,374,724) | (\$5,979,947) | (\$8,366,547) |
| Excess Expenditures Over (Under) Revenues .. | \$59,488 | \$354,780 | \$1,296,945 | \$109,486 | \$1,601,745 | (\$2,291,170) |
| Beginning Fund Balance | <u>\$15,047,014</u> | <u>\$15,155,162</u> | <u>\$15,509,942</u> | <u>\$16,806,887</u> | <u>\$16,916,373</u> | <u>\$18,518,118</u> |
| Prior Period Adjustment | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraordinary Items Gain from transition payment | <u>48,660</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Fund Balance June 30 | <u>\$15,155,162</u> | <u>\$15,509,942</u> | <u>\$16,806,887</u> | <u>\$19,916,372</u> | <u>\$18,518,118</u> | <u>\$16,226,948</u> |

Source: School District Audits and Budget.

TAXING POWERS AND LIMITS

In General

Subject to certain limitations imposed by the Act 1 (more specifically described below), the School District is empowered by the School Code and other statutes to levy the following taxes:

1. An 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 ad valorem tax on the 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 municipality 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 or note issue which provided a school building prior to the first Monday of July 1959.
3. An annual per capita tax on each resident over 18 years of age of not more than \$5.00.
4. 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, a per capita tax, an earned income and net profits tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, 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”)/Tax Equalization Division (“TED”)) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

PENNSYLVANIA ACTS AFFECTING CERTAIN LOCAL TAXING POWERS OF SCHOOL DISTRICTS

Taxpayer Relief Act (Act 1)

The information set forth below is a partial summary of relevant sections of Act 1 and their impact. This summary is not intended to be an exhaustive discussion of the provisions of Act 1 nor intended to provide 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.

Under the Taxpayer Relief Act (Act 1), a school district may not levy any tax for the support of the public schools which was not levied in the previous 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, 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 or more of the exceptions summarized below is applicable and the use of such exception is approved by PDE:

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, 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 2004 (“Act 72”), or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 (as in the case of the School District); (a) to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and (b) 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;
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), subject to the limitation that the salary base used for calculating estimated payments is capped at the 2011-12 salary base level, per PDE Referendum Exception Guidelines.”

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 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.

“Index” is defined in Act 1 as follows:

INDEX

1. Except as set forth in paragraph (2), the average of the percentage increase in the Statewide Average Weekly Wage and the Employment Cost Index.
2. For a school district with a market value/income aid ratio great than 0.400 for the school fiscal year prior to the school fiscal year for which the Index is calculated, the value under paragraph (1) multiplied by the sum of:
 - (i) 0.75; and
 - (ii) the school district’s market value/income aid ratio for the school fiscal year prior to the school fiscal year for which the Index is calculated.

“Statewide Average Weekly Wage” is defined in Act 1 as follows:

STATEWIDE AVERAGE WEEKLY WAGE

That amount determined by the Department of Labor and Industry in the same manner that it determines the average weekly wage under section 404(e)(2) of the Act of December 5, 1936 (2nd Sp. Sess., 1937 P.L. 2897, No. 1), known as the Unemployment Compensation Law, except that it shall be calculated for the preceding calendar year.

The Act 1 Index applicable to the School District for the next fiscal year, current fiscal year and prior four fiscal years is as follows:

| <u>Fiscal Year</u> | <u>Index %</u> |
|--------------------|----------------|
| 2025-26 | 5.1 |
| 2024-25 | 6.9 |
| 2023-24 | 5.3 |
| 2022-23 | 4.5 |
| 2021-22 | 3.9 |

Source: Pennsylvania Department of Education website.

In accordance with Act 1, a board of school directors may submit, but is not required to submit, a referendum question to the voters in any future municipal election seeking approval to levy or increase the rate of an earned income tax (“EIT”) or impose a personal income tax (“PIT”) for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law. The referendum was not approved by a majority of the voters at the primary election.

Status of the Bonds Under the Taxpayer Relief Act (Act 1)

The debt service payable on the Bonds described in this Official Statement is not eligible for a specific exception to the Index limits of Act 1.

Limitations on School District Fund Balance

Set forth below is a summary of relevant sections of Act 48. This summary is not intended to be an exhaustive discussion of the provisions of Act 48 nor intended to provide 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.

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes unless the school district has adopted a budget for such school fiscal year that includes an estimated ending unreserved and 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 Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures⁽¹⁾:</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, undesignated fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriate 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.

*Applicable to the School District

⁽¹⁾ Effective June 30, 2011, Governmental Accounting Standards Statement #54 adopted the term “Unassigned” to refer to general fund balances that would fall within the definition of “Unreserved and Undesignated Fund Balance” in the statute known as Act 48 of 2003.

TAX REVENUES OF THE SCHOOL DISTRICT

Tax Levies

2025-26 Real Estate and Non-Real Estate Tax Rates

Realty Tax Rates

| <u>Municipality</u> | <u>Real Estate (Mills)</u> | | | |
|------------------------------|----------------------------|------------------|---------------|--------------|
| | <u>School District</u> | <u>Municipal</u> | <u>County</u> | <u>Total</u> |
| Lower Swatara Township | 25.75 | 4.376 | 7.226 | 37.352 |
| Middletown Borough | 25.75 | 11.161 | 6.876 | 43.787 |
| Royalton Borough..... | 25.75 | 5.250 | 7.226 | 38.226 |

Non-Real Estate Tax Rates

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

| <u>Municipality</u> | <u>Occupation (Mills)</u> | | <u>Per Capita</u> | |
|----------------------------------|---------------------------|---------------|-------------------|---------------|
| | <u>Municipal</u> | <u>School</u> | <u>Municipal</u> | <u>School</u> |
| Lower Swatara Township (mills). | 100.00 | 0.00 | \$10.00 | \$0.00 |
| Middletown Borough (mills) | 600.00 | 0.00 | 10.00 | 0.00 |
| Royalton Borough..... | 0.00 | 0.00 | 10.00 | 0.00 |

Source: School District Officials

Real Estate Tax Collection Record

The School District's realty tax collection record for the previous five fiscal years ending June 30th are as shown below:

| <u>Fiscal Year</u> | <u>Gross Adjusted Total Levy</u> | <u>Current Collections⁽¹⁾</u> | <u>Current Percent Collected</u> | <u>Total Collections⁽²⁾</u> | <u>Total Percent Collected</u> |
|--------------------|----------------------------------|--|----------------------------------|--|--------------------------------|
| 2020-21 | \$23,444,127 | \$22,514,730 | 96.03% | \$23,641,253 | 100.84% |
| 2021-22 | 23,848,512 | 22,912,481 | 96.08% | 23,675,311 | 99.27% |
| 2022-23 | 25,514,741 | 24,299,712 | 95.24% | 25,034,334 | 98.12% |
| 2023-24 | 28,054,985 | 27,046,595 | 96.41% | 27,954,366 | 99.64% |
| 2024-25 | 29,487,152 | 28,450,949 | 96.49% | 29,067,879 | 98.58% |

⁽¹⁾Includes portion of tax levy received from the state through the Homestead/Farmstead Exclusion program.

⁽²⁾Includes delinquent real estate collection.

Source: School District Officials.

Trends in Market and Assessed Valuations

The trend in market and assessed valuation of real estate in the School District is shown below:

| <u>Tax Year</u> | <u>Market Value</u> | <u>Assessed Value</u> |
|-----------------|---------------------|-----------------------|
| 2020 | \$1,492,952,099 | \$1,034,997,865 |
| 2021 | 1,492,650,447 | 1,037,454,103 |
| 2022 | 1,827,612,054 | 1,097,898,215 |
| 2023 | 1,918,386,012 | 1,131,331,115 |
| 2024 | 2,200,640,247 | 1,186,375,315 |

Source: Pennsylvania State Tax Equalization Board (STEB). Assessed Valuations certified by STEB in June of following year. Market Values based upon Common Level Ratio for Dauphin County as reported by STEB.

Ten Most Valuable Taxable Parcels in the School District

The following table represents the ten real estate parcels having the highest assessed values in the School District. These taxpayers represent approximately 21.0% of the School District's total most recent assessed value.

| <u>Taxpayer</u> | <u>Taxable Aggregate Assessed Valuation</u> |
|--------------------------------|---|
| SPUS9 Capital Lane Owner LLC | \$48,260,000 |
| DHK D&H Lot LLC | 29,297,800 |
| BT NEWYO LLC | 28,221,400 |
| AMP Incorporated | 25,451,500 |
| Phoenix Contact Services Inc. | 21,366,300 |
| Hershey Creamery Company | 19,771,900 |
| Third Clabell Company | 19,418,100 |
| Bcore Jupiter NEMW 3 | 17,471,700 |
| RLIF Fulling Mill SPE LLC | 15,347,300 |
| Icon Owner Pool 4 Northeast MI | 12,659,900 |
| Totals | <u>\$237,265,900</u> |

Source: County Assessment Office

COMMONWEALTH AID TO SCHOOL DISTRICTS

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.

Basic education funding is allocated to all school districts in an amount equal to: (1) a fixed sum equal to the school district's Fiscal Year 2023-24 basic educational funding; plus (2) an additional increment determined annually pursuant to statutory formula which adjusts a school district's average daily membership by a number of factors specific to the composition of the student population as well as the school district's median household income, local tax effort and capacity to generate local revenue. The additional increment as calculated above for any individual school district may be zero. Beginning in 2024-25, there is also a Hold Harmless Relief Supplement for qualifying school districts.

Information concerning the calculation of the School District's basic education funding can be found on the Pennsylvania Department of Education's website at <https://www.education.pa.gov>.

School districts also receive subsidies for special education, pupil transportation, career and technical education and health services, among other things.

Commonwealth Appropriations for Debt Service Reimbursement

Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of the debt service on some or all of the School District's outstanding bonds after said bonds have received final approval from the Department of Education (see **"DEBT STATEMENT AND DEBT LIMITS"** herein). Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Aid Ratio or CARF, whichever is higher. The School District's CARF is currently higher at 48.97%. The Reimbursable Percentage is determined through a process known as the "Planning and Construction Workbook" or "PlanCon". In future years, this percentage may change as the School District's MVAR changes, or as a result of future legislation regarding changes to, or even elimination of, the PlanCon program.

In May of 2016, the Commonwealth enacted appropriation legislation known as Act 25 ("Act 25"), which contains authorization for the Commonwealth Finance Authority ("CFA") to issue up to \$2.5 billion of debt to fund PlanCon reimbursements to school districts. Act 25 also instituted a moratorium on new projects entering the PlanCon process while an advisory committee established under Act 25 considers amendments to the PlanCon reimbursement program. This moratorium went into effect on May 15, 2016 and expired on June 30, 2017. On November 6, 2017, House Bill 178 became law without the signature of the Governor and became known as Act 55 of 2017. Contained in Act 55 of 2017 was an extension of the PlanCon moratorium through the end of the 2017-18 fiscal year and a retroactive effective date of July 1, 2017. Subsequently, the Commonwealth enacted Act 42 of 2018, which permitted PlanCon applications submitted between July 1, 2017 and November 6, 2017, and whose school district votes to proceed with construction and award bids on their construction contracts no later than July 1, 2021, to receive PlanCon funding as permitted by law, if made available by the Commonwealth. On June 22, 2018, the Governor approved and signed House Bill 1448, known as Act 39 of 2018, extending the PlanCon moratorium through the end of the 2018-2019 fiscal year. On June 28, 2019, the Governor approved and signed House Bill 1615, known as Act 16 of 2019, that included a continuation of the moratorium on new PlanCon Part A submittals through the end of the 2019-20 fiscal year. Act 30 of 2020 extended the moratorium on new PlanCon Part A submittals through the end of the 2020-21 fiscal year. On June 30, 2021, the Governor approved and signed Senate Bill 381 known as School Code or Act 26 of 2021, which extended the moratorium on new PlanCon Part A submittals through the end of the 2021-2022 fiscal year.

To date, the CFA has issued \$1,903,065,000, to provide for PlanCon reimbursements owed to school districts, consisting of the issuance of its Revenue Bonds, Series A of 2016 (Federally Taxable) in the principal amount of \$758,185,000 issued on October 31, 2016 and its Revenue Bonds, Series of 2019 (Federally Taxable) in the total amount of \$412,520,000 issued on January 18, 2018, its Revenue Bonds (Federally Taxable), Series A of 2019 in the total amount of \$388,975,000 issued on May 9, 2019, as well as its Revenue Bonds (Federally Taxable), Series A of 2021 in the total amount of \$343,385,000 issued on June 23, 2021. It is expected that proceeds of these issues will be used to provide PlanCon reimbursement to the School District for the current and future fiscal years. However, the School District cannot be certain that any future PlanCon reimbursement will be received by PDE as the ability for CFA to issue additional bonds in the future to fund future PlanCon reimbursements owed to school districts may impact the availability of PlanCon reimbursements payable to the School District. Any failure by the Commonwealth to adopt a timely budget and enact necessary spending authorizations could have a material adverse effect upon the School District's anticipated receipt of PlanCon reimbursements.

Act 70 of 2019 was adopted by the State legislature that has modified the PlanCon process. The Act states that on July 1, 2020, a new PlanCon system will go online. However, the legislation does not include any funding nor does it state when the Commonwealth would start to allow applicants to enter into the new program. There is a moratorium for the new PlanCon program, which still remains in place.

There can be no assurances that the School District will be able to successfully apply for, be awarded, and receive sufficient PlanCon reimbursement for the costs of any current or future projects of the School District. A failure by the School District to receive such reimbursement could force the School District to apply other available funds, if any, toward the completion costs of the Project and may have a material adverse effect on the financial resources of the School District to fund other obligations, including payment of debt service on the Bonds.

DEBT STATEMENT AND DEBT LIMITS

Residents of the School District are responsible for the following debt within the School District, the municipalities within the School District and the County following the settlement of the Bonds. The School District has never defaulted on the payment of debt service.

| <u>DIRECT DEBT</u> | <u>Gross</u> | <u>Project</u> | <u>Effective</u> | <u>State</u> | <u>Local</u> |
|---|---------------------------|----------------------------|---|---------------------|----------------------|
| <u>NONELECTORAL DEBT</u> | <u>Outstanding</u> | <u>Reimbursable</u> | <u>Reimbursement⁽¹⁾</u> | <u>Share</u> | <u>Share</u> |
| <u>Issue Type</u> | | <u>Percent (%)</u> | | | |
| General Obligation Bonds, Series of 2026* | \$ 10,000,000 | 0.00% | 0.00% | \$ 0 | \$ 10,000,000 |
| General Obligation Bonds, Series of 2025 | 14,990,000 | 0.00% | 0.00% | 0 | 14,990,000 |
| General Obligation Bonds, Series of 2024 | 27,680,000 | 0.00% | 0.00% | 0 | 27,680,000 |
| General Obligation Bonds, Series of 2023 | 9,985,000 | 0.00% | 0.00% | 0 | 9,985,000 |
| General Obligation Bonds, Series of 2022 | 9,980,000 | 0.00% | 0.00% | 0 | 9,980,000 |
| General Obligation Bonds, Series A of 2017 | 26,145,000 | 15.04% | 7.37% | 1,925,602 | 24,219,398 |
| General Obligation Bonds, Series B of 2014 (CABs) | 4,246,746 | 15.04% | 7.37% | 312,777 | 3,933,969 |
| Total Principal of Nonelectoral Debt..... | \$103,026,746 | | | \$2,238,379 | \$100,788,367 |
| <u>LEASE RENTAL DEBT</u> | | | | | |
| Total Principal of Lease Rental Debt | \$ 0 | | | | |
| TOTAL DIRECT DEBT | \$103,026,746 | | | | |
| <u>OVERLAPPING DEBT</u> | | | | | |
| Component Municipalities Debt | 24,435,442 | | | | |
| Dauphin County ⁽²⁾ | 23,306,486 | | | | |
| Total Principal of Overlapping Debt..... | \$ 47,741,928 | | | | |
| TOTAL DIRECT AND OVERLAPPING DEBT | \$150,768,674 | | | | |
| <u>DEBT RATIOS OF DIRECT DEBT</u> | | | | | |
| Market Valuation of Real Estate | 4.86% | | | | |
| Assessed Valuation of Real Estate | 8.68% | | | | |
| Per Capita (2020 Population) | \$5,094 | | | | |
| <u>DEBT RATIOS OF DIRECT DEBT AND OVERLAPPING DEBT</u> | | | | | |
| Market Valuation of Real Estate | 6.85% | | | | |
| Assessed Valuation of Real Estate | 12.71% | | | | |
| Per Capita (2020 Population) | \$7,455 | | | | |
| <u>FINANCIAL FACTORS OF THE SCHOOL DISTRICT</u> | | | | | |
| Market Value | \$2,200,640,247 | | | | |
| Assessed Value | \$1,186,375,315 | | | | |
| Population (2020) | 20,224 | | | | |

⁽¹⁾Gives effect to current appropriations for payment of debt service and expected future State Reimbursement of School District sinking fund payments based on current CARF. See “Commonwealth Aid to School Districts” herein.

⁽²⁾Pro rata 6.55% share of the County’s \$336,363,571 principal amount outstanding.

*Preliminary, subject to change and final pricing.

Source: Department of Community and Economic Development (“DCED”) website.

FUTURE FINANCING

The School District does not anticipate issuing additional long-term debt in the near future.

BORROWING CAPACITY
(Under Local Government Unit Debt Act)

The legal borrowing capacity of the School District is calculated in accordance with the Debt Act, which describes the applicable debt limits for local government units (entities with taxing powers), including school districts and municipalities. Under the Debt Act, the School District may incur electoral debt, which is debt that is approved by a majority of the School District's voters at either a general or special election, in an unlimited amount. Net nonelectoral debt, or debt not approved by the School District's electorate, net of state aid, may not exceed 225% of the School District's "Borrowing Base", as defined in the Debt Act. The Bonds constitute nonelectoral debt under the Debt Act. The Borrowing Base is calculated as the annual arithmetic average of Total Revenues (as defined in the Debt Act), for the three full fiscal years next preceding the date of incurring debt. Combined net nonelectoral debt and net lease rental debt (debt represented by capital leases and similar agreements relating to debt payments), net of approved state aid, incurred on behalf of the School District may not exceed 225% of the School District's Borrowing Base. The Borrowing Base and borrowing capacity of the School District are as follows:

| | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> |
|--|---------------------|---------------------|---------------------|
| Total General Fund Revenues | \$58,756,479 | \$61,363,260 | \$62,563,796 |
| Less: Required Deductions | | | |
| a. Rental and Sinking Fund Reimbursement | \$383,863 | \$391,168 | \$396,846 |
| b. Revenues for Self-Liquidating Debt..... | 197,446 | 40,986 | 40,337 |
| c. Interest Earned on Sinking Funds | 0 | 0 | 0 |
| d. Grant and Gifts for Capital Projects | 1,794,186 | 189,871 | 229,520 |
| e. Sale of Equipment and Non-Recurring Items (<i>i.e.</i> insurance recoveries) . | 311,334 | 417,645 | 397,874 |
| Total Deductions | <u>\$2,686,829</u> | <u>\$1,039,670</u> | <u>\$1,064,577</u> |
| Total Net Revenues | <u>\$56,069,650</u> | <u>\$60,323,590</u> | <u>\$61,499,219</u> |
| Total Net Revenues for Three Years | | \$177,892,459 | |
| Borrowing Base - Average Net Revenues for Three-Year Period | | \$59,297,486 | |
| Computation of Borrowing Capacity | | | |
| Debt Limitation - 225% OF Borrowing Base | | \$133,419,344 | |
| Less: Net Non-Electoral and Lease Rental Debt..... | | 103,026,746 | |
| Current Non-Electoral and Lease Rental Borrowing Capacity | | <u>\$30,392,598</u> | |

LABOR RELATIONS

Employees and Labor Contracts

There are presently 354 (full-time and part-time) employees of the School District, including 239 teachers, administrators, and other professional employees, and 115 support personnel including secretaries, maintenance staff and aides. The employee count does not include coaches, advisors and athletic game workers.

The current collective bargaining agreement between the School District and its professional employees, represented by the Middletown Area Education Association (MAEA) extends until June 30, 2028. 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, 2029. Relations between the School District and the Association have been good.

