

Hempfield School District

Year Ended June 30, 2014



TROUT, EBERSOLE & GROFF_{LLP}

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Hempfield School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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Hempfield School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Hempfield School District
Lancaster County, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District**, Pennsylvania (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District** as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 19, the budgetary comparison information on pages 62 and 63, and the other postemployment benefits (OPEB) health care benefits plan information on pages 64 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Hempfield School District's** basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a part of the basic financial statements.

The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 combining and individual fund financial statements and the schedule of expenditures of federal awards are 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 October 29, 2014, on our consideration of **Hempfield School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Hempfield School District's** internal control over financial reporting and compliance.

October 29, 2014
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2014

The discussion and analysis of **Hempfield School District's** financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- Total assets decreased \$3.6 million to \$199.9 million because of lower cash and investment balances as construction funds were depleted, and there was a slight decrease in deferred outflows. Total liabilities decreased by \$4.8 million, primarily due to reduced bond debt. This resulted in an overall increase in net position of \$1.1 million.
- Revenues totaled \$107.7 million. General revenues accounted for \$87.9 million, or 81.6% of this total, while program specific charges for services, grants, or contributions represented \$19.8 million or 18.4%. These revenues represent a total increase of \$9.2 million from last year. There was an increase in tax revenues of \$1.3 million. The prior year revenues were offset by a significant loss on disposal of assets of \$6.6 million, and there was no similar offset this year. State revenues increased by more than \$1 million, specifically due to the increase in the PSERS Retirement subsidy.
- The School District had \$103.1 million in expenses related to governmental activities; \$16.4 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$74.3 million of taxes and \$13.8 million of grants and subsidies, interest income, and miscellaneous income, provided for these expenses, less the recording of the asset disposals of \$164 thousand. Net position increased by \$1.3 million for governmental activities overall.
- Among major funds, the general fund had \$104.3 million in revenues and \$104.1 million in expenditures and transfers. This resulted in the addition of about \$187 thousand to general fund balance, increasing the general fund's fund balance to \$9.8 million. There was an increase in the capital reserve fund (a sub-fund of the capital project fund) of \$311 thousand as the annual transfer was more than spending for building technology infrastructure needs this year. For the capital projects fund, \$3 million in bond proceeds provided additional funds for construction, and \$6.1 million was expended to finish the Farmdale and East Petersburg Elementary projects and begin construction of Landisville Education Center, which was completed in September 2014.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand **Hempfield School District** as a financial whole.

The statement of net position and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

USING THIS ANNUAL REPORT (Continued)

statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of **Hempfield School District**, the general fund is the most significant fund.

Reporting the School District as a Whole

Our analysis for the School District as a whole begins on page 5. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and liabilities, as well as deferred outflows and inflows of resources, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

In the statement of net assets and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food services and day care operations are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 24 and provide detailed information about the most significant funds, not the School District as a whole. The School District's three types of funds, governmental, proprietary, and fiduciary, use different accounting approaches.

Governmental Funds - Most of the School 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 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. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

USING THIS ANNUAL REPORT (Continued)

Reporting the School District's Most Significant Funds (Continued)

Governmental Funds (Continued)

activities (reported in the statement of net assets and the statement of activities) and governmental funds are reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. Proprietary funds report activities that the School District operates like a business.

Fiduciary Funds - The School District is a trustee or agent for assets that belong to others, such as the scholarship fund and the student activity fund. These activities are excluded from the district-wide financial statements because the School District cannot use these assets to finance its operations.

THE SCHOOL DISTRICT as a WHOLE

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Assets at June 30
(In Millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|------------------------------------|--------------|-------------------------------------|-------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Assets | | | | | | |
| Current and Other Assets | 44.9 | 49.2 | .2 | .3 | 45.1 | 49.5 |
| Capital Assets | <u>153.5</u> | <u>152.6</u> | <u>1.3</u> | <u>1.4</u> | <u>154.8</u> | <u>154.0</u> |
| Total Assets | 198.4 | 201.8 | 1.5 | 1.7 | 199.9 | 203.5 |
| Deferred Outflow of Resources | .1 | .2 | .0 | .0 | .1 | .2 |
| Liabilities | | | | | | |
| Current Liabilities | 22.9 | 23.9 | .1 | .1 | 23.0 | 24.0 |
| Noncurrent Liabilities | <u>117.6</u> | <u>121.5</u> | <u>.1</u> | <u>.1</u> | <u>117.7</u> | <u>121.6</u> |
| Total Liabilities | 140.5 | 145.4 | .2 | .2 | 140.7 | 145.6 |
| Net Position | | | | | | |
| Invested in Capital Assets, net of Related Debt | 36.2 | 35.3 | 1.3 | 1.4 | 37.5 | 36.7 |
| Unrestricted | <u>21.8</u> | <u>21.3</u> | <u>.0</u> | <u>.1</u> | <u>21.8</u> | <u>21.4</u> |
| Total Net Position | 58.0 | 56.6 | 1.3 | 1.5 | 59.3 | 58.1 |

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

THE SCHOOL DISTRICT as a WHOLE (Continued)

Analysis of Table 1:

Net position increased \$1.2 million which is attributable to an increase in governmental activities of \$1.4 million, offset by \$200 thousand decrease in business-type activities.