Pension Program

Currently, all Pennsylvania school districts and intermediate units participate in a pension program administrated by the Commonwealth. The program is formally known as the Public School Employees' Retirement System ("PSERS"), and a percentage of each eligible employee's salary is contributed by the employee, the School District and the Commonwealth. All full-time employees, part-time employees salaried over eighty days per year and hourly employees with over five hundred hours per year participate in the program.

Contributions are required by active members, School Districts, and the Commonwealth of Pennsylvania as established by the Public School Employees' Retirement Code. Members who enrolled prior to January 1, 2002, range from 5.28% to 7.5% of compensation, depending upon the date of commencement of employment and elections made by each employee member. Members who enrolled in the pension plan on or after January 1, 2002 and before July 1, 2011 is 7.5% of compensation. The contribution rate for PSERS members who enrolled on or after July 1, 2011 is 7.5% or 10.3%, depending upon elections made by each employee member. The PSERS Board certified for the 2026-27 fiscal year, to be paid by the School District, an employee contribution rate at 33.59%. 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.

The Commonwealth will reimburse the School District at the rate of 50% of its total contributions with respect to all employees who were hired prior to July 1, 1994. With respect to employees hired after July 1, 1994, and who were not previously employed by another public school system in the Commonwealth, the School District will be reimbursed by the Commonwealth at the rate of the higher of 50% of

contributions made by the School District or the current Market Value/Personal Income Aid Ratio. The School District is reimbursed on a quarterly basis.

Under Act 5 of 2017 (“Act 5”) PSERS transitioned from a traditional defined benefit system and begin to offer defined contribution plans as well. Beginning July 1, 2019, in addition to other transaction rules and options based on members’ classifications, certain classes of active members may choose to switch from the current defined benefit plan to one of three new retirement benefit plan options which will be available. Additionally, all active members newly hired on or after July 1, 2019, will be required to select one of those three new retirement benefit plan options and will not be eligible to participate in the current defined benefit plan. The three new plans consist of two hybrid plans, with defined benefit and defined contribution components, along with a stand-alone defined contribution plan.

In addition to its comprehensive change in available plans for active members, Act 5 also made certain changes to the PSERS Board of Trustees and administrative protocols and created the Public Pension Management and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and strategies.

According to the Independent Fiscal Office, Act 5 is not expected to reduce school district and state contributions to PSERS over the first fifteen years. However, beginning in fiscal 2034-35 through fiscal 2049-50, employer contribution rates are expected to begin to decline due to the lower long-term employer costs of the new benefit plans and will be lower, in the aggregate, over the study period. 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 one-half 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 payments, net of reimbursement, have been as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|----------------------|
| 2021-22 | \$2,994,406 |
| 2022-23 | 3,176,237 |
| 2023-24 | 3,211,567 |
| 2024-25 | 3,520,018 |
| 2025-26 | (Budgeted) 3,797,268 |

On June 30, 2025, the School District reported a liability of \$55,667,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS' total pension liability as of June 30, 2023 to June 30, 2024. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the PSERS' one-year reported contributions. This method was changed beginning with the System’s fiscal year ended June 30, 2020. In prior years, the proportion of the PSERS net pension liability was calculated utilizing the School District’s one-year reported covered payroll as it related to PSERS’ total one-year report covered payroll. On June 30, 2025 (measurement date), the School District's proportion was 0.1330%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2024.

As of June 30, 2024, the PSERS plan was 64.63% funded, with an unfunded actuarial accrued liability of approximately \$42.3 billion. PSERS’ rate of return for fiscal year ended June 30, 2024 was 7.05%. The Fund had plan net assets of \$76.5 billion at June 30, 2024. For more information, visit the PSERS website at www.psers.pa.gov, which is not incorporated by specific reference into this Preliminary Official Statement.

Source: School District Audit and PSERS

Other Post-Employment Benefits (“OPEB”)

The School District implemented Governmental Accounting Standards Board Statement No. 45, “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions,” for certain post-employment healthcare benefits and life insurance benefits provided by the School District. This statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year.

Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition. Single-Employer Defined Benefit OPEB Plan The School District's other post-employment benefits ("OPEB") include a single-employer defined benefit plan that provides medical and life insurance benefits to eligible retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

The School District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

For a full description of the pension and OPEB plans, please refer to Appendix E – Financial Statements.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

LOCAL DEMOGRAPHIC AND STATISTICAL AND ECONOMIC INFORMATION

[THIS PAGE INTENTIONALLY LEFT BLANK]

DEMOGRAPHIC AND STATISTICAL INFORMATION

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

Population

| | <u>2020</u> | <u>2010</u> |
|------------------------|-------------|-------------|
| <i>School District</i> | 20,224 | 18,076 |
| Dauphin County | 279,874 | 268,100 |
| Pennsylvania | 13,002,700 | 12,702,379 |

Source: U.S. Bureau of Census.

Age Composition

| | <u>0-17 Years</u> | <u>18-64 Years</u> | <u>65+ Years</u> | <u>Persons per Household</u> |
|----------------|-----------------------|------------------------|----------------------|----------------------------------|
| Dauphin County | 22.0 | 60.0 | 18.0 | 2.3 |
| Pennsylvania | 20.0 | 60.0 | 20.0 | 2.4 |

Source: Census Reporter/U.S. Census Bureau (2024). American Community Survey 1-year estimates.

Income

| | <u>Median Household</u> | <u>Per Capita</u> | <u>Persons in Poverty</u> |
|----------------|-------------------------|-------------------|---------------------------|
| Dauphin County | \$72,737 | \$42,889 | 13.7% |
| Pennsylvania | 77,545 | 44,674 | 11.6 |

Source: Census Reporter/U.S. Census Bureau (2024). American Community Survey 1-year estimates.

Housing Characteristics

| | <u>Total Housing Units</u> | <u>Percent Owner Occupied</u> |
|----------------|----------------------------|-----------------------------------|
| Dauphin County | 129,244 | 96.0% |
| Pennsylvania | 5,861,320 | 91.0 |

Source: Census Reporter/U.S. Census Bureau (2024). American Community Survey 1-year estimates.

Medical facilities

| <u>Institution</u> | <u>Location</u> |
|---|-----------------|
| Helen M. Simpson Rehabilitation Hospital | Harrisburg |
| Milton S. Hershey Medical Center | Hershey |
| UPMC Pinnacle Hospitals | Harrisburg |
| Penn State Hershey Rehabilitation, LLC | Hummelstown |
| Pennsylvania Psychiatric Institute | Harrisburg |
| Select Medical at Polyclinic Medical Center | Harrisburg |

Source: Pennsylvania Department of Health, Bureau of Health Statistics

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.

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.

ECONOMIC INFORMATION

Ten Largest Employers in Dauphin County

Company

State Government
Milton S. Hershey Medical Center
Hershey Entertainment & Resorts Co.
UPMC Pinnacle Hospitals
The Hershey Company
United Parcel Service Inc.
Federal Government
Penn State Health
Pennsylvania State University
Milton Hershey School

Source: Center for Workforce Information and Analysis – Labor & Industry (L & I), 3rd Quarter, 2025.

HARRISBURG-CARLISLE METROPOLITAN STATISTICAL AREA

(Cumberland, Dauphin and Perry Counties)

TOTAL CIVILIAN LABOR FORCE, EMPLOYMENT, UNEMPLOYMENT, AND UNEMPLOYMENT RATE BY PLACE OF RESIDENCE¹

| TIME PERIOD | CIVILIAN LABOR FORCE | EMPLOY- MENT | UNEMPLOY- MENT | RATE (%) | SEASONALLY ADJUSTED | | | |
|---------------|----------------------------|-----------------|-------------------|-------------|---------------------|-----------------|-------------------|-------------|
| | | | | | LABOR FORCE | EMPLOY- MENT | UNEMPLOY- MENT | RATE (%) |
| December 2025 | 314,400 | 304,200 | 10,200 | 3.2 | 314,200 | 301,900 | 12,300 | 3.9 |
| November | 315,000 | 304,200 | 10,800 | 3.4 | 312,800 | 300,500 | 12,300 | 3.9 |
| October | - | - | - | - | - | - | - | - |
| December 2024 | 311,500 | 302,600 | 8,900 | 2.9 | 313,900 | 303,400 | 10,400 | 3.3 |

| December 2025 NONFARM JOBS - NOT SEASONALLY ADJUSTED | | | | | | | |
|---|---------------------|--|----------|----------|------------------|----------|--|
| ESTABLISHMENT DATA | Industry Employment | | | | Net Change From: | | |
| | Dec 2025 | Nov 2025 | Oct 2025 | Dec 2024 | Nov 2025 | Dec 2024 | |
| TOTAL NONFARM | 375,100 | 374,400 | 372,200 | 372,400 | 700 | 2,700 | |
| TOTAL PRIVATE | 315,400 | 314,500 | 312,800 | 313,000 | 900 | 2,400 | |
| GOODS-PRODUCING | 34,100 | 34,000 | 34,200 | 34,300 | 100 | -200 | |
| Mining, Logging, and Construction | 12,900 | 13,000 | 13,100 | 12,600 | -100 | 300 | |
| Manufacturing | 21,200 | 21,000 | 21,100 | 21,700 | 200 | -500 | |
| Durable Goods | 9,500 | 9,400 | 9,500 | 10,000 | 100 | -500 | |
| Non-Durable Goods | 11,700 | 11,600 | 11,600 | 11,700 | 100 | 0 | |
| Food mfg. | 6,600 | 6,600 | 6,500 | 6,600 | 0 | 0 | |
| SERVICE-PROVIDING | 341,000 | 340,400 | 338,000 | 338,100 | 600 | 2,900 | |
| PRIVATE SERVICE-PROVIDING | 281,300 | 280,500 | 278,600 | 278,700 | 800 | 2,600 | |
| Trade, Transportation, and Utilities | 84,100 | 82,800 | 80,400 | 83,900 | 1,300 | 200 | |
| Wholesale Trade | 12,400 | 12,500 | 12,500 | 12,900 | -100 | -500 | |
| Retail Trade | 32,600 | 32,200 | 31,500 | 32,500 | 400 | 100 | |
| General merchandise retailers | 6,300 | 6,200 | 5,700 | 6,000 | 100 | 300 | |
| Transportation, Warehousing, and Utilities | 39,100 | 38,100 | 36,400 | 38,500 | 1,000 | 600 | |
| Transportation and Warehousing | 38,600 | 37,600 | 35,900 | 38,000 | 1,000 | 600 | |
| Truck transportation | 7,500 | 7,500 | 7,400 | 7,500 | 0 | 0 | |
| Warehousing and storage | 17,800 | 17,700 | 17,000 | 18,000 | 100 | -200 | |
| Information | 3,200 | 3,100 | 3,200 | 3,200 | 100 | 0 | |
| Financial Activities | 20,400 | 20,300 | 20,300 | 19,900 | 100 | 500 | |
| Finance and insurance | 17,200 | 17,000 | 17,000 | 16,700 | 200 | 500 | |
| Professional and Business Services | 51,000 | 51,400 | 51,500 | 51,900 | -400 | -900 | |
| Professional and technical services | 22,000 | 22,100 | 22,200 | 21,600 | -100 | 400 | |
| Management of companies and enterprises | 10,300 | 10,400 | 10,400 | 10,400 | -100 | -100 | |
| Administrative and waste services | 18,700 | 18,900 | 18,900 | 19,900 | -200 | -1,200 | |
| Education and Health Services | 76,200 | 76,100 | 75,600 | 73,300 | 100 | 2,900 | |
| Educational services | 10,200 | 10,200 | 10,000 | 9,300 | 0 | 900 | |
| Health care and social assistance | 66,000 | 65,900 | 65,600 | 64,000 | 100 | 2,000 | |
| Hospitals | 21,400 | 21,300 | 21,300 | 20,500 | 100 | 900 | |
| Leisure and Hospitality | 29,900 | 30,300 | 31,000 | 30,000 | -400 | -100 | |
| Accommodation and food services | 22,300 | 22,600 | 22,900 | 22,700 | -300 | -400 | |
| Food services and drinking places | 18,500 | 18,800 | 19,000 | 18,900 | -300 | -400 | |
| Other Services | 16,500 | 16,500 | 16,600 | 16,500 | 0 | 0 | |
| Government | 59,700 | 59,900 | 59,400 | 59,400 | -200 | 300 | |
| Federal Government | 7,000 | 7,000 | 7,000 | 7,400 | 0 | -400 | |
| State Government | 31,600 | 31,800 | 31,500 | 31,200 | -200 | 400 | |
| Local Government | 21,100 | 21,100 | 20,900 | 20,800 | 0 | 300 | |
| Local government educational services | 14,400 | 14,400 | 14,200 | 14,100 | 0 | 300 | |
| Local government excluding educational services | 6,700 | 6,700 | 6,700 | 6,700 | 0 | 0 | |
| Data benchmarked to March 2024 | | ***Data changes of 100 may be due to rounding*** | | | | | |

Source: Center for Workforce Information & Analysis (CWIA), Pennsylvania Department of Labor & Industry

APPENDIX C
FORM OF OPINION OF BOND COUNSEL

SAXTON & STUMP

LAWYERS AND CONSULTANTS

280 Granite Run Drive, Suite 300 • Lancaster, PA 17601

P: (717) 556-1000 • F: (717) 441-3810

DRAFT

**MIDDLETOWN AREA SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
\$ _____ GENERAL OBLIGATION BONDS, 2026**

OPINION

We have acted as Bond Counsel in connection with the issuance by the Middletown Area School District, Dauphin County, Pennsylvania (the "School District"), of the \$ _____ General Obligation Bonds, Series of 2026 (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 two resolutions adopted by the Board of School Directors of the School District on June 25, 2024.

2. The Bonds are a valid and binding obligation 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, subject to statutory restrictions and limitations, it will 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 Bonds are “qualified tax-exempt obligations” as defined in Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the “Code”) and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is allowed for 80 percent of the portion of such financial institutions’ interest expense allocable to interest on the Bonds. 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 the Bonds continue to constitute qualified tax exempt obligations for purposes of Section 265(b)(3) of the Code. Failure to comply with such requirements may cause the Bonds to cease to constitute qualified tax exempt obligations, with the result that the Bonds would have to be taken into account by financial institutions (as defined in Section 265(b)(5) of the Code) for purposes of determining the allocation of interest expense to tax-exempt interest under Sections 265(b)(1) and (2) of the Code retroactive to the date of issuance of the Bonds.

6. 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. The opinions set forth in the preceding sentence are subject to the condition that the School District comply with all requirements of the Internal Revenue Code of 1986, as amended, 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.

7. 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,

SAXTON & STUMP, LLC

_____, 2026

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

DRAFT

MIDDLETOWN AREA SCHOOL DISTRICT DAUPHIN COUNTY, PENNSYLVANIA

\$ _____ GENERAL OBLIGATION BONDS, SERIES OF 2026
DATED, ISSUED AND DELIVERED _____, 2026

CONTINUING DISCLOSURE AGREEMENT

This agreement (the "Agreement") is executed as one of the closing documents for the \$ _____ General Obligation Bonds, Series of 2026 (the "Bonds") in accordance with the provisions of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934.

The undersigned are officers of the Board of School Directors of Middletown Area School District (the "School District"), a Pennsylvania governmental unit, and hereby certify on behalf of the School District as follows:

Section 1. Undertaking to file current information with MSRB. The School District agrees, in accordance with the Rule, to provide or cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") as designated by the Commission in accordance with the Rule, the following annual financial information and operating data commencing with the fiscal year ended June 30, 2026:

a. A copy of its budget and audited financial statements, prepared in accordance with the guidelines adopted by the Governmental Accounting Standard Board and the American Institute of Certified Public Accountants' Audit Guide, Audits of State and Local Government, containing the:

- (i) Combined balance sheet of all fund types and account groups; and
- (ii) Combined statement of revenues, expenditures and changes in fund balances - all governmental fund types and expendable trust funds.

b. An update of the following information in the Official Statement for the Bonds dated _____:

- (i) Realty and Non-Real Estate Tax Rates - (may be contained within the budget or audit for the current fiscal year without need for further cross reference);
- (ii) Real Estate Tax Collection Record - (may be contained within the budget or audit for the current fiscal year without need for further cross reference);
- (iii) Trends in Market and Assessed Valuations - (may be contained within the budget or audit for the current fiscal year without need for further cross reference);

(iv) Ten Most Valuable Taxable Parcels in the School District - (may be contained within the budget or audit for the current fiscal year without need for further cross reference).

Any or all of the items listed above may also be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

Section 2. Modification of types of information and format of information permitted. The School District reserves the right to modify from time to time the specific types of information provided, the time period within which the information must be filed, the format of the presentation of such information, or any other requirements hereunder, in its sole discretion, so long as such modification or amendment would have been allowed under the Rule at the time of the undertaking. Any such modification will be done in a manner consistent with the Rule at the time of the undertaking, and will not substantially impair the interest of the holders of the Bonds.

Section 3. Time period within which annual information must be filed. The annual information and operating data described above in Section 1 must be provided within 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2026. Such information shall be made available, in addition to the MSRB, to the Paying Agent for the Bonds and to each holder of Bonds who makes request for such information. In the event that no such audited financial statement is available within 270 days of the close of the fiscal year, the School District shall provide an unaudited statement, and shall thereafter provide an audited financial statement for the same period as soon as available. Upon receipt of the audited financial statement, the School District will promptly file it.

Section 4. Notice of failure to comply with annual information updates. The School District agrees to provide or cause to be provided, in a timely manner, to the Paying Agent for the Bonds, and to the MSRB, notice of a failure by the School District to provide the annual financial information described in Section 1 above on or prior to the date set forth in Section 3 above.

Section 5. Event disclosure. The School District agrees to provide or cause to be provided to the MSRB, in a timely manner, not to exceed ten (10) days after occurrence, notice of the occurrence of any of the following events with respect to the Bonds:

- a. Principal and interest payment delinquencies;
- b. Non-payment related defaults, if material;
- c. Unscheduled draws on debt service reserves reflecting financial difficulties;
- d. Unscheduled draws on credit enhancements reflecting financial difficulties;
- e. Substitution of any credit or liquidity providers, or their failure to perform;

- f. Adverse tax opinions, IRS notices or material events affecting the tax status of the Bonds;
- g. Modifications to rights of holders of the Bonds, if material;
- h. Bond calls, if material, and tender offers;
- i. Defeasances;
- j. Release, substitution, or sale of property securing repayment of the Bonds, if material;
- k. Rating changes;

l. Bankruptcy, insolvency, receivership or similar event of the School District (which is considered to occur when any of the following occur: appointment of a receiver, fiscal agent or similar officer for the School District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the School District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of any order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the School District);

m. Merger, consolidation or acquisition involving the School District, if material; or

n. Appointment of successor or additional trustee or the change of name of a trustee, if material.

o. Incurrence of a financial obligation of the School District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the School District, any of which affect security holders, if material; and

p. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the School District, any of which reflect financial difficulties.

For purposes of this Section, the term financial obligation shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the School District, such

other event is material with respect to the Bonds, but the School District does not commit to provide any such notice of the occurrence of any material event except those events listed above.

Section 6. Termination of reporting obligation. The School District's obligations under this Agreement shall terminate upon the redemption or payment in full of all of the Bonds.

Section 7. Enforcement. The School District agrees that its undertakings pursuant to this Agreement are intended to be for the benefit of the holders of the Bonds (including beneficial owners thereof) and shall be enforceable by the holders of the Bonds or the Paying Agent for the Bonds on behalf of such holders; provided that the holders of the Bonds, or in lieu thereof, the Paying Agent's right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the School District's obligations hereunder, and any failure by the School District to comply with the provisions of this undertaking shall not be an event of default, with respect to the Bonds.

Section 8. Amendment; waiver. Notwithstanding any other provision of this Agreement, the School District may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of Bond Counsel, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

IN WITNESS WHEREOF, the undersigned officers of the School District, being duly authorized, have executed this certificate in the name of and on behalf of the School District and in our own names and on our own behalf, the day and year of the issuance and delivery of the Bonds set forth above.

MIDDLETOWN AREA SCHOOL DISTRICT

By: _____
(Vice) President

Attest: _____
Secretary

(SEAL)

APPENDIX E
AUDITED FINANCIAL STATEMENTS

MIDDLETOWN AREA SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2025

CONTENTS

| | |
|---|--------------|
| <u>INDEPENDENT AUDITOR'S REPORT</u> | <u>1 - 3</u> |
| Management's Discussion and Analysis | 4 - 17 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 18 |
| Statement of Activities | 19 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 20 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 21 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 22 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 23 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund | 24 |
| Statement of Net Position - Proprietary Funds | 25 |
| Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds | 26 |
| Statement of Cash Flows - Proprietary Funds | 27 |
| Statement of Fiduciary Net Position | 28 |
| Statement of Changes in Fiduciary Net Position | 29 |
| Notes to Financial Statements | 30 - 68 |

CONTENTS (Continued)

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|----|
| Schedules of District's Proportionate Share of the Net Pension Liability | 69 |
| Schedules of District's Pension Contributions | 70 |
| Schedules of Changes in OPEB Liability and Related Ratios - District's Single Employer Plan | 71 |
| Schedules of District's Proportionate Share of the Net OPEB Liability - PSERS Cost Sharing Plan | 72 |
| Schedules of District's OPEB Contributions - PSERS Cost Sharing Plan | 73 |

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 <i>Government Auditing Standards</i> | 74 - 75 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by the Uniform Guidance | 76 - 78 |
| Schedule of Findings and Questioned Costs | 79 - 80 |
| Schedule of Expenditures of Federal Awards | 81 - 82 |
| Notes to Schedule of Expenditures of Federal Awards | 83 |
| Summary Schedule of Prior Year's Audit Findings | 84 |



INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited 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 (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Contents.

In our opinion, the accompanying 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 District, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, as of July 1, 2024, the Middletown Area School District adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance; and therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control - related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information as listed in the Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

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

Camp Hill, Pennsylvania
January 12, 2026

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2025

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, 2025. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the independent auditor's letter, the basic financial statements, the notes to the financial statements and the supplementary information to enhance their understanding of the District's financial performance.

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

Financial Highlights

Key financial highlights for the year ended June 30, 2025, are as follows:

- In total, net position increased approximately \$4.25 million. Overall, the net position of governmental activities increased approximately \$4.29 million, and the net position of business-type activities decreased approximately \$36,000. Discussion on the results of governmental activities is further explained below. The decrease in net position of business-type activities is primarily attributable to the food service fund due to a significant increase in food costs experienced by a new food service management company.
- Revenues totaled \$67.50 million, an increase of approximately \$2.73 million from the prior year. General revenues accounted for \$51.86 million or 76.8% of total revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$15.76 million or 23.2% of total revenues.
- Expenses totaled \$63.25 million, an increase of approximately \$4.87 million from the prior year. The District had \$60.28 million in expenses related to governmental activities, an increase of approximately \$4.56 million from the prior year. The increase can primarily be attributed to increases in the cost of instruction, operation and maintenance of plant services, and interest on long-term debt. Of the expenses related to governmental activities, \$13.00 million were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and subsidies) of \$51.69 million were more than sufficient to fund the remaining cost of governmental activities. The District had \$2.97 million in expenses related to business-type activities, an increase of approximately \$316,000 from the prior year, consisting of a \$220,000 increase for the food service fund, \$5,000 increase for the radio station fund and \$91,000 increase for the Middletown Area Recreation Alliance. The food service fund increase is attributable to food production. The increase for Middletown Area Recreation Alliance is tied to increased staffing costs for the expanded summer and before/after school programming for the community. Of the expenses related to business-type activities, \$2.75 million was offset by program specific charges for services, grants or contributions. General revenues (primarily contributions, investment earnings and fund transfers) of \$177,000 were needed to fund the cost of business-type activities.
- Among governmental funds, the general fund had \$62.17 million in revenues (an increase of \$1.23 million over the prior year) and \$54.58 million in expenditures (an increase of \$3.12 million over the prior year). The general fund also had \$5.98 million in net other financing uses (a decrease of \$3.39 million over the prior year), primarily consisting of transfers to the debt service fund to meet obligations. The general fund's fund balance increased by \$1.60 million, which is higher than the prior year as there were no transfers of surplus funds to the capital reserve fund like the prior year.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Using this Annual Report

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

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

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

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

Reporting the District as a Whole

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

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2025

Reporting the District as a Whole (Continued)

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

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

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

Reporting the District's Most Significant Funds

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

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

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Financial Analysis of the District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a comparison of the District's net position at June 30, 2025 and 2024.

Table 1 - Net Position

| | Governmental Activities | | Business-Type Activities | | Total Activities | |
|---------------------------------------|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|-----------------------|
| | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 |
| Assets | | | | | | |
| Current assets | \$ 82,254,632 | \$ 54,007,343 | \$ 1,561,627 | \$ 1,590,112 | \$ 83,816,259 | \$ 55,597,455 |
| Capital and right-to-use assets | 103,210,928 | 80,126,683 | 298,413 | 355,605 | 103,509,341 | 80,482,288 |
| Total assets | \$ 185,465,560 | \$ 134,134,026 | \$ 1,860,040 | \$ 1,945,717 | \$ 187,325,600 | \$ 136,079,743 |
| Deferred Outflows of Resources | \$ 10,428,670 | \$ 11,867,044 | \$ 32,629 | \$ 35,874 | \$ 10,461,299 | \$ 11,902,918 |
| Liabilities | | | | | | |
| Current liabilities | \$ 11,834,059 | \$ 6,250,088 | \$ 135,811 | \$ 182,217 | \$ 11,969,870 | \$ 6,432,305 |
| Long-term liabilities | 169,348,779 | 128,233,488 | 211,130 | 216,644 | 169,559,909 | 128,450,132 |
| Total liabilities | \$ 181,182,838 | \$ 134,483,576 | \$ 346,941 | \$ 398,861 | \$ 181,529,779 | \$ 134,882,437 |
| Deferred Inflows of Resources | \$ 4,118,459 | \$ 4,378,880 | \$ 17,575 | \$ 18,427 | \$ 4,136,034 | \$ 4,397,307 |
| Net Position (Deficit) | | | | | | |
| Net investment in capital assets | \$ 39,511,968 | \$ 37,820,183 | \$ 298,413 | \$ 355,605 | \$ 39,810,381 | \$ 38,175,788 |
| Restricted | 14,909,144 | 14,512,647 | - | - | 14,909,144 | 14,512,647 |
| Unrestricted | (43,828,179) | (45,194,216) | 1,229,740 | 1,208,698 | (42,598,439) | (43,985,518) |
| Total net position (deficit) | \$ 10,592,933 | \$ 7,138,614 | \$ 1,528,153 | \$ 1,564,303 | \$ 12,121,086 | \$ 8,702,917 |

The District's net position consists of \$39.81 million invested in capital assets (buildings, land and equipment). The restricted net position of \$14.91 million consists of the proceeds from the sale of one of the District's elementary school buildings that must be used for payment of debt service on the school building that replaced the property that was sold, balances in capital reserve fund that are restricted for capital expenditures and funds raised by students toward school-sponsored activities. The deficit unrestricted net position of \$42.60 million is combined of designated and undesignated amounts. The designated balances are amounts set aside to offset future debt service, to stabilize future health insurance costs, to stabilize future charter school tuition costs, to offset future technology replacement costs, to offset future special education costs, to offset future building or equipment maintenance or replacement costs, to offset safety and security improvements and to offset the anticipated operational deficit in the 2025-26 fiscal year for nonrecurring expenditures.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Financial Analysis of the District as a Whole (Continued)

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

Table 2 - Changes in Net Position

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|-------------------|---------------------------------|------------------|-------------------|-------------------|
| | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 534,619 | \$ 536,828 | \$ 984,676 | \$ 895,820 | \$ 1,519,295 | \$ 1,432,648 |
| Operating grants and contributions | 11,220,155 | 11,508,390 | 1,767,647 | 1,774,817 | 12,987,802 | 13,283,207 |
| Capital grants and contributions | 1,129,600 | 590,279 | 1,173 | 68,719 | 1,130,773 | 658,998 |
| General revenues: | | | | | | |
| Property taxes | 27,759,220 | 26,710,475 | - | - | 27,759,220 | 26,710,475 |
| Other taxes | 8,967,722 | 8,541,446 | - | - | 8,967,722 | 8,541,446 |
| Grants, subsidies, and contributions | 11,888,074 | 11,416,586 | 24,620 | 24,048 | 11,912,694 | 11,440,634 |
| Investment earnings | 3,167,535 | 2,557,138 | 44,118 | 41,051 | 3,211,653 | 2,598,189 |
| Gain (loss) on disposition of capital assets | 5,313 | 106,817 | 7,076 | - | 12,389 | 106,817 |
| Miscellaneous income | 148 | 576 | 1,894 | 350 | 2,042 | 926 |
| Total revenues | 64,672,386 | 61,968,535 | 2,831,204 | 2,804,805 | 67,503,590 | 64,773,340 |
| Expenses | | | | | | |
| Instruction | 35,714,656 | 33,392,670 | - | - | 35,714,656 | 33,392,670 |
| Support services | | | | | | |
| Instructional student support | 6,185,206 | 5,890,570 | - | - | 6,185,206 | 5,890,570 |
| Administrative and financial support services | 5,242,082 | 5,470,148 | - | - | 5,242,082 | 5,470,148 |
| Operation and maintenance | | | | | | |
| of plant services | 5,296,162 | 4,690,946 | - | - | 5,296,162 | 4,690,946 |
| Pupil transportation | 2,510,314 | 2,310,364 | - | - | 2,510,314 | 2,310,364 |
| Student activities | 1,845,304 | 1,731,073 | - | - | 1,845,304 | 1,731,073 |
| Community services | 71,638 | 47,623 | - | - | 71,638 | 47,623 |
| Interest on long-term debt | 3,419,371 | 2,195,981 | - | - | 3,419,371 | 2,195,981 |
| Food services | - | - | 2,268,355 | 2,048,342 | 2,268,355 | 2,048,342 |
| Radio station | - | - | 128,312 | 123,686 | 128,312 | 123,686 |
| MARA | - | - | 570,307 | 479,086 | 570,307 | 479,086 |
| Transfers | 99,620 | 99,039 | (99,620) | (99,039) | - | - |
| Total expenses | 60,384,353 | 55,828,414 | 2,867,354 | 2,552,075 | 63,251,707 | 58,380,489 |
| Change in net position | 4,288,033 | 6,140,121 | (36,150) | 252,730 | 4,251,883 | 6,392,851 |
| Net Position (Deficit) - Beginning | 7,138,614 | 998,493 | 1,564,303 | 1,311,573 | 8,702,917 | 2,310,066 |
| Prior period adjustment | (833,714) | - | - | - | (833,714) | - |
| Net Position (Deficit) - beginning (restated) | 6,304,900 | 998,493 | 1,564,303 | 1,311,573 | 7,869,203 | 2,310,066 |
| Net Position (Deficit) - Ending | \$ 10,592,933 | \$ 7,138,614 | \$ 1,528,153 | \$ 1,564,303 | \$ 12,121,086 | \$ 8,702,917 |

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Financial Analysis of the District as a Whole (Continued)

Table 2 shows that total revenues exceeded total expenses for governmental activities of the District by \$4.29 million, total revenues fell short of total expenses for business-type activities by \$36,000 and total revenues exceeded total expenses for all activities by \$4.25 million for the year ended June 30, 2025. It should be noted that although the District is required to present government-wide information using the accrual basis of accounting, as detailed in Table 2, the District must still prepare its general fund budget and report its operations under the modified accrual basis of accounting used in the fund financial statements. Operations in relation to the District's budget will be discussed later in this report under the "Analysis of the District by Funds" section.

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

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

| | Total Cost of Services | | Net Cost of Services | |
|---|---------------------------|----------------------|-------------------------|----------------------|
| | 2025 | 2024 | 2025 | 2024 |
| Instruction | \$ 35,714,656 | \$ 33,392,670 | \$ 27,155,269 | \$ 25,062,680 |
| Support services | | | | |
| Instructional student support | 6,185,206 | 5,890,570 | 4,728,937 | 4,417,355 |
| Administrative and financial support services | 5,242,082 | 5,470,148 | 4,581,174 | 4,682,894 |
| Operation and maintenance of plant services | 5,296,162 | 4,690,946 | 4,394,741 | 4,071,382 |
| Pupil transportation | 2,510,314 | 2,310,364 | 1,974,158 | 1,629,067 |
| Student activities | 1,845,304 | 1,731,073 | 1,519,407 | 1,402,589 |
| Community services and scholarships awarded | 71,638 | 47,623 | 24,148 | 23,098 |
| Interest on long-term debt | 3,419,371 | 2,195,981 | 3,022,525 | 1,804,813 |
| Total expenses | <u>\$ 60,284,733</u> | <u>\$ 55,729,375</u> | <u>47,400,359</u> | <u>43,093,878</u> |
| Less: unrestricted grants, subsidies and contributions | | | <u>11,888,074</u> | <u>11,416,586</u> |
| Total required local taxes and other general revenues | | | <u>\$ 35,512,285</u> | <u>\$ 31,677,292</u> |

The dependence upon local taxes for governmental activities is apparent. Program revenue provides only 23.97% 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 approximately \$15.27 million or 42.75% of the funding for instruction to come from local taxes and other general revenues. The community, as a whole, contributes a significant portion toward the education of the District's students.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Financial Analysis of the District as a Whole (Continued)

The District has three business-type activities - food service, a student-run radio station and Middletown Area Recreation Alliance (MARA). The total cost of food service operations was approximately \$2.27 million. These costs were offset by charges for services (primarily fees paid by students and employees for lunches and breakfasts consumed) of approximately \$604,000, and operating grants (primarily federal and state participation in the National School Lunch and National School Breakfast Programs) of approximately \$1.55 million. The total cost of radio station operations was approximately \$128,000. These costs were offset by contributions and fundraising of approximately \$37,000, operating grants (primarily benefit subsidies) of approximately \$15,000 and capital grants and contributions of approximately \$1,000. The total cost of MARA operations was approximately \$570,000. These costs were offset by contributions and charges for services of approximately \$344,000 and operating grants (primarily benefits subsidies and government assistance toward program services) of approximately \$205,000. The general fund budget included support for business-type activities in the amount of \$20,000 for MARA in support of recreation programming as part of an intergovernmental agreement with the local municipalities that also provide support and \$80,000 for WMSS in support of the management costs of the radio station.

Financial Analysis of the District by Funds

As previously noted, the District uses a number of funds, in accordance with the Pennsylvania Public School Code, to control and manage resources for particular purposes. Information about the District's major governmental funds starts on page 20. These funds are accounted for using the modified accrual basis of accounting. Combined, the governmental funds had total revenues of \$64.63 million, expenditures of \$87.69 million, and net other financing uses of approximately \$46.35 million. The net change in fund balance for the year was an increase of approximately \$23.30 million. The increase primarily consists of proceeds from the issuance of long-term debt.

General Fund

The general fund increased its fund balance by \$1.60 million to a total of \$18.52 million. The District had budgeted for expenditures to exceed revenues by approximately \$1.23 million, requiring the use of fund balance for non-recurring expenditures as part of the District's multi-year planning.

Non-spendable fund balance in the amount of \$180,000 corresponds with the prepaid expense amount included in assets. Restricted fund balance in the amount of \$467,000 is equal to the proceeds from the sale of an elementary school that must be used toward the financing of the replacement school building. The District has committed fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to identify and protect resources to address future costs. The District has committed \$8.95 million to pay future debt service costs, \$750,000 to stabilize future health insurance costs, \$1.2 million to stabilize future charter school tuition costs, \$1.29 million for technology equipment replacements; \$84,000 to fund special education costs, \$253,000 to fund building or equipment maintenance or replacement costs; and \$82,000 for safety and security improvements. The District has \$1.27 million of fund balance that is assigned to offset the operational deficit that is anticipated in the 2025-26 fiscal year for nonrecurring expenditures and for unanticipated expenditures. The District's remaining fund balance of \$3.99 million is recorded as unassigned.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Financial Analysis of the District by Funds (Continued)

General Fund (Continued)

In accordance with Act 1 of 2006 legislation, the District may not adopt a general fund budget that would result in the unassigned fund balance exceeding 8% of the budgeted expenditures for that fiscal year. The District's current unassigned fund balance is 6.34% of the 2025-26 budgeted expenditures. The District's unassigned fund balance provides resources to deal with increasing or unexpected costs and future liabilities. The unassigned fund balance also provides resources to pay obligations in the next fiscal year while revenues are being collected. Maintaining a healthy fund balance is important to the District's favorable bond rating and allows the District to address unanticipated financial challenges.

Debt Service Fund

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

Capital Reserve Fund

The District uses the capital reserve fund for major repairs and small construction projects that have been identified in the District's facility planning. In total, the fund balance for the capital reserve fund increased by \$388,000 to \$14.32 million. Expenditures in the capital reserve fund were approximately \$92,000 for capital improvements and were less than the interest earned on investments of \$480,000. Fund balance in the capital reserve fund is restricted for capital expenditures.

Capital Projects Fund

The District's capital projects fund contains the proceeds from the issuance of long-term debt and related expenditures. A \$27.73 million borrowing in September 2024 and a \$15 million borrowing in April 2025 provided the third and fourth phases of financing needed for the District's planned construction of a new primary elementary building with attached administrative area as well as a new maintenance building and renovations to the Reid Elementary School. Expenditures in the capital projects fund totaled \$26.62 million for construction costs, design engineer and construction management services, which were partially offset by interest earnings of \$1.43 million and \$433,000 of the \$1.16 million grant the District received for installation of an ice plant at the Reid Elementary School. Ending fund balance in the capital projects fund of \$38.14 million is recorded as restricted, and the District's intent is to fully utilize the funds for the current construction projects.

Student Sponsored Activity Fund

The fund balance in the student activity fund was approximately the same as the prior year with expenditures during the year covered by contributions or other revenue raised in support of the activities. Fund balance in the student activity fund is restricted for school-sponsored student activities.

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

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Budget Highlights

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

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

Total general fund revenue was approximately \$2.74 million higher than budgeted. Expenditures were approximately \$24,000 less than budgeted. The District's other financing uses were approximately \$192,000 less than the adjusted budget. The end result is that instead of using \$1.23 million of fund balance as budgeted, the District added \$1.60 million to its fund balance.