Governmental Activities

- Current assets decreased \$4.3 million, which was a decrease in cash and investments. Most of this decrease relates to spending down bond proceeds for completed construction projects.
- Noncurrent assets increased almost \$1 million, from \$152.6 million to \$153.5 million. Final site improvements for the East Petersburg and Farmdale Elementary School construction projects were capitalized, and significant construction in progress costs were captured for the Landisville Education Center. These additions were offset by annual depreciation.
- Total liabilities decreased \$4.9 million. The most significant changes included general obligation debt outstanding, which decreased \$3.1 million, and accounts payable for construction, which decreased about \$1.5 million.

Business-Type Activities

- Net position of the business-type activities decreased about \$200 thousand. This decrease comes from an operating loss of about \$70 thousand, and annual depreciation expense of about \$127 thousand which increased the loss for the year.

Investment in Capital Assets, net of Related Debt - Governmental Activities (In Millions)

| | 2014 | 2013 |
|--|-------------|-------------|
| Capital Assets, net of Accumulated Depreciation | 153.5 | 152.6 |
| Bonds Payable (Current and Long-Term Portions, net of Amortization of Bond Discount and Premium) | (118.8) | (122.0) |
| Unspent Bond Proceeds | <u>1.5</u> | <u>4.7</u> |
| Total Investment in Capital Assets, Net of Related Debt - Governmental Activities | 36.2 | 35.3 |

Bond obligations decreased from \$122.0 million to \$118.8 million. The decrease of \$3.2 million resulted from payments of \$5.6 million on the outstanding principal of existing bonds, new money of \$3.0 million borrowed for construction, and continued amortization of bond discount and premium amounts.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Activities

Table 2
Changes in Net Position at June 30
(In Millions)

| | Governmental | | Business-Type | | Total | |
|--|---------------------|--------------|----------------------|-------------|--------------|--------------|
| | Activities | | Activities | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | .7 | .7 | 2.0 | 2.1 | 2.7 | 2.8 |
| Operating Grants | 14.5 | 13.9 | 1.4 | 1.3 | 15.9 | 15.2 |
| Capital Grants | 1.2 | 1.0 | .0 | .0 | 1.2 | 1.0 |
| General Revenues: | | | | | | |
| Property and Other Taxes | 74.3 | 72.6 | .0 | .0 | 74.3 | 72.7 |
| Grants and Entitlements | 13.5 | 13.2 | .0 | .0 | 13.5 | 13.2 |
| Other | <u>.2</u> | <u>(7.6)</u> | <u>(0.1)</u> | <u>1.3</u> | <u>0.1</u> | <u>(6.4)</u> |
| Total Revenues | 104.4 | 93.8 | 3.3 | 4.7 | 107.7 | 98.5 |
| Expenses | | | | | | |
| Program Expenses: | | | | | | |
| Instruction | 68.2 | 65.1 | .0 | .0 | 68.2 | 65.1 |
| Support Services: | | | | | | |
| Instructional Student Support | 7.2 | 6.9 | .0 | .0 | 7.2 | 6.9 |
| Administrative and Financial | | | | | | |
| Support Services | 9.1 | 8.7 | .0 | .0 | 9.1 | 8.7 |
| Operation and Maintenance of | | | | | | |
| Plant Services | 8.7 | 8.4 | .0 | .0 | 8.7 | 8.4 |
| Pupil Transportation | 4.5 | 5.2 | .0 | .0 | 4.5 | 5.2 |
| Student Activities | 1.6 | 1.6 | .0 | .0 | 1.6 | 1.6 |
| Interest on Long-Term Debt | 3.2 | 3.2 | .0 | .0 | 3.2 | 3.2 |
| Unallocated Depreciation Expense | .6 | .5 | .0 | .0 | .6 | .5 |
| Food Service and Day Care Operations | <u>.0</u> | <u>.0</u> | <u>3.5</u> | <u>3.4</u> | <u>3.5</u> | <u>3.4</u> |
| Total Expenses | 103.1 | 99.6 | 3.5 | 3.4 | 106.6 | 103.0 |
| Increase (Decrease) in Net Position | 1.3 | (5.8) | (0.2) | 1.3 | 1.1 | (4.5) |

The statement of activities shows the cost of program services and the charges for services and grants offsetting those costs. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Activities (Continued)

Table 3
Governmental Activities at June 30
(In Millions)

| | Total Cost of Services | | Net Cost of Services | |
|---|-------------------------------|-------------|-----------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Instruction | 68.2 | 65.1 | 57.1 | 54.2 |
| Support Services: | | | | |
| Instructional Student Support | 7.2 | 6.9 | 6.4 | 6.2 |
| Administrative and Financial Support Services | 9.1 | 8.7 | 8.4 | 8.3 |
| Operation and Maintenance of Plant Services | 8.7 | 8.4 | 8.1 | 7.9 |
| Pupil Transportation | 4.5 | 5.2 | 2.7 | 3.5 |
| Student Activities | 1.6 | 1.6 | 1.3 | 1.2 |
| Interest on Long-Term Debt | 3.2 | 3.2 | 2.1 | 2.2 |
| Unallocated Depreciation Expense | <u>.6</u> | <u>.5</u> | <u>.6</u> | <u>.5</u> |
| Total Governmental Activities | 103.1 | 99.6 | 86.7 | 84.0 |

Analysis of Tables 2 and 3:

Governmental Activities

Program revenues are used to partially offset the costs of governmental activities. The program revenues which offset expenses this year included:

- Charges for services included tuition for non-resident students, fees for extra programs and extracurricular activities, rental charges, and admission paid to athletic events.
- Operating grants and contributions included state subsidies for special education, transportation, and employee benefits, as well as federal and state grants for specific programs.
- Capital grants included state subsidies which fund a portion of the debt service principal and interest expenses.

There is heavy reliance on tax revenues to fund the operations of the School District.

- Property, earned income, and other taxes provided \$74.3 million, or 84.4% of the \$88 million general governmental revenues. Program related grants, subsidies and charges for services provided \$16.4 million of funding for program expenses, and \$13.8 million of additional grants, subsidies, interest, and other revenues provided for other expenses after the offset of modest asset disposals.
- Overall tax revenues increased \$1.3 million, or 1.8%. Current property taxes increased \$1.6 million. The assessed valuation increased less than 0.1% when adjusted for a large commercial property assessment appeal, and trends indicate continued deterioration from multiple corporate and residential assessment appeals. The millage applied to the assessed valuation increased from 18.631 in 2012-2013 to 19.003 in 2013-2014, a 2.0% index-based increase. Interim taxes increased \$299 thousand as two significant commercial expansions came on the tax rolls. Delinquent real estate taxes and transfer taxes decreased \$268 thousand and \$248 thousand respectively, reflecting generally slower economic conditions.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

THE SCHOOL DISTRICT as a WHOLE (Continued)

Governmental Activities (Continued)

Total expenses for governmental activities have increased by \$3.5 million. This represents a 3.4% increase over the prior year. Wage increases, primarily driven by the collective bargaining agreement, led to more than \$600 thousand of these increased expenses, which was lower than normal trends due to attritional savings. Key benefit increases include PSERS retirement costs, which increased by \$2.3 million as the employer rate increased from 12.36% to 16.93%, and almost a half million more spent on health care costs. Depreciation expense increased by about \$600 thousand as the recent building projects were allocated a full year of expense.

Business-Type Activities

Business-type activities consist of food service operations and the child care venture. The child nutrition programs had revenues, including state and federal support, of \$3.1 million, and expenses of \$3.3 million for the fiscal year 2014, which indicates a loss of almost \$200 thousand for food service operations. Of this amount, \$129 thousand represents depreciation expense, therefore the operating loss was about \$70 thousand. These operations continue to sustain negative impact because of increasingly strict nutrition standards, and related decreased sales. The child care operation continues to add positive value, as it generated a \$97 thousand profit on revenues of \$362 thousand.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds starts on page 24. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$104.4 million and expenditures of \$110.3 million. Other financing sources provided \$3.3 million, resulting in a decrease to total fund balances of \$2.7 million. Most of the significant changes relate to ongoing capital project spending of \$6.3 million and the effects of related borrowing.

General Fund

The general fund balance increased \$187 thousand, to a total of \$9.8 million. Commitments have been made by the board under GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to identify and protect contingent resources to address needs in some critical areas. A total of \$2 million has been committed as follows: \$1.8 million to provide resources for GASB 45 liabilities for postretirement benefits, and \$200 thousand to provide funds for the discount on retiree health care from a prior year's early retirement incentive. In addition, the finance committee and the director of finance assigned general fund balance this year to provide \$1 million for potential purchase of electronic devices for the School District's 1 to 1 initiative, if needed, and \$400 thousand for the transportation costs in 2014-15 as the School District transitions special education transportation from the IU to School District contracted transportation. Those commitments and assignments leave approximately \$6.4 million as unassigned fund balance.

With these transactions recorded, the unassigned fund balance test yields a 5.8% fund balance against the original 2014-2015 budgeted expenditures, which is well within the 8% legal restriction. The committed, assigned, and unassigned amounts in the fund balance provide some contingency amounts, if needed, to deal with increasing costs and future liabilities. The unassigned fund balance also assists in meeting the following fiscal year's obligations until real estate taxes are collected. Maintaining a healthy fund balance is important for a positive bond rating, as well as potential resources to deal with unanticipated financial challenges as they may occur.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

THE SCHOOL DISTRICT'S FUNDS (Continued)

General Fund (Continued)

General fund transfers to other funds included the normal operating transfers to debt service for bond principal and interest of \$9.3 million. Revenues from Market Street Sports Group sponsorships flowed through the general fund to the capital reserve fund to provide funding for approved projects, totaling \$43 thousand. As planned within the budget, a transfer to capital reserve was accrued for \$400 thousand to fund the purchase of technology infrastructure replacement and other capital equipment. These transfers allow the School District to plan for future contingencies under the stringent budgeting guidelines of Act 1.

Debt Service Fund

The debt service fund had a net increase of \$15 thousand this year, improving slightly the ongoing fund balance at \$4.9 million, and processing both a new money and refinance bond issue during the year. As historic low interest rates have continued, the School District has managed debt in a proactive manner to take advantage of refinance opportunities and include a component of variable rate financing in the debt portfolio. This reserve balance is maintained in part as a safety net because of the School District's variable rate debt to mitigate the impact of potential future rate spikes, and also to provide a substantial balance to assist with making the required debt service payments on various bond issues over the next several years. This reserve has been critical in managing the School District's debt load and annual debt service payments, allowing the School District to complete the recent elementary school projects without additional millage impact on School District taxpayers due to the construction. Other areas of the budget continue to create pressure on tax millage, but ongoing debt service is a very positive aspect of the long-term financial outlook.