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

- Real estate tax collections exceeded the budget by approximately \$438,000. The favorable variance consists of \$392,000 from current real estate taxes and \$95,000 from interim real estate taxes offset by a shortfall of \$49,000 from delinquent real estate taxes. The current real estate tax variance is reflective of a collection percentage over 96% compared to a 95% budgeted collection percentage. Interim real estate taxes included one large tax bill for a commercial property that was improved during the year. Delinquent real estate tax revenue is challenging to determine the budget estimate. The District tends to be conservative when budgeting; however, the higher than budgeted collection percentage for current real estate taxes impacted the delinquent real estate taxes falling short of budget estimates.
- Other taxes exceeded the budget by approximately \$968,000. Current and delinquent earned income tax collections, real estate transfer tax collections, and patron parking tax collections all exceeded budget estimates. Current earned income tax (EIT) collections exceeded the budget by approximately \$259,000. The District has been cautious in increasing the budget estimate for earned income tax post-pandemic. Not only were collections sustained over the prior year, there was additional growth in earned income. EIT collections for 2024-25 were the highest they have ever been. Delinquent earned income tax collections exceeded the budget by approximately \$186,000. The District's collector continued to aggressively pursue delinquent taxpayers so that its clients would have consistent revenue. Real estate transfer tax collections exceeded the budget by approximately \$337,000. Seven significant real estate transfers accounted for \$211,000 in revenue that would not have been budgeted. The remaining difference points to conservative budgeting and potential room for budget revision in future years if the collections are sustained. Patron parking tax collections exceeded the budget by approximately \$160,000. Patron parking tax collections were the only tax source that continued to be impacted by the pandemic; however, that impact no longer exists. The District continued to budget for the patron parking tax below pre-pandemic collection levels.
- Investment earnings exceeded the budget by approximately \$1.25 million. The Director of Business Services has aggressively worked to maximize interest earnings with more frequent money movement to maintain the highest yields. The variance is also reflective of the fact that economic projections for rate decreases did not occur.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Budget Highlights (Continued)

- Other local revenue exceeded the budget by approximately \$67,000. The District received local grant revenue in the amount of \$23,000 for its Raider Packs program that was not budgeted. The District received \$35,000 in contributions not anticipated in the adopted budget. The District recorded consortium class tuition income from other school districts and incarcerated education subsidy from the state that was \$32,000 higher than budgeted. The District received refunds in the amount of \$40,000 that were not budgeted. The refunds consisted of vocational school tuition reimbursement from the prior fiscal year, return of tuition reimbursement from employees who left the District, and other miscellaneous vendor refunds. There were other local revenues that fell short of the adopted budget, including admissions to extra-curricular activities, Title III grant revenue, IDEA grant revenue, and miscellaneous revenue.
- Revenue from state sources exceeded the budget by approximately \$158,000. The District's basic education subsidy from the state was \$396,000 less than the amount budgeted as the state budget was not adopted until after the District's budget was adopted and the state shifted some of the subsidy increase to the Ready to Learn grant. The Ready to Learn grant allocation was \$648,000 more than budgeted. The District received \$241,000 from the state in charter school transition funding that was not budgeted. The state provided this subsidy in lieu of altering the tuition calculation determining the amount the District pays for charter school students residing in the District. The District received \$152,000 in special education subsidy from the state beyond the amount budgeted as the state budget was not adopted until after the District's budget was adopted. The District received a \$125,000 grant to assist in the funding of a psychologist intern and student teachers. The District's recorded safe schools grant funding was more than \$100,000 less than budgeted because of a shift in the spending plan for this multi-year grant and because some of the grant revenue was required to be reported as federal revenue despite being budgeted as state revenue. The District's benefit subsidies from the state were \$392,000 less than budgeted, which aligns with the District's actual salaries falling below budget estimates and points to the challenge of being fully staffed since the pandemic.
- Revenue from federal sources exceeded the budget estimate by approximately \$636,000. The District's spending plan for the remaining ESSER grant pandemic funding changed and the grant was not fully spent in 2023-24. The District recorded ESSER grant revenue of \$494,000 in 2024-25 that was not budgeted. As noted in the highlight for revenue from state sources, the District recorded \$81,000 in safe schools grant revenue as federal. The District recorded \$72,000 more in revenue from its participation in the school-based medical access program than budgeted. The District recorded approximately \$12,000 less in Title grant funding than budgeted.
- The District's actual expenditures were more than the adopted budget by approximately \$742,000 before budget transfers were made and were less than the budget by approximately \$24,000 after budget transfers were made. Budget transfers were made to utilize the budgetary reserve line item of the budget and reclassify budget amounts to account for spending needs that differed from when the budget was adopted. The use of a budgetary reserve line, which is considered an other financing use not an expenditure, is encouraged by the Pennsylvania Department of Education to provide an allowance for unanticipated expenditures at the time of budget development. The District's budgetary reserve allowance was less than 1% of the total adopted expenditure budget.
- Interfund transfers out of the general fund were less than the adopted budget by approximately \$109,000 before budget transfers were made and exceeded budget estimates by approximately \$206,000 after budget transfers.

MIDDLETOWN AREA SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025**

Budget Highlights (Continued)

- Unbudgeted proceeds from insurance claims in the amount of \$67,000 were realized during the fiscal year.
- Proceeds from subscription arrangements of approximately \$326,000 were recorded that were not budgeted due to the manner of handling this new accounting pronouncement in the adopted budget.

Capital Assets and Debt Administration

Section 1.01 Capital Assets

At June 30, 2025, the District had total capital assets of \$103.51 million, with \$103.21 million of that figure in governmental activities. Table 4 shows the fiscal 2025 balances compared to July 1, 2024:

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

| | Governmental Activities | | Business-Type Activities | | Total Activities | |
|-------------------------------------|-------------------------|----------------------|--------------------------|-------------------|-----------------------|----------------------|
| | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 |
| Land and land improvements | \$ 7,672,324 | \$ 8,227,172 | \$ - | \$ - | \$ 7,672,324 | \$ 8,227,172 |
| Buildings and building improvements | 59,905,513 | 62,601,102 | - | - | 59,905,513 | 62,601,102 |
| Furniture and equipment | 3,679,900 | 4,141,957 | 298,413 | 355,605 | 3,978,313 | 4,497,562 |
| Right-to-use subscription assets | 889,121 | 711,655 | - | - | 889,121 | 711,655 |
| Construction-in-progress | 31,064,070 | 4,444,797 | - | - | 31,064,070 | 4,444,797 |
| | <u>\$ 103,210,928</u> | <u>\$ 80,126,683</u> | <u>\$ 298,413</u> | <u>\$ 355,605</u> | <u>\$ 103,509,341</u> | <u>\$ 80,482,288</u> |

Net capital assets increased by approximately \$23.03 million during fiscal 2025. The District had additions to capital assets of \$1.11 million including right-to-use assets and an addition to construction in progress in the capital projects fund of \$26.62 million. The District’s capital assets were also changed by depreciation of \$4.70 million. Additions of \$91,000 in the capital reserve fund included fire door upgrades at the high school, the purchase of a replacement van for student transportation and radio tower painting. Additions of \$968,000 in the general fund included instructional technology equipment, music instruments, instructional materials and equipment, textbooks, capitalized building repairs, safety and security equipment, network technology equipment, athletic equipment, banners, field maintenance equipment and right-to-use subscription assets. Deletions to fully-depreciated capital assets of approximately \$142,000 during fiscal 2025 consisted primarily of right-to-use assets and a vehicle. The District received \$5,300 from asset disposals from medical equipment, a vehicle, musical instruments and scrap materials.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Capital Assets and Debt Administration (Continued)

Section 1.02 Debt Administration

At June 30, 2025, the District had \$93.39 million in general obligation bonds and capital appreciation bonds outstanding; \$2.54 million due within one year. Table 5 summarizes bonds outstanding:

Table 5 - Outstanding Debt at June 30

| | Governmental Activities | |
|------------------------------------|-------------------------|----------------------|
| | 2025 | 2024 |
| General Obligation Bonds: | | |
| Series A of 2017 | \$ 26,455,000 | \$ 26,755,000 |
| Series of 2022 | 9,985,000 | 9,990,000 |
| Series of 2023 | 9,990,000 | 9,995,000 |
| Series of 2024 | 27,720,000 | - |
| Series of 2025 | 14,995,000 | - |
| | \$ 89,145,000 | \$ 46,740,000 |
| Capital Appreciation Bonds: | | |
| Series B of 2014 | \$ 4,246,746 | \$ 6,538,914 |
| | \$ 93,391,746 | \$ 53,278,914 |

The District’s outstanding debt increased by \$40.11 million during fiscal 2025, the net effect of the issuance of \$42.72 million in general obligation bonds and principal payments made on the outstanding obligations.

In its most recent bond refunding, the District’s municipal bond rating and outlook were retained at A+ stable by S&P Global Ratings. In accordance with the Local Government Unit Debt Act, the District’s borrowing capacity is capped at 225% of the average net revenues for the prior three fiscal years. The District’s borrowing limit in its last official statement was approximately \$126.86 million. The remaining borrowing capacity is \$25.94 million after the borrowing that occurred in April 2025. The District has completed capital improvements or new construction on many of its school buildings. Bids were awarded for the Middletown Area Primary School and Operations Building on June 25, 2024. The last remaining building project in the District’s capital plan is renovation of the Reid Elementary School to facilitate its transition to a fourth and fifth grade building when the Middletown Area Primary School opens for the 2026-27 school year. When the Middletown Area Primary School project is complete all of the District’s buildings will have construction dates in the 21st century.

MIDDLETOWN AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2025

Factors Expected to Have an Effect on Future Operations

For the sixth fiscal year the District's financial statements have included the recognition of federal funding to address the impact of the pandemic on education. This funding, while beneficial to overall District operations, is non-recurring and requires thoughtful use in order to avoid a shortfall when it is no longer available. The District received approximately \$290,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES) that was fully spent by the end of the 2020-21 fiscal year. The District received \$10.98 million from the Elementary and Secondary School Emergency Relief Fund (ESSER) in three "pots" that needed to be fully obligated by September 30, 2024. The District used \$1.07 million of ESSER funds in the 2020-21 fiscal year, \$3.49 million in the 2021-22 fiscal year, \$4.10 million in the 2022-23 fiscal year, \$1.80 million in the 2023-24 fiscal year, and \$526,000 during the 2024-25 school year. The District has attempted to use the grant funding for non-recurring expenditures as much as possible; however, the full grant allocation was unable to be utilized in this way. The District has implemented plans to address the shortfall associated with the loss of grant funding through the adoption of its 2024-25 budget. All recurring expenditures previously purchased with ESSER grant funds were successfully funded in the adopted 2025-26 budget using other revenue sources.

The District will also see increases in its annual debt service requirements through 2033-34 related to the District's final construction project. Through ongoing fiscal planning, the District has managed to set aside \$8.95 million in committed fund balance that will be used to offset a portion of the debt service requirements through 2033-24 to allow for a gradual increase in the District's millage rate specific to debt service. The phase-in of the mills needed for this project will require between 0.21 mills and 0.22 mills per year depending upon the final borrowing amount in the spring of 2026. The District awarded bids for the first phase of this final construction project in the summer of 2024. The second phase of the construction project for the renovations to Reid Elementary School is expected to be bid in late 2025. The District has borrowed a total of four installments (two installments of approximately \$10.0 million each in December 2022 and December 2023, \$27.73 million in September 2024 and \$15 million in April 2025) to finance the projects. The District expects that the final borrowing for the projects will occur in the spring of 2026 and that sufficient balances exist in the capital reserve fund to cover any adjustments in the bid results that were not anticipated. When all phases are complete, the District will have a new primary elementary building housing all kindergarten through third grade students, a renovated fourth and fifth grade elementary building that was originally built in 2003, a sixth through eighth grade middle school that was built in 2007, a ninth through twelfth grade high school that was built in 2016, a new District administration office attached to the primary building, and a new maintenance building. All of the District's buildings will be located on its campus, which will allow for shared services and quick access in emergency situations. The District has been planning for this project since the completion of the new high school building in 2016. Following this building project, the District anticipates that it will have sufficient capacity at all educational levels to house its student enrollment. As part of the planning for this construction project, the District has also analyzed the maintenance needs of existing buildings and athletic facilities for the next five years and has been able to set aside over \$12.28 million in the District's capital reserve fund to fund future maintenance or replacement projects plus \$2.00 million that would remain uncommitted for emergency needs.

Student needs will always be a priority for the District and it has been evident that student mental health and learning was challenged during the pandemic. Increasing operational costs to address student needs may require additional resources in future budgets, necessitating tax increases beyond the phase-in dedicated to the construction project if revenue growth is not sufficient to address the student needs. Historically, operational costs have grown at a pace that surpassed the District's revenue growth; however, the District has consistently managed to minimize tax increases as much as possible with only five tax increases required in the last ten budgets that were adopted. Even while minimizing real estate tax increases, the District has maintained a healthy unassigned fund balance just slightly below the maximum (percentage of expenditures) allowed by the state.

MIDDLETOWN AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2025

Contacting the District's Financial Management

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

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2025

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 17,993,468 | \$ 1,256,836 | \$ 19,250,304 |
| Investments | 57,784,841 | - | 57,784,841 |
| Receivables | 5,260,235 | 264,980 | 5,525,215 |
| Inventories | - | 39,256 | 39,256 |
| Prepaid expenses | 1,197,501 | 555 | 1,198,056 |
| Other current assets | 18,587 | - | 18,587 |
| Capital and right-to-use assets | | | |
| Land and construction-in-progress | 33,414,561 | - | 33,414,561 |
| Other capital and right-to-use assets, net of depreciation/amortization | 69,796,367 | 298,413 | 70,094,780 |
| Total capital and right-to-use assets | 103,210,928 | 298,413 | 103,509,341 |
| Total assets | \$ 185,465,560 | \$ 1,860,040 | \$ 187,325,600 |
| Deferred Outflows of Resources | | | |
| Deferred amounts on pension liability | \$ 8,487,000 | \$ 26,000 | \$ 8,513,000 |
| Deferred amounts on OPEB liabilities | 1,445,096 | 6,629 | 1,451,725 |
| Deferred amounts on refunding debt | 496,574 | - | 496,574 |
| Total deferred outflows of resources | \$ 10,428,670 | \$ 32,629 | \$ 10,461,299 |
| Liabilities | | | |
| Internal balances | \$ 17,172 | \$ (17,172) | \$ - |
| Accounts payable and accrued expenses | 11,504,406 | 54,996 | 11,559,402 |
| Unearned revenues | 273,920 | 81,899 | 355,819 |
| Other current liabilities | 38,561 | 16,088 | 54,649 |
| Long-term obligations | | | |
| Due within one year | 2,886,144 | - | 2,886,144 |
| Due in more than one year | 101,201,843 | - | 101,201,843 |
| Net pension liability | 55,500,000 | 167,000 | 55,667,000 |
| OPEB liabilities | 9,760,792 | 44,130 | 9,804,922 |
| Total long-term liabilities | 169,348,779 | 211,130 | 169,559,909 |
| Total liabilities | \$ 181,182,838 | \$ 346,941 | \$ 181,529,779 |
| Deferred Inflows of Resources | | | |
| Deferred amounts on pension liability | \$ 1,053,000 | \$ 3,000 | \$ 1,056,000 |
| Deferred amounts on OPEB liabilities | 3,065,459 | 14,575 | 3,080,034 |
| Total deferred inflows of resources | \$ 4,118,459 | \$ 17,575 | \$ 4,136,034 |
| Net Position (Deficit) | | | |
| Net investment in capital assets | \$ 39,511,968 | \$ 298,413 | \$ 39,810,381 |
| Restricted | 14,909,144 | - | 14,909,144 |
| Unrestricted (deficit) | (43,828,179) | 1,229,740 | (42,598,439) |
| Total net position | \$ 10,592,933 | \$ 1,528,153 | \$ 12,121,086 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2025

| 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 | \$ 35,714,656 | \$ 430,064 | \$ 7,894,248 | \$ 235,075 | \$ (27,155,269) | \$ - | \$ (27,155,269) |
| Instructional student support | 6,185,206 | 10,382 | 1,445,887 | - | (4,728,937) | - | (4,728,937) |
| Administration and financial support | 5,242,082 | 17,967 | 642,941 | - | (4,581,174) | - | (4,581,174) |
| Operation and maintenance of plant services | 5,296,162 | 34,078 | 369,664 | 497,679 | (4,394,741) | - | (4,394,741) |
| Pupil transportation | 2,510,314 | - | 536,156 | - | (1,974,158) | - | (1,974,158) |
| Student activities | 1,845,304 | 42,128 | 283,769 | - | (1,519,407) | - | (1,519,407) |
| Community services and scholarships | 71,638 | - | 47,490 | - | (24,148) | - | (24,148) |
| Interest on long-term debt | 3,419,371 | - | - | 396,846 | (3,022,525) | - | (3,022,525) |
| Total governmental activities | 60,284,733 | 534,619 | 11,220,155 | 1,129,600 | (47,400,359) | - | (47,400,359) |
| Business-type activities: | | | | | | | |
| Food service | 2,268,355 | 603,910 | 1,547,762 | - | - | (116,683) | (116,683) |
| Radio station | 128,312 | 37,258 | 14,984 | 1,173 | - | (74,897) | (74,897) |
| MARA | 570,307 | 343,508 | 204,901 | - | - | (21,898) | (21,898) |
| Total business-type activities | 2,966,974 | 984,676 | 1,767,647 | 1,173 | - | (213,478) | (213,478) |
| Total primary government | \$ 63,251,707 | \$ 1,519,295 | \$ 12,987,802 | \$ 1,130,773 | \$ (47,400,359) | \$ (213,478) | \$ (47,613,837) |
| General Revenues and Transfers: | | | | | | | |
| General revenues | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | \$ 27,759,220 | \$ - | \$ 27,759,220 |
| Public utility, realty transfer, earned income and other taxes for general purposes, net | | | | | 8,967,722 | - | 8,967,722 |
| Grants, subsidies and contributions not restricted | | | | | 11,888,074 | 24,620 | 11,912,694 |
| Investment earnings | | | | | 3,167,535 | 44,118 | 3,211,653 |
| Gain on disposition of capital assets | | | | | 5,313 | 7,076 | 12,389 |
| Miscellaneous income | | | | | 148 | 1,894 | 2,042 |
| Transfers | | | | | (99,620) | 99,620 | - |
| Total general revenues and transfers | | | | | 51,688,392 | 177,328 | 51,865,720 |
| Change in net position | | | | | 4,288,033 | (36,150) | 4,251,883 |
| Net Position - July 1, 2024 | | | | | 7,138,614 | 1,564,303 | 8,702,917 |
| Prior period adjustment (see Note 1) | | | | | (833,714) | - | (833,714) |
| Net Position - July 1, 2024 (restated) | | | | | 6,304,900 | 1,564,303 | 7,869,203 |
| Net Position - June 30, 2025 | | | | | \$ 10,592,933 | \$ 1,528,153 | \$ 12,121,086 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2025

| | General Fund | Debt Service Fund | Capital Reserve Fund | Capital Projects Fund | Student Sponsored Activity Fund | Total Governmental Funds |
|---|----------------------|-------------------------|----------------------------|-----------------------------|--|--------------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 4,869,529 | \$ - | \$ 5,045,163 | \$ 7,912,012 | \$ 166,764 | \$ 17,993,468 |
| Investments | 11,267,539 | - | 9,247,138 | 37,270,164 | - | 57,784,841 |
| Due from other funds | 3,923,116 | - | - | 915 | 110 | 3,924,141 |
| Due from other governments | 2,532,786 | - | - | 428,388 | - | 2,961,174 |
| Taxes receivable | 2,057,201 | - | - | - | - | 2,057,201 |
| Other receivables | 167,840 | - | 25,996 | 38,993 | 10,172 | 243,001 |
| Prepaid expenses | 180,083 | - | - | 1,017,418 | - | 1,197,501 |
| Other current assets | 18,587 | - | - | - | - | 18,587 |
| Total assets | \$ 25,016,681 | \$ - | \$ 14,318,297 | \$ 46,667,890 | \$ 177,046 | \$ 86,179,914 |
| Liabilities | | | | | | |
| Due to other funds | \$ 65,630 | \$ - | \$ 3,115 | \$ 3,839,547 | \$ 34,162 | \$ 3,942,454 |
| Accounts payable | 1,299,548 | - | - | 6,224 | 15,670 | 1,321,442 |
| Contracts payable | - | - | - | 4,686,374 | - | 4,686,374 |
| Accrued salaries and benefits | 4,011,202 | - | - | - | - | 4,011,202 |
| Payroll deductions and withholdings | 232,396 | - | - | - | - | 232,396 |
| Unearned revenues | 273,920 | - | - | - | - | 273,920 |
| Other current liabilities | 38,041 | - | - | - | 520 | 38,561 |
| Total liabilities | 5,920,737 | - | 3,115 | 8,532,145 | 50,352 | 14,506,349 |
| Deferred Inflows of Resources | | | | | | |
| Delinquent property taxes | 577,826 | - | - | - | - | 577,826 |
| Fund Balances | | | | | | |
| Nonspendable | 180,083 | - | - | 1,017,418 | - | 1,197,501 |
| Restricted | 467,268 | - | 14,315,182 | 37,118,327 | 126,694 | 52,027,471 |
| Committed | 12,607,610 | - | - | - | - | 12,607,610 |
| Assigned | 1,273,958 | - | - | - | - | 1,273,958 |
| Unassigned | 3,989,199 | - | - | - | - | 3,989,199 |
| Total fund balances | 18,518,118 | - | 14,315,182 | 38,135,745 | 126,694 | 71,095,739 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 25,016,681 | \$ - | \$ 14,318,297 | \$ 46,667,890 | \$ 177,046 | \$ 86,179,914 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