Capital Project Fund

The School District's capital project fund is comprised of the capital reserve fund and the construction project fund. The capital reserve fund balance increased by about \$311 thousand to \$4.6 million; the increase represents the amount of transfers from the general fund offset by direct spending during the year. That overall funding level represents about 4.2% of the general fund budget. The School District utilizes capital reserve funds for spending needs related to major repair and small construction projects identified in a five year plan. The capital project fund received bond proceeds to fund construction projects in the amount of \$3 million. Capital expenditures in the amount of \$6.1 million were incurred related to several projects, including completion of final site improvements at the Farmdale and East Petersburg Elementary Schools, and initial work on the Landisville Education Center. The remaining construction fund balance of \$1.5 million is restricted for additional construction commitments related to completion of the Landisville Education Center and demolition of the Rohrerstown Education Center, or other projects approved by the School Board.

GENERAL FUND BUDGETING HIGHLIGHTS

The School District's general fund budget is prepared according to Pennsylvania law and is based on accounting for transactions as prescribed by the modified accrual basis of accounting.

During the course of fiscal 2014, the School District managed School District expenditures based on its general fund budget. At the end of the fiscal year, the board approved certain budgetary transfers to be made as needed, to comply with statutory requirements and transfers to the hospital reserve and retirement reserve based on positive financial results for the year, and to update commitments and assignments of fund balance. Year-end transfers made to other funds had been anticipated within the approved budget for the year.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

GENERAL FUND BUDGETING HIGHLIGHTS (Continued)

For the general fund, actual revenues were \$104.3 million, which was \$400 thousand or 0.4% more than the original budget estimates for revenues. The largest revenue variance relates to earned income tax collections, which were \$746 thousand higher than budget, and helped to make up for other revenue budget shortfalls such as transfer and delinquent real estate taxes and PlanCon state subsidies which have not been processed by the state. This positive result on revenues combined with continued medical cost trends that were lower than anticipated helped the School District avoid any need to draw down the budgeted \$775 thousand transfer from the retirement reserve or \$880 thousand from debt service reserve.

Actual expenditures for the year were \$104.2 million, \$94.5 million of that amount for operational expenses and \$9.7 million for fund transfers and debt service. These amounts were about \$2.4 million less than the overall expense budget, and matched well with the actual revenues for the year. The most significant area of spending under budget was health care costs, which were up about a half million dollars from the prior year, but stayed about \$1.3 million under the budget. In 2012-13, we had the highly unusual circumstance that health care costs decreased from the prior year, and this anomaly was not clear in time to affect the budget plan for 2013-14. Adjustments have been made in the budget plan for the next fiscal year. Other areas where negative variances occurred included utilities, snow removal costs, and charter school expenses. However, those negative variances were offset by savings from transportation routing changes, refinanced bond savings, and wage costs due to attrition and mid-year transitions of personnel. There was no need to spend from the \$1 million budgetary reserve line item.

In comparison with the prior year, actual general fund expenses increased \$1.3 million in total. Significant changes in spending included a \$644 thousand increase in salaries, primarily from increases in the professional staff. The increase in PSERS retirement costs was almost \$2.3 million, as planned for within the budget. Transportation spending was down \$684 thousand dollars from the prior year as bus routes were created more efficiently. Purchases of equipment were \$1.2 million less than last year; the 2012-13 spending was aligned with the two new elementary schools, when funds were spent from repurposed dollars within general fund rather than from bond proceeds.

CAPITAL ASSETS and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2014, the School District had \$154.8 million invested in land, buildings, equipment, vehicles, and construction in progress with \$153.5 million in governmental activities. Table 4 shows the fiscal 2014 balance compared to 2013.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|----------------------------|--------------|-----------------------------|------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | 4.7 | 4.7 | .0 | .0 | 4.7 | 4.7 |
| Building and Building Improvements | 132.2 | 134.4 | .0 | .0 | 132.2 | 134.4 |
| Furniture, Equipment, and Vehicles | 11.8 | 12.7 | 1.3 | 1.4 | 13.1 | 14.1 |
| Construction in Progress | 4.8 | .8 | .0 | .0 | 4.8 | .8 |
| Total Capital Assets | 153.5 | 152.6 | 1.3 | 1.4 | 154.8 | 154.0 |

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

CAPITAL ASSETS and DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Property and equipment additions were \$3.2 million for the year 2013-2014 and construction in progress increased to \$4.8 million as the Landisville Education Center construction project progressed. The largest capitalized asset additions this year were site improvements at the East Petersburg and Farmdale Elementary schools. A total of \$1.9 million of equipment and building improvement items were removed from the fixed asset inventory based on routine disposals and replacement cycles. Annual depreciation expense of \$6.1 million was recorded.

Debt Administration

At June 30, 2014, the School District had \$114.4 million in bonds outstanding, with \$6.1 million in principal due within one year. Table 5 summarizes bonds outstanding:

Table 5
Outstanding Debt at Year End (In Millions)

| | Governmental Activities | |
|---------------------------|--------------------------------|--------------|
| | 2014 | 2013 |
| General Obligation Bonds: | | |
| 2009 Debt Refinancing | .0 | 6.7 |
| 2009A Debt Refinancing | 4.8 | 9.0 |
| 2010 Note Restructuring | 8.0 | 8.0 |
| 2010A Note Restructuring | 8.0 | 8.1 |
| 2011 Note Refinancing | 3.2 | 3.2 |
| 2011A Bond Restructuring | 8.1 | 8.1 |
| 2011B Floating Rate Note | 25.3 | 25.3 |
| 2012 Bond Financing | 27.3 | 27.3 |
| 2012A Note Refinancing | 11.6 | 12.4 |
| 2013 Bond | 8.8 | 8.8 |
| 2014 Bond | 6.3 | 0.0 |
| 2014A Bond | <u>3.0</u> | <u>0.0</u> |
| | 114.4 | 116.9 |

A \$3 million borrowing occurred to provide the additional funds necessary for completion of the Landisville Education Center, a small multi-purpose building on the main campus. This building will provide secure areas for centralized School District technology resources and house the alternative education program. A refinancing of the 2009 bonds provided some budgetary relief and took advantage of continuing low interest rates. Variable rate debt in 2011B Floating Rate Note continued to perform extremely well as interest rates remained below 1% throughout the entire year. This allowed the School District to manage debt service on a very positive basis again this year.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE

Hempfield School District continues to be strong financially. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations, and prudently manages its financial assets. Strong academic performance is supported by reasonable and competitive per pupil spending. Pre-funding of a portion of debt service payments for the next several years will allow the School District to meet some of the budgetary challenges it faces in the current economic climate.

In many ways, the 2013-14 year was indicative of the challenges faced by public school districts in the current environment. Without tax increases, most revenue categories are not growing, yet many expenses continue to increase, and in some cases - such as the PSERS benefit - increase at alarming rates. There is a continuing challenge to balance an annual budget within the constraints of a struggling economy and the threat of further cost escalations in the immediate future. School districts must keep an eye on the future and plan prudently while working within the current political and economic reality. It is a difficult balance to achieve.

Budgetary constraints under Act 1 must also be balanced with increasing demands of a more diverse student population, both ethnically and economically. There is a much greater need for additional services to our English language learners, more stringent standards under federal and state guidelines for academic requirements, and ever-increasing standards for special education services to both IEP and gifted students. All of these education and instruction-based needs must be balanced with the significant salary and benefit costs necessary to support a staff of highly-qualified professional teachers and support staff. While creative solutions such as wage freezes and elimination of positions through attrition help to accomplish reductions in costs, contractual obligations continue to challenge the ability to meet educational needs while finding ways to achieve at a high level with fewer positions remaining across the School District. To accomplish the goals, there is a continued emphasis on innovation, delivering instruction in cost-effective ways, seeking revenue generation via initiatives such as our Chinese language distance learning partnerships and the open campus initiative, and offering other school districts the opportunity to buy slots in our highly effective alternative education program.

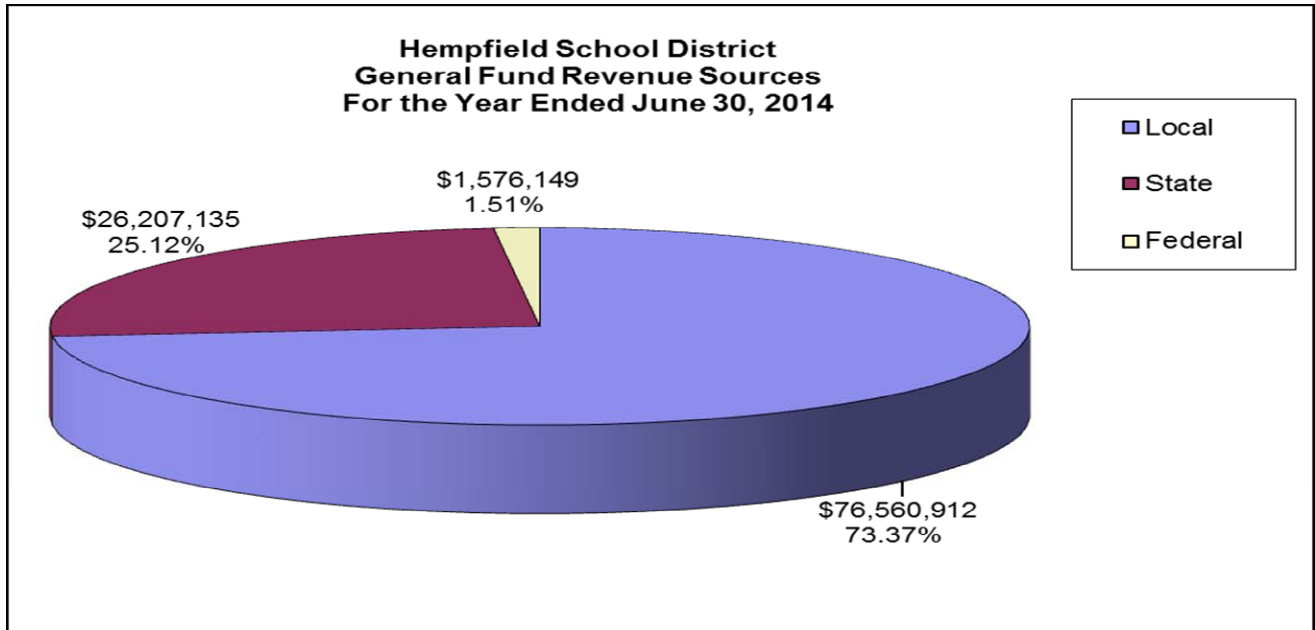
Funding of Public Education

In many Pennsylvania school districts, state funding provided about one half the costs of public education in the 1970's. The graph below illustrates the current funding provided by state funds for our School District at 25%, and the increased reliance on local dollars to fund public education. The School District relies heavily on local revenues at over 73% of total support. Federal sources this year included a second year of the Keystones to Opportunity grant, but Title I funds were reduced due to sequestration, and therefore federal funding decreased from 1.9% to 1.5% of total revenues. Within local sources, real estate and earned income taxes make up 97% of total local support.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE (Continued)

Funding of Public Education (Continued)



Public school districts face many challenges to funding streams, as assessment appeals reduce tax base, interest rates continue to hover just above zero, and state legislators continue to debate shifting funds from public to private institutions and potentially eliminating property taxes. The School District continues to emphasize quality educational programs, academic progress for all students, and striking a balance between the costs of meeting those educational needs of students with the increasing tax burden on local taxpayers.