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

June 30, 2025

| | |
|---|----------------------|
| Total fund balances - governmental funds | \$ 71,095,739 |
| <p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p> | |
| <p>Capital and right-to-use assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$167,517,021 and the accumulated depreciation/amortization is \$64,306,093.</p> | 103,210,928 |
| <p>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.</p> | 577,826 |
| <p>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.</p> | 496,574 |
| <p>Deferred inflows and outflows of resources related to pensions are applicable to future periods and, therefore, are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnotes for detail):</p> | |
| Deferred outflows | 8,487,000 |
| Deferred inflows | (1,053,000) |
| <p>Deferred inflows and outflows of resources related to OPEB are applicable to future periods and, therefore, are not reported within the funds. Deferred inflows and outflows related to OPEB are as follows (see footnote for detail):</p> | |
| Deferred outflows | 1,445,096 |
| Deferred inflows | (3,065,459) |
| <p>Long-term liabilities; including bonds payable, leases payable, subscription liabilities, net pension liabilities, other post-employment benefits, reserve for loss contingencies and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p> | |
| Bonds payable, net of related discounts and premiums | (101,530,086) |
| Accrued interest | (1,252,992) |
| Subscription liabilities | (801,193) |
| Net pension liability | (55,500,000) |
| Other post-employment benefit liabilities | (9,760,792) |
| Reserve for loss contingencies | (84,331) |
| Compensated absences | (1,672,377) |
| | (170,601,771) |
| Total net position - governmental activities | \$ 10,592,933 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended June 30, 2025

| | General Fund | Debt Service Fund | Capital Reserve Fund | Capital Projects Fund | Student Sponsored Activity Fund | Total Governmental Funds |
|--|--------------------|-------------------------|----------------------------|-----------------------------|--|--------------------------------|
| Revenues | | | | | | |
| Local sources | \$ 39,193,006 | \$ - | \$ 480,402 | \$ 1,433,354 | \$ 121,068 | \$ 41,227,830 |
| State sources | 21,212,099 | - | - | 433,504 | - | 21,645,603 |
| Federal sources | 1,760,816 | - | - | - | - | 1,760,816 |
| Total revenues | 62,165,921 | - | 480,402 | 1,866,858 | 121,068 | 64,634,249 |
| Expenditures | | | | | | |
| Instruction | 33,122,124 | - | - | - | - | 33,122,124 |
| Support services | 19,451,522 | 3,120 | 85,423 | 618,121 | - | 20,158,186 |
| Operation of non-instructional services | 1,764,806 | - | 5,940 | - | 112,695 | 1,883,441 |
| Capital outlay | 19,483 | - | 915 | 26,000,237 | - | 26,020,635 |
| Debt service | 225,424 | 6,275,082 | - | - | - | 6,500,506 |
| Refund of prior year's receipts | 870 | - | - | - | - | 870 |
| Total expenditures | 54,584,229 | 6,278,202 | 92,278 | 26,618,358 | 112,695 | 87,685,762 |
| Excess (deficiency) of revenues over (under) expenditures | 7,581,692 | (6,278,202) | 388,124 | (24,751,500) | 8,373 | (23,051,513) |
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in | - | 6,278,202 | - | - | - | 6,278,202 |
| Interfund transfers out | (6,377,822) | - | - | - | - | (6,377,822) |
| Proceeds from issuance of long-term debt | - | - | - | 42,720,000 | - | 42,720,000 |
| Premium on debt issuance | - | - | - | 3,334,219 | - | 3,334,219 |
| Insurance recoveries | 66,791 | - | - | - | - | 66,791 |
| Proceeds from sale of capital assets | 5,313 | - | - | - | - | 5,313 |
| Proceeds from subscription arrangements | 325,771 | - | - | - | - | 325,771 |
| Total other financing (uses) sources | (5,979,947) | 6,278,202 | - | 46,054,219 | - | 46,352,474 |
| Net change in fund balances | 1,601,745 | - | 388,124 | 21,302,719 | 8,373 | 23,300,961 |
| Fund Balances - July 1, 2024 | 16,916,373 | - | 13,927,058 | 16,833,026 | 118,321 | 47,794,778 |
| Fund Balances - June 30, 2025 | \$ 18,518,118 | \$ - | \$ 14,315,182 | \$ 38,135,745 | \$ 126,694 | \$ 71,095,739 |

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, 2025

| | | |
|---|--------------------|---------------------|
| Net change in fund balances - governmental funds | | \$ 23,300,961 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation/amortization expense. This is the amount by which depreciation/amortization and dispositions exceed capital outlays in the period.</p> | | |
| Capital outlays | 27,678,235 | |
| Less depreciation/amortization expense | <u>(4,593,990)</u> | 23,084,245 |
| <p>Because some taxes will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year.</p> | | |
| | | (33,966) |
| <p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. The additional interest accrued in the Statement of Activities over the amount due is shown here.</p> | | |
| | | 34,251 |
| <p>Governmental funds report District pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as a pension and OPEB expense.</p> | | |
| District pension and OPEB contributions (PSERS) | | 7,523,000 |
| Cost of benefits earned net of employee contributions (PSERS) | | (5,461,100) |
| <p>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.</p> | | |
| Change in compensated absences | | (54,916) |
| Change in other post-employment benefits (District's Plan) | | (792,047) |
| Change in reserve for loss contingencies | | 20,712 |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes 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.</p> | | |
| Issuance of long-term debt, net of premium | (46,054,219) | |
| Issuance of subscription liabilities | (325,771) | |
| Repayment of long-term debt | 2,607,168 | |
| Repayment of subscription liabilities | 207,130 | |
| Amortization of bond premiums and discounts - net | 321,090 | |
| Amortization of charges for bond refunding | <u>(88,505)</u> | (43,333,107) |
| Change in net position of governmental activities | | <u>\$ 4,288,033</u> |

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, 2025

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|-----------------------|-----------------------|----------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | | | | |
| Real estate taxes | \$ 27,355,532 | \$ 27,355,532 | \$ 27,793,185 | \$ 437,653 |
| Other taxes | 7,999,860 | 7,999,860 | 8,967,722 | 967,862 |
| Investment earnings | 900,000 | 900,000 | 1,252,066 | 352,066 |
| Other revenue | 1,113,020 | 1,113,020 | 1,180,033 | 67,013 |
| Total local sources | 37,368,412 | 37,368,412 | 39,193,006 | 1,824,594 |
| State sources | 21,053,844 | 21,053,844 | 21,212,099 | 158,255 |
| Federal sources | 1,124,808 | 1,124,808 | 1,760,816 | 636,008 |
| Total revenues | 59,547,064 | 59,547,064 | 62,165,921 | 2,618,857 |
| Expenditures | | | | |
| Instruction | | | | |
| Regular programs | 21,578,575 | 21,771,075 | 21,767,659 | 3,416 |
| Special programs | 9,823,083 | 9,890,683 | 9,889,365 | 1,318 |
| Vocational education | 1,000,564 | 1,041,564 | 1,041,537 | 27 |
| Other instructional programs | 284,321 | 263,321 | 260,610 | 2,711 |
| Nonpublic school programs | 5,628 | 12,928 | 12,684 | 244 |
| Adult education programs | 150,269 | 150,269 | 150,269 | - |
| Support services | | | | |
| Pupil personnel services | 3,423,315 | 3,369,515 | 3,367,316 | 2,199 |
| Instructional staff services | 1,893,315 | 1,813,815 | 1,812,618 | 1,197 |
| Administrative services | 2,807,716 | 2,871,716 | 2,869,836 | 1,880 |
| Pupil health services | 1,015,113 | 1,053,613 | 1,051,953 | 1,660 |
| Business services | 780,955 | 804,655 | 803,626 | 1,029 |
| Operation and maintenance of plant services | 5,172,350 | 5,281,995 | 5,279,624 | 2,371 |
| Student transportation services | 2,144,885 | 2,384,585 | 2,382,763 | 1,822 |
| Central support services | 1,846,944 | 1,855,259 | 1,854,158 | 1,101 |
| Other support services | 26,500 | 29,700 | 29,628 | 72 |
| Operation of noninstructional services | | | | |
| Student activities | 1,683,351 | 1,683,351 | 1,682,431 | 920 |
| Community services | 57,565 | 68,565 | 67,275 | 1,290 |
| Scholarships and awards | - | 15,100 | 15,100 | - |
| Capital outlay | 24,599 | 19,599 | 19,483 | 116 |
| Debt service | 123,629 | 226,669 | 225,424 | 1,245 |
| Refund of prior year's receipts | - | - | 870 | (870) |
| Total expenditures | 53,842,677 | 54,607,977 | 54,584,229 | 23,748 |
| Excess of revenues over expenditures | 5,704,387 | 4,939,087 | 7,581,692 | 2,642,605 |
| Other Financing (Uses) Sources | | | | |
| Interfund transfers out | (6,487,236) | (6,171,936) | (6,377,822) | (205,886) |
| Insurance recoveries | - | - | 66,791 | 66,791 |
| Proceeds from sale of capital assets | - | - | 5,313 | 5,313 |
| Budgetary reserve | (450,000) | - | - | - |
| Proceeds from subscription arrangements | - | - | 325,771 | 325,771 |
| Total other financing (uses) sources | (6,937,236) | (6,171,936) | (5,979,947) | 191,989 |
| Net change in fund balance | \$ (1,232,849) | \$ (1,232,849) | 1,601,745 | \$ 2,834,594 |
| Fund Balance - July 1, 2024 | | | 16,916,373 | |
| Fund Balance - June 30, 2025 | | | <u>\$ 18,518,118</u> | |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2025

| | Enterprise Funds | | | |
|---|---------------------|------------------|-------------------|---------------------|
| | Food Service | Non-major | | Total |
| | | Radio Station | MARA | |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,098,680 | \$ 14,617 | \$ 143,539 | \$ 1,256,836 |
| Due from other funds | 11,879 | 64,490 | - | 76,369 |
| Receivables | | | | |
| State sources | 23,316 | - | 24,996 | 48,312 |
| Federal sources | 167,263 | - | - | 167,263 |
| Other receivables | 20,239 | 3,140 | 26,026 | 49,405 |
| Inventories | 39,256 | - | - | 39,256 |
| Prepaid expenses | - | - | 555 | 555 |
| Other capital assets, net of depreciation | 281,689 | 10,576 | 6,148 | 298,413 |
| Total assets | \$ 1,642,322 | \$ 92,823 | \$ 201,264 | \$ 1,936,409 |
| Deferred Outflows of Resources | | | | |
| Deferred amounts on pension liability | \$ 26,000 | \$ - | \$ - | \$ 26,000 |
| Deferred amounts on OPEB liabilities | 6,629 | - | - | 6,629 |
| Total deferred outflows of resources | \$ 32,629 | \$ - | \$ - | \$ 32,629 |
| Liabilities | | | | |
| Due to other funds | \$ 54,138 | \$ - | \$ 5,059 | \$ 59,197 |
| Accounts payable | 47,326 | 114 | 7,556 | 54,996 |
| Unearned revenue | 27,199 | 500 | 54,200 | 81,899 |
| Other current liabilities | 15,998 | - | 90 | 16,088 |
| Long-term liabilities | | | | |
| Net pension liability | 167,000 | - | - | 167,000 |
| Other post-employment benefits liabilities | 44,130 | - | - | 44,130 |
| Total long-term liabilities | 211,130 | - | - | 211,130 |
| Total liabilities | \$ 355,791 | \$ 614 | \$ 66,905 | \$ 423,310 |
| Deferred Inflows of Resources | | | | |
| Deferred amounts on pension liability | \$ 3,000 | \$ - | \$ - | \$ 3,000 |
| Deferred amounts on OPEB liabilities | 14,575 | - | - | 14,575 |
| Total deferred inflows of resources | \$ 17,575 | \$ - | \$ - | \$ 17,575 |
| Net Position | | | | |
| Net investment in capital assets | \$ 281,689 | \$ 10,576 | \$ 6,148 | \$ 298,413 |
| Unrestricted | 1,019,896 | 81,633 | 128,211 | 1,229,740 |
| Total net position | \$ 1,301,585 | \$ 92,209 | \$ 134,359 | \$ 1,528,153 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
 Year Ended June 30, 2025

| | Enterprise Funds | | | Total |
|---|--------------------|-----------------|------------------|--------------------|
| | Food Service | Non-major | | |
| | | Radio Station | MARA | |
| Operating Revenues | | | | |
| Food service revenue | \$ 603,910 | \$ - | \$ - | \$ 603,910 |
| Station services | - | 37,258 | - | 37,258 |
| Program revenue | - | - | 343,508 | 343,508 |
| Total operating revenues | 603,910 | 37,258 | 343,508 | 984,676 |
| Operating Expenses | | | | |
| Salaries | 90,185 | 66,213 | 317,609 | 474,007 |
| Employee benefits | 19,154 | 38,461 | 162,440 | 220,055 |
| Purchased professional and technical services | - | 4,894 | 11,884 | 16,778 |
| Purchased property services | 32,905 | 3,574 | 24,255 | 60,734 |
| Other purchased services | 1,894,071 | 8,766 | 4,737 | 1,907,574 |
| Supplies | 126,875 | 2,362 | 28,942 | 158,179 |
| Depreciation | 104,343 | 2,846 | 1,233 | 108,422 |
| Dues and fees | 747 | 1,196 | 17,478 | 19,421 |
| Other operating expenses | 75 | - | 1,729 | 1,804 |
| Total operating expenses | 2,268,355 | 128,312 | 570,307 | 2,966,974 |
| Operating loss | (1,664,445) | (91,054) | (226,799) | (1,982,298) |
| Nonoperating Revenues and Expenses | | | | |
| Investment earnings | 35,048 | 1,926 | 7,142 | 44,116 |
| Contributions from private sources | - | 2,086 | 6,115 | 8,201 |
| Gain on sale of capital assets | 7,076 | - | - | 7,076 |
| Local sources | - | - | 19,620 | 19,620 |
| State sources | 195,170 | 14,071 | 203,786 | 413,027 |
| Federal sources | 1,352,592 | - | - | 1,352,592 |
| Miscellaneous income | - | - | 1,896 | 1,896 |
| Total nonoperating revenues | 1,589,886 | 18,083 | 238,559 | 1,846,528 |
| (Loss) income before transfers | (74,559) | (72,971) | 11,760 | (135,770) |
| Interfund Transfers In | - | 80,000 | 19,620 | 99,620 |
| Change in net position | (74,559) | 7,029 | 31,380 | (36,150) |
| Net Position - July 1, 2024 | 1,376,144 | 85,180 | 102,979 | 1,564,303 |
| Net Position - June 30, 2025 | \$ 1,301,585 | \$ 92,209 | \$ 134,359 | \$ 1,528,153 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2025

| | Enterprise Funds | | | |
|--|--------------------|------------------|------------------|--------------------|
| | Food Service | Non-major | | Total |
| Radio Station | | MARA | | |
| Cash Flows From Operating Activities | | | | |
| Cash received from meal sales | \$ 583,872 | \$ - | \$ - | \$ 583,872 |
| Cash received from charges for services | - | 34,868 | 357,881 | 392,749 |
| Cash payments for goods and services | (1,917,361) | (21,031) | (88,791) | (2,027,183) |
| Cash payments to employees for services | (112,460) | (174,109) | (517,489) | (804,058) |
| Net cash used in operating activities | (1,445,949) | (160,272) | (248,399) | (1,854,620) |
| Cash Flows From Non-Capital Financing Activities | | | | |
| Miscellaneous income | - | - | 1,896 | 1,896 |
| Contributions from private sources | 6,990 | 2,086 | 23,339 | 32,415 |
| State sources | 195,926 | 14,071 | 189,650 | 399,647 |
| Federal sources | 1,236,216 | - | - | 1,236,216 |
| Transfers | - | 80,000 | 19,620 | 99,620 |
| Net cash provided by non-capital financing activities | 1,439,132 | 96,157 | 234,505 | 1,769,794 |
| Cash Flows From Capital and Related Financing Activities | | | | |
| Purchases of capital assets | (50,057) | (1,173) | - | (51,230) |
| Proceeds from sale of assets | 7,076 | - | - | 7,076 |
| Net cash used in capital and related financing activities | (42,981) | (1,173) | - | (44,154) |
| Cash Flows From Investing Activities | | | | |
| Investment earnings | 35,048 | 1,926 | 7,142 | 44,116 |
| Net change in cash and cash equivalents | (14,750) | (63,362) | (6,752) | (84,864) |
| Cash and Cash Equivalents: | | | | |
| July 1, 2024 | 1,113,430 | 77,979 | 150,291 | 1,341,700 |
| June 30, 2025 | \$ 1,098,680 | \$ 14,617 | \$ 143,539 | \$ 1,256,836 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | | | |
| Operating loss | \$ (1,664,445) | \$ (91,054) | \$ (226,799) | \$ (1,982,298) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | | | |
| Depreciation | 104,343 | 2,846 | 1,233 | 108,422 |
| Value of donated commodities | 121,081 | - | - | 121,081 |
| (Increase) decrease in: | | | | |
| Other receivables | (20,038) | (2,890) | - | (22,928) |
| Inventories | (28,244) | - | - | (28,244) |
| Prepays | - | - | (77) | (77) |
| Deferred outflow of resources | 3,245 | - | - | 3,245 |
| Increase (decrease) in: | | | | |
| Internal balances | 56,143 | (69,435) | (37,440) | (50,732) |
| Accounts payable | (12,591) | (239) | 2,822 | (10,008) |
| Unearned revenue | - | 500 | 14,373 | 14,873 |
| Other current liabilities | 923 | - | (2,511) | (1,588) |
| Net pension liability | (10,000) | - | - | (10,000) |
| OPEB liabilities | 4,486 | - | - | 4,486 |
| Deferred inflow of resources | (852) | - | - | (852) |
| Net cash used in operating activities | (1,445,949) | (160,272) | (248,399) | (1,854,620) |
| Supplemental Disclosure | | | | |
| Noncash non-capital financing activity | | | | |
| USDA donated commodities | \$ 121,081 | \$ - | \$ - | \$ 121,081 |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2025

| | Private-Purpose Trust Fund |
|--------------------------------|-------------------------------|
| <hr/> | |
| Assets | |
| Cash and cash equivalents | \$ 513,246 |
| Due from other funds | 1,141 |
| Total assets | <u><u>\$ 514,387</u></u> |
| | |
| Liabilities | |
| Accounts payable | \$ 39,699 |
| Total liabilities | <u><u>\$ 39,699</u></u> |
| | |
| Net Position | |
| Held in trust for scholarships | \$ 474,688 |
| Total net position | <u><u>\$ 474,688</u></u> |

See Notes to Financial Statements.

MIDDLETOWN AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2025

| | Private-Purpose Trust Fund |
|-------------------------------------|-------------------------------|
| <hr/> | |
| Additions | |
| Gifts and contributions | \$ 35,312 |
| Investment earnings | 13,986 |
| Refund of prior year's expenditures | 2,800 |
| Total additions | <hr/> 52,098 <hr/> |
| Deductions | |
| Scholarships awarded | 41,381 |
| Total deductions | <hr/> 41,381 <hr/> |
| Change in net position | 10,717 |
| Net Position - July 1, 2024 | 463,971 |
| Net Position - June 30, 2025 | <hr/> \$ 474,688 <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 twelfth to students living in Middletown Borough, Royaltown Borough and Lower Swatara Township. These include regular, advanced academic programs, vocational education programs and special education programs for gifted and special needs children. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The District operates three elementary schools, one middle school and one high school, serving approximately 2,400 students.

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

A. Reporting Entity

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

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 and amortization are charged as an expense against current operations.

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The District reports the following major governmental funds:

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 Reserve Fund - The capital reserve 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).

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

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

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

The food service fund accounts for the activities of the District's food service program. The principal operating revenues of the District's food service fund are food service charges. Operating expenses for the District's food service fund include food production costs, supplies, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses. The District does not attempt to allocate "building-wide costs" to the food service fund. Thus, general fund expenditures which partially benefit the food service fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the food service fund; similarly, the food service fund does not recognize a cost for the building space it occupies (no rental of facilities expense).

The radio station fund is an enterprise fund that accounts for the revenue, expenses and other transactions surrounding the operation of the District's student operated radio station.

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The District maintains the following fiduciary fund types:

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

D. Budget and Budgetary Accounting

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

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. Management submits to the Board for consideration a draft operating budget projection or other information to review for the fiscal year commencing the following July 1. The Board determines if it will approve a resolution to keep any tax increase below the index by the PDE deadline.
2. If the Board adopts the resolution, management must submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. If the Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance with the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
4. At public Board meetings, information is presented and debated. The public is welcome to comment on the budget.
5. Prior to June 30, legislation requires a budget to be legally enacted through passage of a resolution.
6. Legal budgetary control is maintained by the Board at the sub-function/major object level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.
7. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, encumbrance accounting allows the District to increase the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserve a portion of fund balance in a like amount. There were no outstanding encumbrances for the year ended 2025.
9. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles in the United States of America.
10. Where applicable, unbudgeted federal and state revenue and expenditures have been added to the original budgeted revenue and expenditures

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food supplies on hand at June 30, 2025, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government at June 30, 2025, were reported as unearned revenue since title does not pass to the District until the commodities are used.