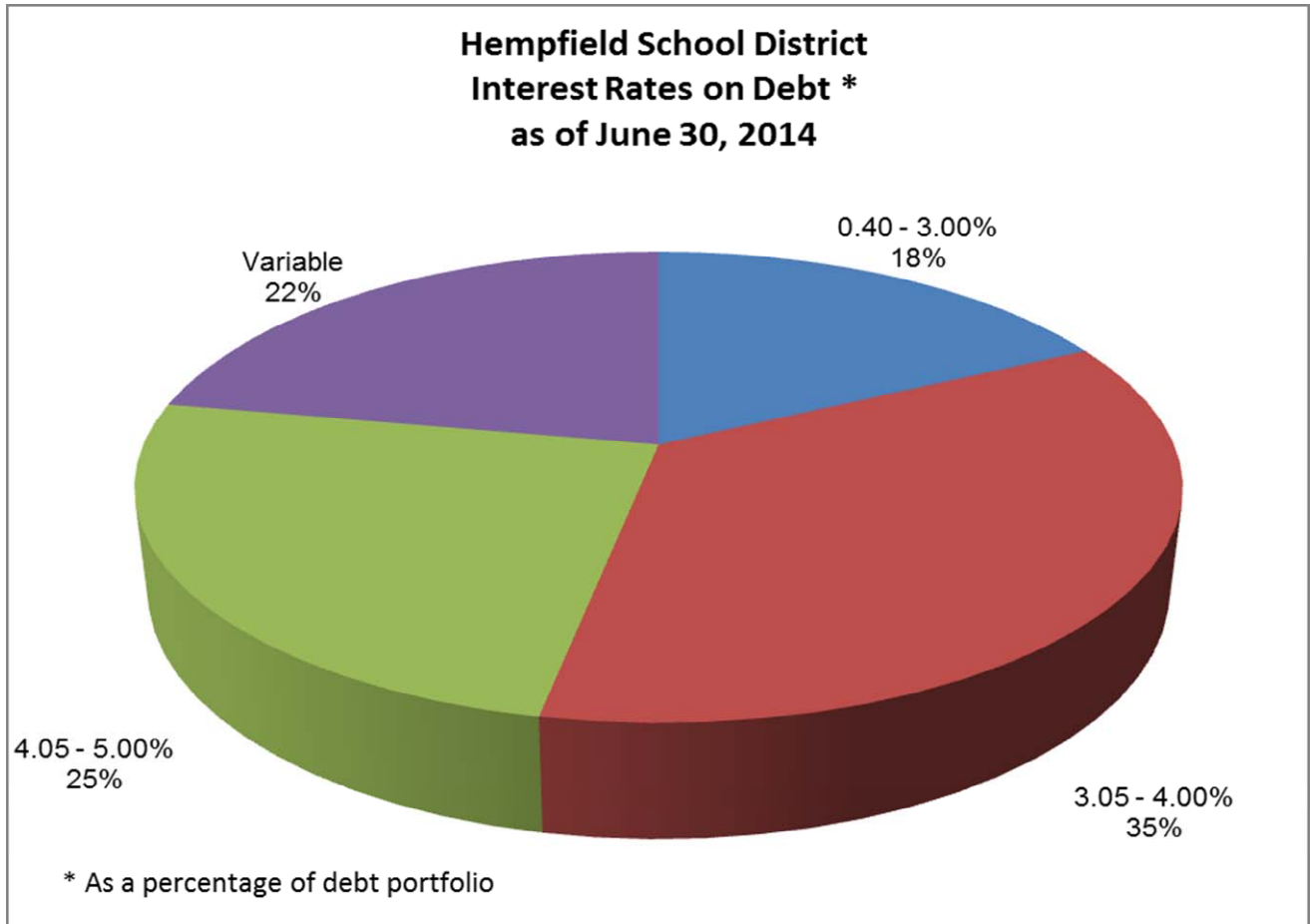
Bond Debt and Debt Service

The School District currently carries about \$114.4 million in debt through various bond issues. Most of this debt, about \$89.2 million, is carried in fixed rate bonds. Interest rates on these bonds are illustrated in the following graph, which reflects the various coupon interest rates that apply to each issue. The variable rate debt, issued as a floating rate note, carries a variable interest rate that has remained below 1% since inception in December 2011. While there is some risk associated with variable rate debt, the current markets create a favorable environment to carry a portion of the debt portfolio in variable rate instruments, and the School District monitors the rates closely to ensure proper management of this type of debt. The School District's fixed rate debt also carries relatively low rates, due in part to the advantageous timing of bond issues during historically low interest rate markets, combined with the School District's AA2 bond rating. In most recent fixed rate issues, bonds have been issued at a premium, so effective bond yields are, in many cases, even lower than the coupon rates reflected in the graph, and the total debt load is lower than the proceeds generated. There are no additional borrowing needs anticipated in the immediate future, but the School District will need to renew the variable rate debt, and may take advantage of another refinancing opportunity in the near future.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE (Continued)

Bond Debt and Debt Service (Continued)



Construction Projects and Facility Management

Since 2002, the School District has taken advantage of the standardized building design for construction of five of the School District's seven elementary schools, bringing equity in facilities across most of the School District, and potentially qualifying for a higher level of reimbursement through the state's cost-sharing PlanCon program, if the state honors the legal commitment that exists and lifts the moratorium on processing PlanCon applications. These standardized building designs also allowed significant cost savings related to architectural fees, and saved time in the planning process that would otherwise have been spent determining the basic building layout and design.

Landisville Education Center (LEC) was nearing completion this summer, a project initiated to address educational program needs for our alternative education students, support a therapeutic classroom, and house School District technology resources and staff members in a centralized environment. This facility should allow the School District to offer additional slots in the alternative education program and the therapeutic classroom to other school districts at an attractive cost, therefore producing additional revenue to subsidize this vital program.

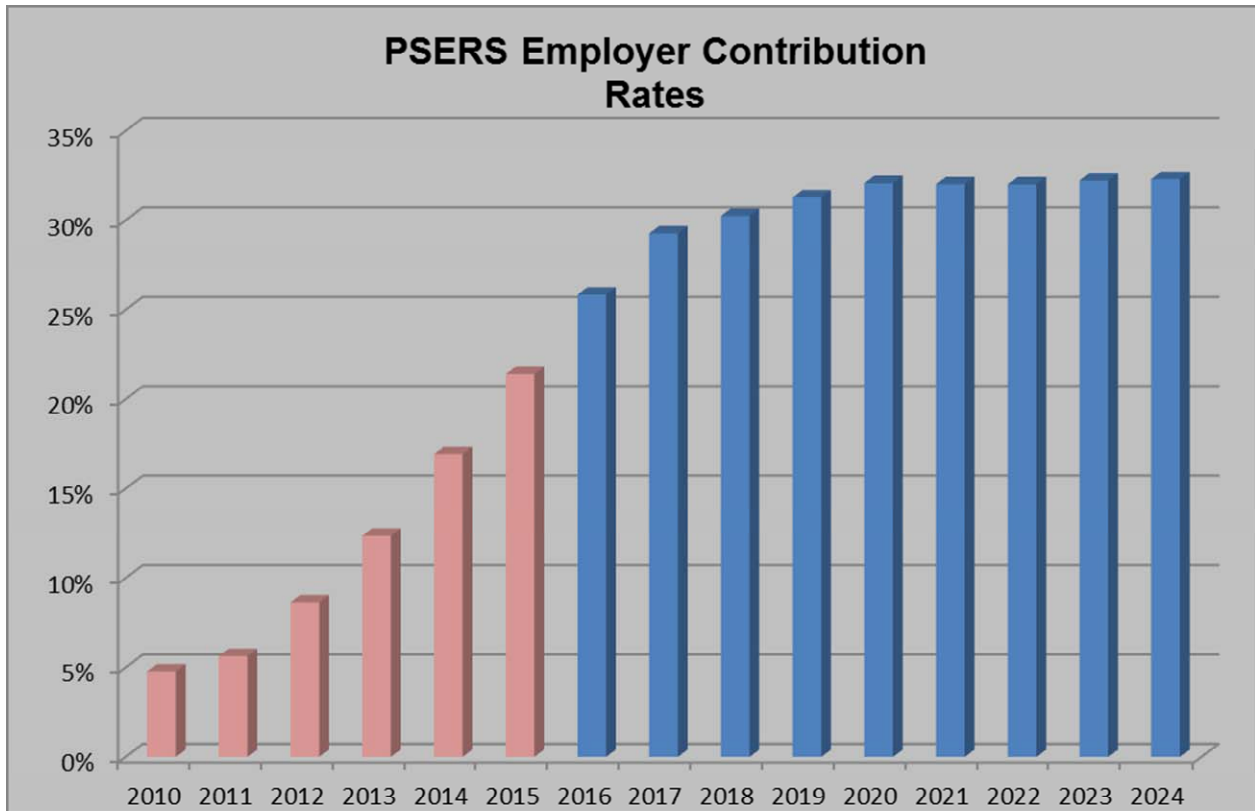
Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE (Continued)

Retirement Benefits

A significant component of the employee benefit package is the defined benefit pension plan in which most employees are enrolled. The Pennsylvania Public School Employees' Retirement System (PSERS) is subject to annual actuarial valuations, which lead to changes in the employer contribution required to the system.

Act 120 in 2010 was the last meaningful pension reform adopted by the Pennsylvania legislature; this act made some modest changes to the retirement system. Starting with employees hired on or after July 1, 2011, there is a new class of service, and the employee must choose to pay more into the system to be assured of the same 2.5% multiplier that has been in place for existing employees. All new eligible employees must also bear some risk related to the performance of pension system investments, as their contribution rate can increase over time if investment performance does not meet certain benchmarks. The period of vesting has also been increased, from five years to ten years, so fewer employees will likely draw a benefit from the retirement system over time. In terms of short-term relief, collars were put in place on the annual calculation of the employer rate, so that instead of rates immediately spiking in 2012 and later years, the rate will grow 3% to 4% each year for the next several years, as the graph illustrates. However, it is easy to see how daunting these increases will be in school district budgets over the next few years. On a long-term basis, the delays of paying in to the system to fund the liability further increases the liability and damages the system - but makes annual budgets somewhat easier to balance for now. There is still work to be done to reform the pension system further, if meaningful relief is to be realized, but to this point, no consensus has been reached on how to address these issues.



Current and future rates obtained from PSERS Website 10-10-2014, from June 30, 2013 Actuarial Valuation, www.psers.state.pa.us.