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

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized in accordance with Board policy at the discretion of management. Management considers various factors in the capitalization of assets, including the asset's estimated useful life, cost and the extent to which the asset is part of a larger capital project. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows of Resources - Pensions and Other Post-Employment Benefits: The District recognizes deferred outflows of resources, which represent a consumption of net assets that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has identified these items in subsequent notes to the financial statements.

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.

Lease and Subscription Based Information Technology Arrangement (SBITA) Liabilities: The District enters into non-cancellable arrangements for the leasing of buildings and equipment and for subscription based information technology. A liability and an intangible right-to-use asset is recognized in the government-wide financial statements. Lease and SBITA that are significant, either individually or in the aggregate, are recognized.

At the commencement of a lease or SBITA, the District initially measures the liability at the present value of payments expected to be made during the agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The right-to-use asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the contract commencement date. Subsequently, the right-to-use asset is amortized on a straight-line basis over its useful life and the useful life is consistent with the term of the agreement.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected payments to present value, (2) contract term, and (3) contract payments. The District uses the interest rate charged by the lessor as the discount rate for lease and SBITA liabilities, if provided. When the interest rate charged is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for lease and SBITA liabilities.

The term includes the non-cancellable period of the lease or SBITA. Payments included in the measurement of the liability are composed of fixed payments and the purchase option price that the District is reasonably certain to exercise. The District monitors changes in circumstances that would require a remeasurement of its arrangements and will remeasure the related asset and liability if certain changes occur that are expected to significantly affect the amount of the liability.

Right-to-use assets are reported with other capital assets and lease and SBITA liabilities are reported with long-term debt on the Statement of Net Position.

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)

Compensated Absences: Effective July 1, 2024, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. This Statement establishes uniform recognition and measurement criteria for all types of compensated absences, including vacation, personal leave, sick leave, and other forms of paid time off that are attributable to services already rendered, accumulate and are more likely than not to be used or otherwise paid. The liability for compensated absences is reported as incurred in the government-wide financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements.

As part of the implementation, the District adopted a last-in, first-out (LIFO) flow assumption for the use of leave balances. Under this approach, the most recently earned leave is assumed to be used first. This assumption aligns with the District's administrative practices and provides a more accurate reflection of the expected settlement value of compensated absences.

Under the terms of the District's employment agreements, employees earn vacation, personal, and sick leave in varying amounts. The compensated absences liability includes the estimated value of leave expected to be used during employment, based on historical usage patterns, as well as amounts expected to be settled upon separation from service in accordance with contractual payout provisions. The liability is measured using current pay rates and includes applicable salary-related benefits.

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

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Other Post-Employment Benefits (Continued) The balance of the District’s OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2025, are as follows:

| | Governmental Activities | Business-Type Activities | Total |
|---------------------------------------|----------------------------|-----------------------------|--------------|
| OPEB Liabilities | | | |
| District's Single Employer Plan | \$ 7,388,792 | \$ 37,130 | \$ 7,425,922 |
| PSERS Cost Sharing Plan | 2,372,000 | 7,000 | 2,379,000 |
| Total | \$ 9,760,792 | \$ 44,130 | \$ 9,804,922 |
| Deferred Outflows of Resources | | | |
| District's Single Employer Plan | \$ 1,120,096 | \$ 5,629 | \$ 1,125,725 |
| PSERS Cost Sharing Plan | 325,000 | 1,000 | 326,000 |
| Total | \$ 1,445,096 | \$ 6,629 | \$ 1,451,725 |
| Deferred Inflows of Resources | | | |
| District's Single Employer Plan | \$ 2,661,659 | \$ 13,375 | \$ 2,675,034 |
| PSERS Cost Sharing Plan | 403,800 | 1,200 | 405,000 |
| Total | \$ 3,065,459 | \$ 14,575 | \$ 3,080,034 |

Additional disclosures related to other post-employment benefits of the District’s Single Employer Plan and PSERS Cost Sharing Plan can be found in subsequent notes to the financial statements.

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

Deferred Inflows of Resources - Pensions and Other Post-Employment Benefits: The District recognizes deferred inflows of resources, which represent an acquisition of net assets that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has identified these items in subsequent notes to the financial statements.

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

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)

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

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

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

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

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

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to the Finance Committee and/or the Chief Financial Officer.

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

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned general fund balance of not less than 5% and not more than 8% of the budgeted expenditures for the next year.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. New Accounting Pronouncements

The following list reflects only those pronouncements initially effective in the current or upcoming reporting periods which, based on our review, may be applicable to the District's reporting requirements.

Following are descriptions of significant pronouncements that were considered or initially selected during the year ended June 30, 2025:

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements.

GASB Statement No. 102, *Certain Risk Disclosures*, establishes financial reporting requirements to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

The following are descriptions of accounting pronouncements which will be considered for implementation during subsequent fiscal years:

GASB Statement No. 103, *Financial Reporting Model Improvements*, will be effective for the District beginning with its year ending June 30, 2026 (fiscal years beginning after June 15, 2025). This Statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement addresses requirements relating to management's discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, major component unit information and budgetary comparison information.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, will be effective for the District beginning with its year ending June 30, 2026 (fiscal years beginning after June 15, 2025). This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures. Lease assets, subscription assets, intangible right-to-use assets and intangible assets should be disclosed separately by major class of underlying asset within the note disclosures. This Statement also requires additional disclosures for capital assets held for sale.

The effects of implementation of these standards have not yet been determined.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

G. Other

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

Restatement of Beginning Net Position: During the year ended June 30, 2025, the District implemented GASB Statement No. 101, *Compensated Absences*. Implementation of the new standard changed the District’s compensated absences liability measurement. The effects of the change in accounting principle are summarized in the “Restatement - GASB 101 implementation” column in the table below:

| | Net Position at June 30, 2024, as previously reported | Restatement - GASB 101 implementation | Net Position at June 30, 2024, as restated |
|-------------------------|--|---|--|
| Government-wide | | | |
| Governmental Activities | \$ 7,138,614 | \$ (833,714) | \$ 6,304,900 |

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through January 12, 2026, the date the financial statements were available to be issued.

Note 2. Deposits and Investments

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

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

The deposit and investment 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.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Deposits: Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank default, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2025, are shown below:

| Financial Institution | Carrying Amount | Bank Balance | Financial Institution |
|---|---------------------|---------------------|-----------------------|
| Insured (FDIC) | \$ 250,000 | \$ 250,000 | Mid Penn Bank |
| Uninsured, collateralized in accordance with Act 72 | 5,525,436 | 6,564,176 | Mid Penn Bank |
| | <u>\$ 5,775,436</u> | <u>\$ 6,814,176</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.

Investments

As of June 30, 2025, the District had the following investments:

| | Credit Rating | Weighted Avg. Maturity in Years | Carrying Value |
|---|---------------|---------------------------------|----------------------|
| Pennsylvania School District Liquid Asset Fund (PSDLAF) | | | |
| PSD MAX | AAAm | 0.1151 | \$ 13,987,614 |
| PSDLAF Full Flex Pool | AAAm | Various | 28,815,669 |
| PSDLAF-TERM SERIES | AAAm | Various | 25,750,000 |
| PSDLAF-CDs | AAAm | Various | 719,700 |
| PSDLAF-Treasury Bill | AAAm | Various | 2,499,472 |
| | | | <u>\$ 71,772,455</u> |

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

The PSD MAX 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. PSD MAX does not have limitations or restrictions on withdrawals.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments (Continued)

The PSDLAF Full Flex Pool, as part of the Fixed Term Series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series, however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of Deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third-party custodian pursuant to a custody agreement among the Fund, the bank that issues the Certificate of Deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank.

The District reports these nonparticipating contracts, as nonnegotiable Certificates of Deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

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

Weighted-Average Maturity

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

Interest-Rate Risk

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

Credit Risk

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

Concentrations of Credit Risk

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Property Taxes

Based upon assessed valuations provided by the County, the District bills and collects its own property taxes. The schedule for property taxes levied for 2024-25 is as follows:

| | |
|--------------------------------------|---------------------|
| July 1, 2024 | Tax levy date |
| Through September 30, 2024 | 2% discount |
| October 1, 2024 - November 30, 2024 | Face payment period |
| December 1, 2024 - December 31, 2024 | 10% penalty period |
| January 3, 2025 | Lien filing date |

The District’s tax rate for all purposes in 2024-25, was 24.80 mills (\$24.80 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania’s accounting system. The District collected approximately 98% of the adjusted tax duplicate during the fiscal year before factoring discounts extended and penalties received. Actual cash collections amounted to approximately 97% of the adjusted tax duplicate.

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

A summary of the taxes receivable and related accounts at June 30, 2025, are as follows:

| | Amount |
|---|---------------------|
| Uncollected Taxes | \$ 3,496,164 |
| Estimated uncollectible taxes | (1,438,963) |
| Taxes Receivable - Net | <u>\$ 2,057,201</u> |
| | |
| Taxes to be collected within 60 days | \$ 1,479,375 |
| Deferred inflows of resources - delinquent property taxes | 577,826 |
| Taxes Receivable - Net | <u>\$ 2,057,201</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, 2025, are as follows:

| Fund | Interfund Receivables | Interfund Payables |
|----------------------------|--------------------------|-----------------------|
| Governmental Funds | | |
| General | \$ 3,923,116 | \$ 65,630 |
| Capital reserve | - | 3,115 |
| Capital projects | 915 | 3,839,547 |
| Student sponsored activity | 110 | 34,162 |
| Proprietary Funds | | |
| Food service | 11,879 | 54,138 |
| Radio station | 64,490 | - |
| MARA | - | 5,059 |
| Fiduciary Funds | | |
| Private purpose trust | 1,141 | - |
| | \$ 4,001,651 | \$ 4,001,651 |

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, 2025, are as follows:

| Fund | Transfers In | Transfers Out |
|--------------------|--------------|---------------|
| Governmental Funds | | |
| General | \$ - | \$ 6,377,822 |
| Debt service | 6,278,202 | - |
| Proprietary Funds | | |
| Radio station | 80,000 | - |
| MARA | 19,620 | - |
| | \$ 6,377,822 | \$ 6,377,822 |

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital and Right-to-use Assets

Capital and right-to-use asset activity for governmental-type and business-type activities for the year ended June 30, 2025, was as follows:

| | July 1, 2024 | Additions | Deletions | June 30, 2025 |
|---|----------------------|----------------------|------------------|-----------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 2,350,491 | \$ - | \$ - | \$ 2,350,491 |
| Construction-in-progress | 4,444,797 | 26,619,273 | - | 31,064,070 |
| Total capital assets not being depreciated | <u>6,795,288</u> | <u>26,619,273</u> | <u>-</u> | <u>33,414,561</u> |
| Capital and right-to-use assets being depreciated/amortized | | | | |
| Land improvements | 10,426,458 | - | - | 10,426,458 |
| Buildings and building improvements | 104,301,467 | 16,311 | - | 104,317,778 |
| Furniture and equipment | 14,415,309 | 537,563 | - | 14,952,872 |
| Vehicles | 798,902 | 74,895 | (34,475) | 839,322 |
| Textbooks | 1,615,334 | 94,995 | - | 1,710,329 |
| Library books | 643,398 | 9,427 | - | 652,825 |
| Right-to-use subscription assets | 984,779 | 325,771 | (107,674) | 1,202,876 |
| Total capital and right-to-use assets being depreciated/amortized | <u>133,185,647</u> | <u>1,058,962</u> | <u>(142,149)</u> | <u>134,102,460</u> |
| Less accumulated depreciation/amortization | | | | |
| Land improvements | 4,549,777 | 554,848 | - | 5,104,625 |
| Buildings and building improvements | 41,700,365 | 2,711,900 | - | 44,412,265 |
| Furniture and equipment | 10,686,090 | 1,051,316 | - | 11,737,406 |
| Vehicles | 659,315 | 31,847 | (34,475) | 656,687 |
| Textbooks | 1,382,106 | 87,258 | - | 1,469,364 |
| Library books | 603,475 | 8,516 | - | 611,991 |
| Right-to-use subscription assets | 273,124 | 148,305 | (107,674) | 313,755 |
| Total accumulated depreciation/amortization | <u>59,854,252</u> | <u>4,593,990</u> | <u>(142,149)</u> | <u>64,306,093</u> |
| Total capital and right-to-use assets being depreciated/amortized - net | <u>73,331,395</u> | <u>(3,535,028)</u> | <u>-</u> | <u>69,796,367</u> |
| Total Governmental Activities, Capital and Right-to-use Assets - Net | <u>\$ 80,126,683</u> | <u>\$ 23,084,245</u> | <u>\$ -</u> | <u>\$ 103,210,928</u> |
| Business-Type Activities | | | | |
| Furniture and equipment | \$ 2,572,470 | \$ 51,230 | \$ - | \$ 2,623,700 |
| Less accumulated depreciation Furniture and equipment | <u>2,216,865</u> | <u>108,422</u> | | <u>2,325,287</u> |
| Business-Type Activities, Capital Assets - Net | <u>\$ 355,605</u> | <u>\$ (57,192)</u> | <u>\$ -</u> | <u>\$ 298,413</u> |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital and Right-to-use Assets (Continued)

Depreciation and amortization expenses were charged to the functions/programs of the District as follows:

| | Amount |
|---|----------------------------|
| Governmental Activities | |
| Instruction | \$ 3,727,397 |
| Instructional student support | 148,171 |
| Administration and financial support | 242,943 |
| Operation and maintenance of plant services | 197,899 |
| Pupil transportation | 58,870 |
| Student activities | 218,710 |
| Total governmental activities | <u>4,593,990</u> |
| Business-Type Activities | |
| Food service | 104,343 |
| Radio station | 2,846 |
| MARA | 1,233 |
| Total business-type activities | <u>108,422</u> |
| Total School District | <u><u>\$ 4,702,412</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, 2025, and transactions during the year then ended follows:

| | July 1, 2024 (restated) | Increases | Decreases | June 30, 2025 | Due within one year |
|---|----------------------------|---------------|----------------|------------------|------------------------|
| General Obligation Debt | | | | | |
| Capital Appreciation Bonds (CAB) | | | | | |
| Series B of 2014 | \$ 6,538,914 | \$ - | \$ (2,292,168) | \$ 4,246,746 | \$ 2,178,513 |
| General Obligation Bonds Series A of 2017 | 26,755,000 | - | (300,000) | 26,455,000 | 310,000 |
| General Obligation Bonds Series 2022 | 9,990,000 | - | (5,000) | 9,985,000 | 5,000 |
| General Obligation Bonds Series 2023 | 9,995,000 | - | (5,000) | 9,990,000 | 5,000 |
| General Obligation Bonds Series 2024 | - | 27,725,000 | (5,000) | 27,720,000 | 40,000 |
| General Obligation Bonds Series 2025 | - | 14,995,000 | - | 14,995,000 | 5,000 |
| Total Bonds and Notes | 53,278,914 | 42,720,000 | (2,607,168) | 93,391,746 | 2,543,513 |
| Series B of 2014 CAB Accrued Interest | 3,944,689 | - | (637,929) | 3,306,760 | - |
| Unamortized bond premium (discount), net | 1,818,451 | 3,334,219 | (321,090) | 4,831,580 | - |
| Total General Obligation Debt | 59,042,054 | 46,054,219 | (3,566,187) | 101,530,086 | 2,543,513 |
| Other Long-Term Obligations | | | | | |
| Reserve for loss contingencies | 105,043 | - | (20,712) | 84,331 | 84,333 |
| Compensated absences * | 1,617,461 | 54,916 | - | 1,672,377 | 52,565 |
| Subscription liabilities | 682,552 | 325,771 | (207,130) | 801,193 | 205,733 |
| Total Other Long-Term Obligations | 2,405,056 | 380,687 | (227,842) | 2,557,901 | 342,631 |
| Total Long-Term Obligations | \$ 60,613,396 | \$ 46,434,906 | \$ (3,794,029) | \$ 104,087,987 | \$ 2,886,144 |

* The change in the compensated absences liability is presented as a net change.

General Obligation Debt

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

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

General Obligation Bonds - Series of 2022 - On December 15, 2022, the District issued General Obligation Bonds - Series of 2022, in the principal amount of \$9,995,000. The proceeds provided funds for the purpose of paying all or a portion of the costs of various capital projects and expenses of issuing the bonds. Interest is payable semi-annually on September 1 and March 1 at rates between 3.25% and 4.00%, with principal maturing through March 1, 2036.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Debt (Continued)

General Obligation Bonds - Series of 2023 - On December 20, 2023, the District issued General Obligation Bonds - Series of 2023, in the principal amount of \$9,995,000. The proceeds provided funds for the purpose of paying all or a portion of the costs of various capital projects and expenses of issuing the bonds. Interest is payable semi-annually on September 1 and March 1 at rates between 3.25% and 5.00%, with principal maturing through March 1, 2038.

General Obligation Bonds - Series of 2024 - On September 24, 2024, the District issued General Obligation Bonds - Series of 2024, in the principal amount of \$27,725,000. The proceeds provided funds for the purpose of paying all or a portion of the costs of various capital projects and expenses of issuing the bonds. Interest is payable semi-annually on September 1 and March 1 at rates between 3.00% and 5.00%, with principal maturing through March 1, 2042.

General Obligation Bonds - Series of 2025 - On April 10, 2025, the District issued General Obligation Bonds - Series of 2025, in the principal amount of \$14,995,000. The proceeds provided funds for the purpose of paying all or a portion of the costs of various capital projects and expenses of issuing the bonds. Interest is payable semi-annually on September 1 and March 1 at rates between 3.25% and 5.00%, with principal maturing through March 1, 2045.

Debt service requirements on long-term debt at June 30, 2025, are as follows:

| Year ending June 30: | General Obligation Debt | | |
|----------------------|-------------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2026 | \$ 2,543,513 | \$ 5,218,153 | \$ 7,761,666 |
| 2027 | 2,443,233 | 5,398,541 | 7,841,774 |
| 2028 | 3,800,000 | 4,045,488 | 7,845,488 |
| 2029 | 3,950,000 | 3,894,100 | 7,844,100 |
| 2030 | 4,105,000 | 3,736,700 | 7,841,700 |
| 2031-2035 | 22,570,000 | 16,126,450 | 38,696,450 |
| 2036-2040 | 26,525,000 | 10,929,350 | 37,454,350 |
| 2041-2045 | 27,455,000 | 3,954,600 | 31,409,600 |
| | <u>\$ 93,391,746</u> | <u>\$ 53,303,382</u> | <u>\$ 146,695,128</u> |

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

Reserve for Loss Contingencies

The District has recorded a \$84,333 reserve for loss contingencies in its government-wide financial statements, which results from unfavorable rulings in compensatory education related lawsuits.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

Subscription Based Information Technology Arrangements (SBITA) Liabilities

The District enters into various arrangements for administrative and educational software and other information technology. Many of the software and information technology arrangements are for a term of one year or less. However, the District also enters into arrangements that are for greater than one year which require accounting for and reporting of a right-to-use subscription asset and liability. These terms range from two to eighteen years in length.

The District's subscription based information technology arrangements contain scheduled annual payments with expiration dates extending through 2040. Payments of the subscription liability are primarily funded by the general fund.

The following is a schedule of future minimum subscription liability payments for agreements with initial or remaining terms in excess of one year as of June 30, 2025:

| <u>Year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2026 | \$ 205,733 | \$ 19,691 | \$ 225,424 |
| 2027 | 175,707 | 15,070 | 190,777 |
| 2028 | 179,643 | 11,134 | 190,777 |
| 2029 | 16,958 | 7,106 | 24,064 |
| 2030 | 17,459 | 6,604 | 24,063 |
| 2031-2035 | 95,360 | 24,956 | 120,316 |
| 2036-2040 | 110,333 | 9,986 | 120,319 |
| | <u>\$ 801,193</u> | <u>\$ 94,547</u> | <u>\$ 895,740</u> |

Letters of Credit

The District has two irrevocable letters of credit in the amounts of \$391,599 and \$2,196,015 for various improvements the District is undergoing. These letters of credit are with Lower Swatara Township and the Municipal Authority of Lower Swatara Township, respectively.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Act 5 of 2017 (Act 5) introduced a hybrid benefit with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership Class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC). To qualify for normal retirement, Class T-G and Class T-H members must work until age 67 with a minimum of three years of credited service. Class T-G may also qualify for normal retirement by attaining a total combination of age and service that is equal to or greater than 97 with a minimum of 35 years of credited service.

Benefits are generally between 1% and 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members, whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

The contribution rates based on qualified member compensation for virtually all members are presented below:

| Member Contribution Rates | | | | |
|----------------------------------|------------------------------------|---|-----------------------------|--|
| Membership Class | Continuous Employment Since | Defined Benefit (DB) Contribution Rate | DC Contribution Rate | Total Contribution Rate |
| T-C | Prior to July 22, 1983 | 5.25% | N/A | 5.25% |
| | | | | 6.25% |
| T-C | On or after July 22, 1983 | 6.25% | N/A | 6.25% |
| T-D | Prior to July 22, 1983 | 6.50% | N/A | 6.50% |
| T-D | On or after July 22, 1983 | 7.50% | N/A | 7.50% |
| T-E | On or after July 1, 2011 | 7.50% base rate with shared risk provision | N/A | Prior to 7/1/21: 7.50% After 7/1/21: 8.00% |
| T-F | On or after July 1, 2011 | 10.30% base rate with shared risk provision | N/A | Prior to 7/1/21: 10.30% After 7/1/21: 10.8% |
| T-G | On or after July 1, 2019 | 5.50% base rate with shared risk provision | 2.75% | Prior to 7/1/21: 8.25% After 7/1/21: 9.00% |
| T-H | On or after July 1, 2019 | 4.50% base rate with shared risk provision | 3.00% | Prior to 7/1/21: 7.50% After 7/1/21: 8.25% |
| DC | On or after July 1, 2019 | N/A | 7.50% | 7.50% |

| Shared Risk Program Summary | | | | |
|------------------------------------|---------------------------------------|------------------------------|----------------|----------------|
| Membership Class | Defined Benefit (DB) Base Rate | Shared Risk Increment | Minimum | Maximum |
| T-E | 7.50% | +/-0.50% | 5.50% | 9.50% |
| T-F | 10.30% | +/-0.50% | 8.30% | 12.30% |
| T-G | 5.50% | +/-0.75% | 2.50% | 8.50% |
| T-H | 4.50% | +/-0.75% | 1.50% | 7.50% |

Employer Contributions:

The District’s contractually required contribution rate for the fiscal year ended June 30, 2025, was 33.27% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Included in the District’s contractually required contribution rate is the Act 5 contribution rate totaling an estimated 0.35%.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth’s share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total District’s rate. The District’s contributions to the Plan, relating to pension benefits, for the year ended June 30, 2025, was \$7,397,412, and is equal to the required contribution for the year. For the year ended June 30, 2025, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$3,877,394.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

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

At June 30, 2025, the District reported a liability of \$55,667,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2023 to June 30, 2024. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2025, the District's reported proportion was 0.1330%, which was an increase of 0.0006% from its proportion reported as of June 30, 2024.

For the year ended June 30, 2025, the District recognized pension expense of \$5,374,000. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 875,000 |
| Net difference between projected and actual investment earnings | 922,000 | - |
| Changes in proportions | 194,000 | 181,000 |
| Contributions subsequent to the measurement date | 7,397,000 | - |
| | <u>\$ 8,513,000</u> | <u>\$ 1,056,000</u> |

\$7,397,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ending June 30:</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2026 | \$ (1,548,000) |
| 2027 | 1,485,000 |
| 2028 | 310,000 |
| 2029 | (187,000) |
| | <u>\$ 60,000</u> |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2024, was determined by rolling forward the System's total pension liability as of June 30, 2023, to June 30, 2024, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2023
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- The discount rate used to measure the Total Pension Liability was 7.00% as of June 30, 2023, and as of June 30, 2024.
- Demographic and economic assumptions approved by the Board for use effective with the June 30, 2021, actuarial valuation:
 - Salary growth rate - decreased from 5.00% to 4.50%.
 - Real wage growth and merit or seniority increases (components for salary growth) - decreased from 2.75% and 2.25% to 2.50% and 2.00%, respectively.
 - Mortality rates - Previously based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. Effective with the June 30, 2021, actuarial valuation, mortality rates are based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.

The actuarial assumptions used in the June 30, 2024, valuation was based on the results of an actuarial experience study that was performed for the period ended June 30, 2020.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Investments

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

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

For the year ended June 30, 2024, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Global public equity | 30.0% | 4.8% |
| Private equity | 12.0% | 6.7% |
| Fixed income | 33.5% | 3.9% |
| Commodities | 5.0% | 2.5% |
| Infrastructure/MLPs | 10.0% | 6.4% |
| Real estate | 9.5% | 5.9% |
| Absolute return | 0.0% | 0.0% |
| Cash | 0.0% | 0.0% |
| Leverage | 0.0% | 0.0% |
| | <u>100.0%</u> | |

The above table was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2024.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current discount rate:

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|---|----------------------|-----------------------------------|----------------------|
| District's proportionate share of the net pension liability | \$ 73,330,000 | \$ 55,667,000 | \$ 40,752,000 |

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2025, the District reported a payable to PSERS of \$2,424,249, which represents the employer contributions owed to the pension plan.

Note 9. Other Post-Employment Benefits - District's Single Employer Plan

Plan Description, Benefit Terms and Funding Policy

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District’s Single Employer Plan (Continued)

Plan Description, Benefit Terms and Funding Policy (Continued)

The plan description and benefit terms provided by the Plan are summarized in the chart below:

| GROUP | ELIGIBILITY | COVERAGE AND PREMIUM SHARING | DURATION |
|--|---|--|--|
| <u>I. SUPERINTENDENTS</u> | Age 55 with 30 years of PSERS Service and 10 years of service with MASD | <p>Coverage: Medical, Prescription Drug, Dental, Vision and Life Insurance coverage for Retiree.</p> <p>Premium Sharing: District pays 100% of premium after reduced by \$100 monthly PSERS supplement.</p> <p>Life insurance on the Superintendent is equal to 2 times the salary at retirement. Coverage is provided by the District until age 65.</p> <p>Spousal Coverage: Health insurance coverage available if fully paid by Retiree.</p> | Retiree coverage is provided until Medicare age. Spouse coverage is provided until Spouse Medicare age. If Retiree dies prior to Medicare age, Spouse coverage may continue until Spouse Medicare age. |
| <u>II. ALL OTHER ADMINISTRATORS</u> | | | |
| A) Retired prior to 6/30/2019 | N/A - Already retired | <p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: The District pays 100% of premium after reduced by \$100 monthly PSERS Supplement plus monthly cost of share paid by active single employee up to an additional \$100 per month</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p> | Same as I. |
| B) Retired 7/1/2019 - and later | Age 55 with 25 years of PSERS Service and 20 years of service within MASD | <p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: District pays 75% of premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p> | Same as I. |
| <u>III. TEACHERS</u> | | | |
| A) Retired 7/1/2003 -6/30/2006 | N/A - Already retired | <p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: Retiree pays the difference between the medical and prescription drug premium that was in effect at date of retirement and the premium effective 7/01/2006, not to exceed \$450 annually. The District pays remainder of premium. District also pays 100% of Dental and Vision premium.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p> | Same as I. |
| B) Retired 7/1/2013 - 6/30/2019 | N/A - Already retired | Same as II. A | Same as I. |
| C) Retired 7/1/2019 - 6/30/2023 | Same as II.B | <p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: District pays 75% of premium for up to 84 months after retirement, then 50% of premium until no longer eligible.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p> | Same as I. |
| D) Retired 7/1/2023 and later | Age 55 qualifying for normal or special early retirement with 25 years of service within MASD with at least 10 years of consecutive and continuous service immediately prior to retirement. | <p>Coverage: Medical, Prescription Drug, Dental and Vision coverage for Retiree.</p> <p>Premium Sharing: District pays 75% of premium for up to 96 months after retirement, then 50% of premium until no longer eligible.</p> <p>Spousal Coverage: Available if fully paid by Retiree.</p> | Same as I. |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District’s Single Employer Plan (Continued)

Plan Description, Benefit Terms and Funding Policy (Continued)

| IV. SUPPORT STAFF | | | |
|---|--|---------------|------------|
| A) Retired 7/1/2003 -6/30/2006 | N/A - Already retired | Same as III.A | Same as I. |
| B) Retired 7/1/2013 - 6/30/2023 | Same as II.B | Same as II.A | Same as I. |
| C) Reitred 7/1/2023 and later | Age 55 with 25 years of PSERS service and at least 25 years of consecutive and continuous service with MASD immediately prior to retirement. | Same as III.C | Same as I. |
| V. MAINTENANCE AND CUSTODIAL STAFF | | | |
| A) Retired before 7/1/2024 | Same as II.B | Same as II.A | Same as I. |
| B) Reitred 7/1/2024 and later | Same as III.D | Same as III.C | Same as I. |

Notes:

Act 110/43 Eligibility: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Supplement: A retiree may receive a \$100 monthly medical reimbursement from PSERS if he (or she) meets one of the following qualifications at retirement:

- 1) 24.5 years of PSERS service.
- 2) Upon superannuation retirement with at least 15 years of PSERS service.

PSERS Superannuation Retirement:

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

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

Employees Covered by Benefit Terms

As of the July 1, 2024, actuarial valuation, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 26 |
| Inactive employees entitled to but not yet receiving benefit payments | - |
| Active employees | 307 |
| | <u>333</u> |

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

At June 30, 2025, the District reported a liability of \$7,425,922 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2024, and was determined by an actuarial valuation as of July 1, 2024. The OPEB liability is composed of the following:

| | Amount |
|--|---------------------|
| Total OPEB Liability, beginning | \$ 6,528,736 |
| Changes for the year | |
| Service cost | 329,630 |
| Interest | 274,179 |
| Changes of benefit terms | 872,412 |
| Differences between expected and actual experience | (165,445) |
| Changes in assumptions | (8,109) |
| Estimated benefit payments | (405,481) |
| Net changes | <u>897,186</u> |
| Total OPEB Liability, ending | <u>\$ 7,425,922</u> |

For the year ended June 30, 2025, the District recognized OPEB expense of \$1,263,588. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 728,534 |
| Changes in assumptions | 658,163 | 1,946,500 |
| Benefit payments subsequent to the measurement date | 467,562 | - |
| | <u>\$ 1,125,725</u> | <u>\$ 2,675,034</u> |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$467,562 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

| <u>Year ending June 30:</u> | <u>Total</u> |
|-----------------------------|------------------------------|
| 2026 | \$ (212,633) |
| 2027 | (212,633) |
| 2028 | (212,633) |
| 2029 | (212,633) |
| 2030 | (212,639) |
| Thereafter | (953,700) |
| | <u><u>\$ (2,016,871)</u></u> |

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2024, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.5%.
- Salary Increases - An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1.5% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75 to 0%.
- Discount Rate - 4.29%. Based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2024.
- Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
- Health Care Cost Trend Rate - 7.0% in 2024 with 0.5% decrease per year until 5.5% in 2027. Rates gradually decrease from 5.4% in 2028 to 4.0% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Mortality Rates: PubT-2010 headcount-weighted mortality table including rates for contingent survivors for teachers. PubG-2010 headcount-weighted mortality table including rates for contingent survivors for all other employees. Incorporated into the tables are rates projected generationally using Scale MP-2021 to reflect mortality improvement.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits - District's Single Employer Plan (Continued)

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

The following presents the total OPEB liability of the District calculated using the discount rate of 4.29%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (3.29%) or one-percentage-point higher (5.29%) than the current discount rate:

| | 1% Decrease 3.29% | Current Discount Rate 4.29% | 1% Increase 5.29% |
|----------------------|----------------------|-----------------------------------|----------------------|
| Total OPEB liability | \$ 7,995,953 | \$ 7,425,922 | \$ 6,893,469 |

Changes in Actuarial Assumptions

The discount rate used to measure the total OPEB liability increased from 4.13% as of July 1, 2023, to 4.29% as of July 1, 2024.

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

The following presents the total OPEB liability of the District calculated using the health care cost trend rates of (7.0% decreasing to 4.0%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|----------------------|--------------|-----------------------|--------------|
| Total OPEB liability | \$ 6,676,353 | \$ 7,425,922 | \$ 8,314,579 |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan

Plan Description

PSERS administers a defined benefit pension plan, and two post-employment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees, and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The System provides Premium Assistance which is a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2023, there were no assumed future benefit increases to participating eligible retirees.

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

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and

For Class DC members to become eligible for premium assistance, they must satisfy the following criteria:

- Attain Medicare eligibility with 24 ½ or more eligibility points, or
- Have 15 or more eligibility points and terminated after age 67, and
- Have received all or part of their distributions.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2025, was 0.63% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$140,078 for the year ended June 30, 2025.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

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

At June 30, 2025, the District reported a liability of \$2,379,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2023 to June 30, 2024. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2025, the District's reported proportion was 0.1339%, which was an increase of 0.0008% from its proportion reported as of June 30, 2024.

For the year ended June 30, 2025, the District recognized OPEB expense of \$95,000. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 9,000 | \$ 36,000 |
| Changes in assumptions | 145,000 | 363,000 |
| Net difference between projected and actual investment earnings | 2,000 | - |
| Changes in proportion | 30,000 | 6,000 |
| Contributions subsequent to the measurement date | 140,000 | - |
| | <u>\$ 326,000</u> | <u>\$ 405,000</u> |

\$140,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ending June 30: | Amount |
|----------------------|---------------------|
| 2026 | \$ (56,000) |
| 2027 | (68,000) |
| 2028 | (81,000) |
| 2029 | (9,000) |
| 2030 | (5,000) |
| | <u>\$ (219,000)</u> |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2024, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2023, to June 30, 2024, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2023
- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 4.21% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.5%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%
- The discount rate used to measure the total OPEB liability increased from 4.13% as of June 30, 2023, to 4.21%, as of June 30, 2024.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2020.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2022, determined the employer contribution rate for fiscal year 2024.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: The actual data for retirees benefiting under the Plan as of June 30, 2021, was used in lieu of the 63% utilization assumption for eligible retirees.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

Investments

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------|-------------------|--|
| Cash | 100.0% | 1.7% |
| | 100.0% | |

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class of June 30, 2024.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 4.21%. Under the plan’s funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a “pay-as-you-go” plan. A discount rate of 4.21%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2024, was applied to all projected benefit payments to measure the total OPEB liability.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits - PSERS Cost Sharing Plan (Continued)

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

The following presents the District’s proportionate share of the net OPEB liability, calculated using the discount rate of 4.21%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.21%) or one percentage point higher (5.21%) than the current discount rate:

| | 1% Decrease 3.21% | Current Discount Rate 4.21% | 1% Increase 5.21% |
|--|----------------------|-----------------------------------|----------------------|
| District's proportionate share of the net OPEB liability | \$ 2,687,000 | \$ 2,379,000 | \$ 2,120,000 |

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

The following presents the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates (between 5% to 7%) that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|----------------|-----------------------|----------------|
| District's proportionate share of the net OPEB liability | \$ 2,378,000 | \$ 2,379,000 | \$ 2,379,000 |

OPEB Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2025, the District reported a payable to PSERS of \$45,906, which represents the employer contributions owed to the OPEB plan.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2025, the District has included the following amounts as restricted net position:

| <u>Restricted Funds Description</u> | <u>Amount</u> |
|---|----------------------|
| Debt payments - Reid Elementary | \$ 467,268 |
| Capital Reserve Fund Balance | 14,315,182 |
| Student Sponsored Activity Fund Balance | 126,694 |
| | <u>\$ 14,909,144</u> |

Note 12. Fund Balance Designations

Non-spendable

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

Restricted

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

| <u>Restricted to, reported in:</u> | <u>General Fund</u> | <u>Capital Reserve Fund</u> | <u>Capital Projects Fund</u> | <u>Student Sponsored Activity Fund</u> |
|------------------------------------|---------------------|-----------------------------|------------------------------|--|
| Debt payments - Reid Elementary | \$ 467,268 | \$ - | \$ - | \$ - |
| Capital projects | - | 14,315,182 | 37,118,327 | - |
| Student sponsored activities | - | - | - | 126,694 |
| | <u>\$ 467,268</u> | <u>\$ 14,315,182</u> | <u>\$ 37,118,327</u> | <u>\$ 126,694</u> |

Committed

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

| <u>Committed Funds Description</u> | <u>Amount</u> |
|--|----------------------|
| Technology equipment replacement | \$ 1,285,015 |
| Charter school cost stabilization | 1,200,000 |
| Health insurance cost stabilization | 750,000 |
| Debt service stabilization | 8,953,311 |
| Special education cost stabilization | 84,334 |
| Safety and security improvements | 82,380 |
| Replacement and maintenance of buildings and equipment | 252,570 |
| | <u>\$ 12,607,610</u> |

Assigned

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

| <u>Assigned Funds Description</u> | <u>Amount</u> |
|-----------------------------------|---------------------|
| Assignments in 25-26 budget | \$ 376,387 |
| Assignments in 26-27 budget | 397,571 |
| Budgetary reserve | 500,000 |
| | <u>\$ 1,273,958</u> |

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Joint Ventures

Dauphin County Technical School (DCTS)

The District is one of the seven-member school districts of the Dauphin County Technical School (DCTS). DCTS provides vocational-technical training and education to participating students of the member districts. DCTS is controlled and governed by the Dauphin County Technical School Joint Board (Joint Board) which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of DCTS. The DCTS is not reported as part of the District's reporting entity. The District's share of annual operating costs for DCTS fluctuates, based upon a five year rolling average of the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2025, was approximately \$870,833. In 2015, DCTS issued bonds to refund debt incurred in 2007, to construct improvements to the school's premises and facilities. The 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, 2025, was \$842,385. The amount paid for debt service for the year ended June 30, 2025, was \$170,704. Complete general purpose financial statements for DCTS can be obtained from the Administrative Office at 6001 Locust Lane, Harrisburg, PA 17109.

Minimum future rental payments under this debt obligation are as follows:

| <u>Year ending June 30:</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 2026 | \$ 152,664 |
| 2027 | 152,962 |
| 2028 | 152,496 |
| 2029 | 152,651 |
| 2030 | 152,570 |
| 2031 | 152,666 |
| | <u>\$ 916,009</u> |

Dauphin County Area Vocational-Technical School Authority

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

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Joint Ventures (Continued)

Capital Area Intermediate Unit (CAIU)

The CAIU Board of Directors consists of members from the IU's constituent school districts. The CAIU Board members are school district board members who are elected by the public and are appointed to the CAIU Board by the member school districts' Boards of Directors. Middletown Area School District and one other school district alternate responsibility for appointing one of these members. The CAIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Middletown Area School District contracts with the CAIU for special education, hospitalized education and nonpublic education services for District students as well as online learning, software support and professional development. The amount paid for these services in the year ended June 30, 2025, was approximately \$902,407. Complete financial information for CAIU can be obtained from the Administrative Office at 55 Miller Street, Enola, PA 17025-1640.

Note 14. Risk Management

Risk of Loss and Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years. During the year ended June 30, 2025, the District did not incur any significant losses that were not covered by insurance.

The District is subject to external constraints that may create a risk of substantial impact on its financial position. During the fiscal year ended June 30, 2025, approximately 37% of the District's General Fund revenues were derived from the Commonwealth of Pennsylvania and the Federal Government. The District is dependent on timely appropriations and disbursements from these governments to fund its operations and programs. The Commonwealth of Pennsylvania and Federal Government have experienced delays in the passage of their annual budgets, resulting in delays in the release of state and certain federal pass-through funds to local governments and agencies. Management continues to monitor the budget process at both the federal and state levels and will update its mitigation strategies as necessary.

Note 15. Commitments

At June 30, 2025, the District was committed under various construction, service and purchase contracts totaling \$65,735,145 in its capital projects fund. As of year-end, \$29,209,212 had been expended, leaving a remaining commitment of \$36,525,933. These contracts relate to ongoing capital projects including construction of a new elementary school, construction of a maintenance building and renovations to an elementary school. The projects are expected to be completed by August 2026.

At June 30, 2025, the District was committed to a design professional contract for Reid Elementary HVAC upgrades totaling \$46,500 in its capital reserve fund. As of year-end, \$29,115 had been expended, leaving a remaining commitment of \$17,385. This project is expected to be completed by August 2026.

REQUIRED SUPPLEMENTARY INFORMATION

MIDDLETOWN AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION -
 SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

| For the Fiscal Year Ended June 30 | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|--|--|-------------------------------|---|--|
| 2025 | 0.1330% | \$ 55,667,000 | \$ 21,252,159 | 261.94% | 64.63% |
| 2024 | 0.1324% | \$ 58,900,000 | \$ 20,386,071 | 288.92% | 61.85% |
| 2023 | 0.1328% | \$ 59,041,000 | \$ 19,570,996 | 301.68% | 61.34% |
| 2022 | 0.1336% | \$ 54,852,000 | \$ 18,953,936 | 289.40% | 63.67% |
| 2021 | 0.1328% | \$ 65,389,000 | \$ 18,616,768 | 351.24% | 54.32% |
| 2020 | 0.1315% | \$ 61,519,000 | \$ 18,131,566 | 339.29% | 55.66% |
| 2019 | 0.1313% | \$ 63,031,000 | \$ 17,685,850 | 356.39% | 54.00% |
| 2018 | 0.1302% | \$ 64,304,000 | \$ 17,329,599 | 371.06% | 51.84% |
| 2017 | 0.1278% | \$ 63,334,000 | \$ 16,547,296 | 382.75% | 50.14% |
| 2016 | 0.1236% | \$ 53,537,000 | \$ 15,905,088 | 336.60% | 54.36% |

The amounts presented for each fiscal year were determined as of the measurement date, which is one year prior to the fiscal year end.

The schedule is presented to illustrate the requirement to show information for 10 years.

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULES OF DISTRICT'S PENSION CONTRIBUTIONS -
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

| For the Fiscal Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|--|--|---|---|---------------------------------------|---|
| 2025 | \$ 7,397,412 | \$ (7,397,412) | \$ - | \$ 22,234,476 | 33.27% |
| 2024 | \$ 7,133,416 | \$ (7,133,416) | \$ - | \$ 21,384,019 | 33.36% |
| 2023 | \$ 7,043,665 | \$ (7,043,665) | \$ - | \$ 20,391,003 | 34.54% |
| 2022 | \$ 6,697,452 | \$ (6,697,452) | \$ - | \$ 19,569,915 | 34.22% |
| 2021 | \$ 6,422,616 | \$ (6,422,616) | \$ - | \$ 18,952,643 | 33.89% |
| 2020 | \$ 6,246,755 | \$ (6,246,755) | \$ - | \$ 18,625,051 | 33.54% |
| 2019 | \$ 5,936,716 | \$ (5,936,716) | \$ - | \$ 18,132,468 | 32.74% |
| 2018 | \$ 5,629,884 | \$ (5,629,884) | \$ - | \$ 17,685,850 | 31.83% |
| 2017 | \$ 5,075,833 | \$ (5,075,833) | \$ - | \$ 17,331,406 | 29.29% |
| 2016 | \$ 4,186,586 | \$ (4,186,586) | \$ - | \$ 16,547,296 | 25.30% |

The schedule is presented to illustrate the requirement to show information for 10 years.

MIDDLETOWN AREA SCHOOL DISTRICT

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

| | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total OPEB liability | | | | | | | | |
| Service cost | \$ 329,630 | \$ 308,857 | \$ 548,321 | \$ 561,846 | \$ 457,771 | \$ 465,753 | \$ 511,659 | \$ 524,096 |
| Interest | 274,179 | 259,524 | 191,862 | 155,310 | 256,991 | 226,153 | 252,702 | 195,075 |
| Changes of benefit terms | 872,412 | - | - | - | (447,595) | - | - | - |
| Differences between expected and actual experience | (165,445) | - | (269,454) | - | (216,316) | - | (485,618) | - |
| Changes in assumptions | (8,109) | 81,333 | (1,836,711) | (265,796) | 915,370 | (228,147) | (323,572) | (87,860) |
| Benefit payments | (405,481) | (445,853) | (383,596) | (360,113) | (379,201) | (416,394) | (367,100) | (394,518) |
| Net change in total OPEB liability | 897,186 | 203,861 | (1,749,578) | 91,247 | 587,020 | 47,365 | (411,929) | 236,793 |
| Total OPEB Liability - beginning | 6,528,736 | 6,324,875 | 8,074,453 | 7,983,206 | 7,396,186 | 7,348,821 | 7,760,750 | 7,523,957 |
| Total OPEB Liability - ending | <u>\$ 7,425,922</u> | <u>\$ 6,528,736</u> | <u>\$ 6,324,875</u> | <u>\$ 8,074,453</u> | <u>\$ 7,983,206</u> | <u>\$ 7,396,186</u> | <u>\$ 7,348,821</u> | <u>\$ 7,760,750</u> |
| Covered payroll | <u>\$ 19,745,985</u> | <u>\$ 17,791,637</u> | <u>\$ 17,791,637</u> | <u>\$ 17,761,408</u> | <u>\$ 17,761,408</u> | <u>\$ 17,447,189</u> | <u>\$ 17,447,189</u> | <u>\$ 16,243,608</u> |
| Total OPEB liability as a percentage of covered payroll | 37.61% | 36.70% | 35.55% | 45.46% | 44.95% | 42.39% | 42.12% | 47.78% |

Notes to Schedule:

For the fiscal year ended June 30, 2025:

Changes in assumptions: The discount rate changed from 4.13% to 4.29%. The trend assumption was updated.

Changes of benefit terms: The superintendent's spouse is fully covered by the district. Subsidized teachers now pay 25% of the premiums for 8 years instead of 7 before it increases to paying 50% of the premiums for coverage. Teachers and support staff need 25 years of PSERS service instead of 30 years of PSERS service for subsidized coverage. Support staff now pay 25% of the premium for 7 years and then 50% of the premium afterwards instead of paying the PSERS supplement and active cost share for coverage. The HSA is no longer offered to members retiring after 7/1/2023.

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

MIDDLETOWN AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

| For the Fiscal Year Ended June 30 | District's Proportion of the Net OPEB Liability | District's Proportionate Share of the Net OPEB Liability | District's Covered Payroll | District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|--|--|---|---------------------------------------|--|--|
| 2025 | 0.1339% | \$ 2,379,000 | \$ 21,252,159 | 11.19% | 7.13% |
| 2024 | 0.1331% | \$ 2,408,000 | \$ 20,386,071 | 11.81% | 7.22% |
| 2023 | 0.1331% | \$ 2,450,000 | \$ 19,570,996 | 12.52% | 6.86% |
| 2022 | 0.1337% | \$ 3,169,000 | \$ 18,953,936 | 16.72% | 5.30% |
| 2021 | 0.1326% | \$ 2,865,000 | \$ 18,616,768 | 15.39% | 5.69% |
| 2020 | 0.1315% | \$ 2,797,000 | \$ 18,131,566 | 15.43% | 5.56% |
| 2019 | 0.1313% | \$ 2,738,000 | \$ 17,685,850 | 15.48% | 5.56% |
| 2018 | 0.1302% | \$ 2,653,000 | \$ 17,329,599 | 15.31% | 5.73% |

The amounts presented for each fiscal year were determined as of the measurement date, which is one year prior to the fiscal year end.

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

MIDDLETOWN AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION -
 SCHEDULES OF DISTRICT'S OPEB CONTRIBUTIONS -
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

| For the Fiscal Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to the Contractually Required Contribution | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|--|--|-------------------------------|---|
| 2025 | \$ 140,078 | \$ (140,078) | \$ - | \$ 22,234,476 | 0.63% |
| 2024 | \$ 136,852 | \$ (136,852) | \$ - | \$ 21,384,019 | 0.64% |
| 2023 | \$ 153,079 | \$ (153,079) | \$ - | \$ 20,391,003 | 0.75% |
| 2022 | \$ 156,941 | \$ (156,941) | \$ - | \$ 19,569,915 | 0.80% |
| 2021 | \$ 156,324 | \$ (156,324) | \$ - | \$ 18,952,643 | 0.82% |
| 2020 | \$ 156,869 | \$ (156,869) | \$ - | \$ 18,625,051 | 0.84% |
| 2019 | \$ 151,150 | \$ (151,150) | \$ - | \$ 18,132,468 | 0.83% |
| 2018 | \$ 147,221 | \$ (147,221) | \$ - | \$ 17,685,850 | 0.83% |

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

SUPPLEMENTARY INFORMATION



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

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Middletown Area School District (District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2026.

Report on Internal Control Over Financial Reporting

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

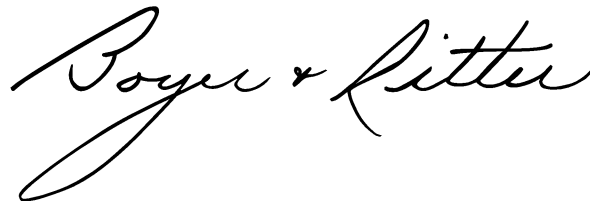
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Camp Hill, Pennsylvania
January 12, 2026



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

Board of School Directors
Middletown Area School District
Middletown, Pennsylvania

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Middletown Area School District's (District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Camp Hill, Pennsylvania
January 12, 2026

MIDDLETOWN AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

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

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

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

Identification of the major programs:

| Assistance Listing Number(s) | Name of Federal Programs/Cluster |
|---------------------------------|--|
| Child Nutrition Cluster | |
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program |
| 10.559 | Summer Food Service Program for Children |

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

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

MIDDLETOWN AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

A. Compliance Findings

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

B. Significant Deficiency(ies) in Internal Control

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

MIDDLETOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2025

| Grantor Program Title | Assistance Listing Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received for the Year | Accrued or (Deferred) Revenue at 7/1/2024 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at 6/30/2025 | Provided to Subrecipients |
|---|---------------------------|-------------------------------|---------------------|-------------------------|-----------------------------|---|--------------------|-------------------------|--|---------------------------|
| U.S. Department of Education | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education | | | | | | | | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-24-0249 | 8/31/2023-9/30/2024 | \$ 722,741 | \$ 187,924 | \$ 87,141 | \$ 100,783 | \$ 100,783 | \$ - | \$ - |
| Title I - Grants to Local Educational Agencies | 84.010 | 013-25-0249 | 8/20/2024-9/30/2025 | \$ 631,729 | 489,091 | - | 552,385 | 552,385 | 63,294 | - |
| | | | | | <u>677,015</u> | <u>87,141</u> | <u>653,168</u> | <u>653,168</u> | <u>63,294</u> | <u>-</u> |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-23-0249 | 8/1/2022-9/30/2023 | \$ 80,832 | 713 | (646) | 1,359 | 1,359 | - | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-24-0249 | 8/31/2023-9/30/2024 | \$ 87,353 | 23,043 | 8,458 | 14,585 | 14,585 | - | - |
| Title II - Supporting Effective Instruction State Grants | 84.367 | 020-25-0249 | 8/20/2024-9/30/2025 | \$ 78,094 | 60,291 | - | 78,094 | 78,094 | 17,803 | - |
| | | | | | <u>84,047</u> | <u>7,812</u> | <u>94,038</u> | <u>94,038</u> | <u>17,803</u> | <u>-</u> |
| Title IV - Student Support and Academic Enrichment Grants | 84.424 | 144-23-0249 | 8/1/2022-9/30/2023 | \$ 69,632 | 31,728 | 31,728 | - | - | - | - |
| Title IV - Student Support and Academic Enrichment Grants | 84.424 | 144-24-0249 | 8/31/2023-9/30/2024 | \$ 59,129 | 43,361 | 25,092 | 18,269 | 18,269 | - | - |
| Title IV - Student Support and Academic Enrichment Grants | 84.424 | 144-25-0249 | 8/20/2024-9/30/2025 | \$ 54,428 | 54,428 | - | 45,629 | 45,629 | (8,799) | - |
| | | | | | <u>129,517</u> | <u>56,820</u> | <u>63,898</u> | <u>63,898</u> | <u>(8,799)</u> | <u>-</u> |
| COVID-19 - American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) | 84.425U | 223-21-0249 | 3/13/2020-9/30/2024 | \$ 6,698,217 | 608,929 | 116,697 | 492,232 | 492,232 | - | - |
| COVID-19 - American Rescue Plan - Elementary & Secondary School Emergency Relief (ARP ESSER) *Learning Loss Set Aside | 84.425U | 225-21-0249 | 3/13/2020-9/30/2024 | \$ 371,859 | - | (33,530) | 33,530 | 33,530 | - | - |
| | | | | | <u>608,929</u> | <u>83,167</u> | <u>525,762</u> | <u>525,762</u> | <u>-</u> | <u>-</u> |
| COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth | 84.425W | 181-21-2256 | 7/1/2021-9/30/2024 | \$ 28,485 | 1,461 | 1,461 | - | - | - | - |
| | | | | | <u>1,500,969</u> | <u>236,401</u> | <u>1,336,866</u> | <u>1,336,866</u> | <u>72,298</u> | <u>-</u> |
| Passed through the Capital Area Intermediate Unit | | | | | | | | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 062-24-0015 | 7/1/2023-9/30/2024 | \$ 496,938 | 231,733 | 231,733 | - | - | - | - |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 062-25-0015 | 7/1/2024-9/30/2025 | \$ 495,979 | 325,456 | - | 495,979 | 495,979 | 170,523 | - |
| | | | | | <u>557,189</u> | <u>231,733</u> | <u>495,979</u> | <u>495,979</u> | <u>170,523</u> | <u>-</u> |
| Special Education Preschool Grants (IDEA Preschool) | 84.173 | 131-24-0015 | 7/1/2024-6/30/2025 | \$ 2,860 | 2,860 | - | 2,860 | 2,860 | - | - |
| Title III - English Language Acquisition Grants | 84.365 | 010-24-0615 | 8/30/2023-9/30/2024 | \$ 24,590 | 4,567 | 4,567 | - | - | - | - |
| Title III - English Language Acquisition Grants | 84.365 | 010-25-0615 | 8/15/2024-9/30/2025 | \$ 26,762 | 5,621 | - | 6,303 | 6,303 | 682 | - |
| | | | | | <u>10,188</u> | <u>4,567</u> | <u>6,303</u> | <u>6,303</u> | <u>682</u> | <u>-</u> |
| | | | | | <u>570,237</u> | <u>236,300</u> | <u>505,142</u> | <u>505,142</u> | <u>171,205</u> | <u>-</u> |
| Total U.S. Department of Education | | | | | <u>2,071,206</u> | <u>472,701</u> | <u>1,842,008</u> | <u>1,842,008</u> | <u>243,503</u> | <u>-</u> |
| U.S. Department of Treasury | | | | | | | | | | |
| Passed through the Pennsylvania Commission on Crime and Delinquency | | | | | | | | | | |
| COVID-19 - Coronavirus State and Local Fiscal Recovery Funds | 21.027 | 2023-CM-01042137 | 1/1/2024-12/31/2025 | \$ 131,280 | 47,789 | - | 80,835 | 80,835 | 33,046 | - |
| Total U.S. Department of Treasury | | | | | <u>47,789</u> | <u>-</u> | <u>80,835</u> | <u>80,835</u> | <u>33,046</u> | <u>-</u> |

(Continued)

MIDDLETOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2025

| Grantor Program Title | Assistance Listing Number | Pass Through Grantor's Number | Grant Period | Program or Annual Award | Total Received for the Year | Accrued or (Deferred) Revenue at 7/1/2024 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at 6/30/2025 | Provided to Subrecipients |
|--|---------------------------|-------------------------------|--------------------|-------------------------|-----------------------------|---|--------------------|-------------------------|--|---------------------------|
| U.S. Department of Health and Human Services | | | | | | | | | | |
| Passed through the Pennsylvania Department of Public Welfare | | | | | | | | | | |
| Medicaid Cluster | | | | | | | | | | |
| Medical Assistance Program (Medicaid; Title XIX) | 93.778 | N/A | 7/1/2023-6/30/2024 | \$ 22,789 | 22,789 | 22,789 | - | - | - | - |
| Medical Assistance Program (Medicaid; Title XIX) | 93.778 | N/A | 7/1/2024-6/30/2025 | \$ 13,769 | 6,650 | - | 13,769 | 13,769 | 7,119 | - |
| Total Medicaid Cluster | | | | | 29,439 | 22,789 | 13,769 | 13,769 | 7,119 | - |
| Total U.S. Department of Health and Human Services | | | | | 29,439 | 22,789 | 13,769 | 13,769 | 7,119 | - |
| U.S. Department of Agriculture | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education | | | | | | | | | | |
| School Breakfast Program | 10.553 | N/A | 7/1/2023-6/30/2024 | N/A | 48,492 | 48,492 | - | - | - | - |
| School Breakfast Program | 10.553 | N/A | 7/1/2024-6/30/2025 | N/A | 290,683 | - | 333,032 | 333,032 | 42,349 | - |
| | | | | | 339,175 | 48,492 | 333,032 | 333,032 | 42,349 | - |
| National School Lunch Program | 10.555 | N/A | 7/1/2023-6/30/2024 | N/A | 129,417 | 129,417 | - | - | - | - |
| National School Lunch Program | 10.555 | N/A | 7/1/2024-6/30/2025 | N/A | 751,494 | - | 862,430 | 862,430 | 110,936 | - |
| | | | | | 880,911 | 129,417 | 862,430 | 862,430 | 110,936 | - |
| COVID-19 - National School Lunch Program - Supply Chain Assistance | 10.555 | N/A | 7/1/2023-6/30/2024 | N/A | - | (22,070) | 22,070 | 22,070 | - | - |
| Summer Food Service Program for Children | 10.559 | N/A | 6/8/2025-6/30/2025 | N/A | - | - | 13,978 | 13,978 | 13,978 | - |
| Total passed through the Pennsylvania Department of Education | | | | | 1,220,086 | 155,839 | 1,231,510 | 1,231,510 | 167,263 | - |
| Passed through the Pennsylvania Department of Agriculture | | | | | | | | | | |
| National School Lunch Program - Food Donations (a) | 10.555 | N/A | 7/1/2023-6/30/2024 | N/A | (b) 137,210 | (c) (4,080) | 121,081 | (d) 121,081 | (e) (20,209) | - |
| Total U.S. Department of Agriculture | | | | | 1,357,296 | 151,759 | 1,352,591 | 1,352,591 | 147,054 | - |
| Total Expenditures of Federal Awards | | | | | \$ 3,505,730 | \$ 647,249 | \$ 3,289,203 | \$ 3,289,203 | \$ 430,722 | \$ - |
| Child Nutrition Cluster (Assistance Listing Numbers - 10.553, 10.555 and 10.559) | | | | | \$ 1,357,296 | \$ 151,759 | \$ 1,352,591 | \$ 1,352,591 | \$ 147,054 | \$ - |
| Special Education Cluster (Assistance Listing Numbers - 84.027 and 84.173) | | | | | \$ 560,049 | \$ 231,733 | \$ 498,839 | \$ 498,839 | \$ 170,523 | \$ - |
| Education Stabilization Fund (Assistance Listing Number - 84.425) | | | | | \$ 610,390 | \$ 84,628 | \$ 525,762 | \$ 525,762 | \$ - | \$ - |

Legends:

- (a) Donated commodities value at local market rates
- (b) Total amount of commodities received from Department of Agriculture
- (c) Inventories at July 1, 2024
- (d) Total amount of commodities used
- (e) Inventories at June 30, 2025

See Notes to Schedule of Expenditures of Federal Awards.

MIDDLETOWN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Middletown Area School District under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Middletown Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Middletown Area School District.

Note 2. Significant Accounting Policies

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

Note 3. Access Program

The ACCESS Program is a medical assistance program that reimburses local education agencies for direct, eligible health-related services provided to enrolled special needs students. ACCESS reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance and are not included on the Schedule. The amount of ACCESS funding expended, but not included on the Schedule for the year ended June 30, 2025, was \$329,347.

MIDDLETOWN AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2025

There were no prior year's audit findings.

APPENDIX F
BOND AMORTIZATION SCHEDULE

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By _____
Authorized Officer

1633 Broadway, New York, N.Y. 10019

(212) 974-0100

Form 500 (8/24)