Hempfield School District
 MANAGEMENT'S DISCUSSION and ANALYSIS
 (Continued)
 Year Ended June 30, 2014

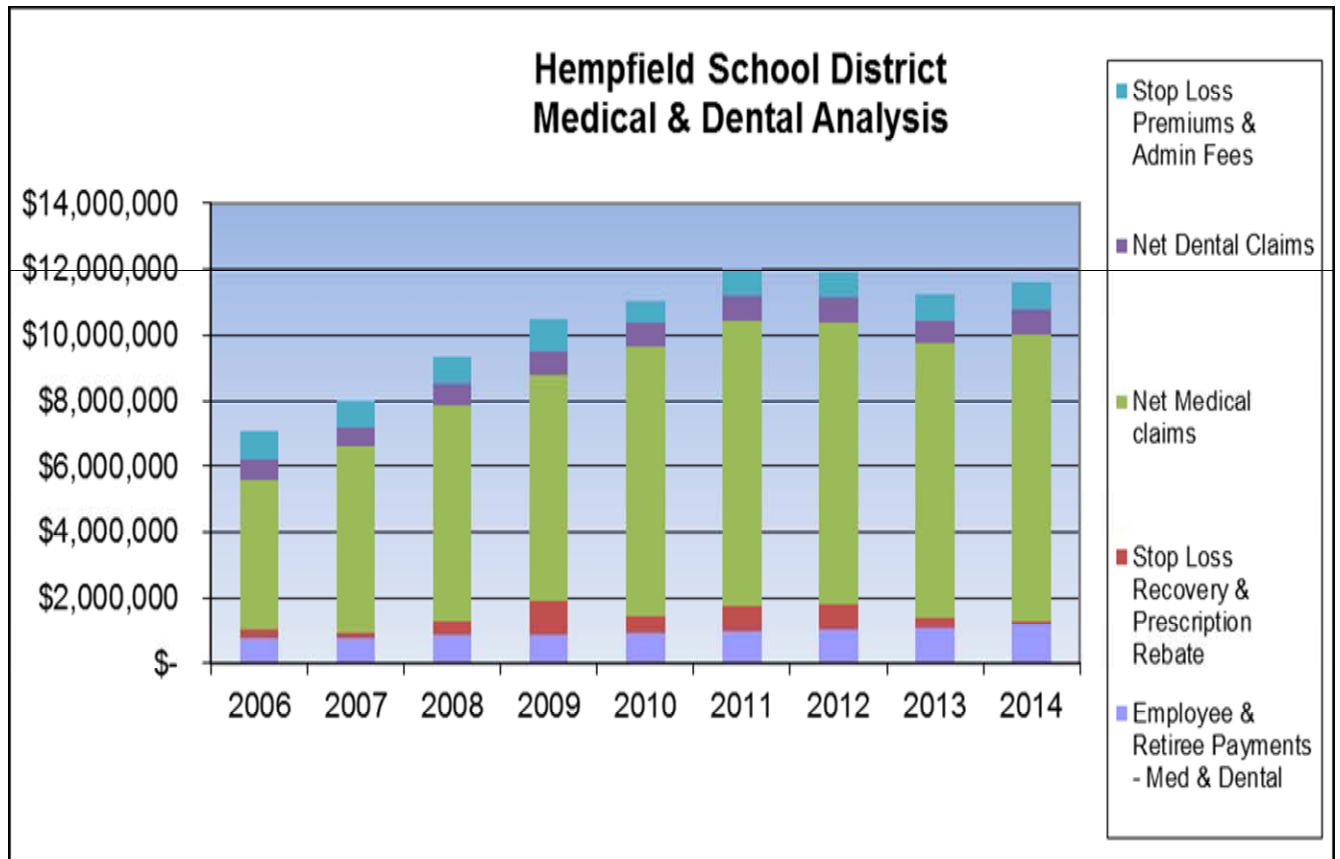
FOR THE FUTURE (Continued)

Retirement Benefits (Continued)

Translating rates into dollars for this School District, the 2014-2015 PSERS expense budget of \$10.7 million is likely to grow to \$15 million by 2016-2017, and past \$17 million by 2019-2020, even if salaries grow by just 2% after the current collective bargaining agreement expires in 2015. There is currently a 50% state subsidy to assist school districts with those payments - but even at 50%, the net impact on school district budgets is daunting! Without reform at the state level, the only way to reduce this expense is by finding ways to reduce eligible wage costs. Of course future PSERS rates may in actuality be better or worse than those illustrated here.

To prepare for the pension challenges, the School District maintained retirement benefit budgets at 7% during the earlier years when rates went below 5%, and has budgeted conservatively as the rate has continued to escalate. Excess funds from earlier budgets were placed in a retirement reserve, which has a balance of more than \$5 million to help address these escalating costs. Those funds are regarded as a long-term strategy to provide a resource for the looming rate spike years, and use of those funds will likely be combined with budgeting strategies within the general fund. Strategic use of that reserve will be required during the next few years to balance the millage impact on local taxpayers with the financial reality that this is a sustained increase to an annual expense potentially based on more than 30% of eligible wages. Continued pressure on state legislators for further reforms will be essential.

Medical Benefits



Medical and dental claims, prescription costs, stop loss premiums, and administrative fees paid, are offset by retiree and employee contributions, and stop loss insurance recovery.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE (Continued)

Medical Benefits (Continued)

While the costs of medical benefits continue to represent a significant challenge in most annual budgets, recent trends have been encouraging. Historically, expenses for health care had increased 13 - 14% on average over a ten year period through 2010, and those increases have had devastating effects on the budget. Total costs for medical and dental benefits in 2000-2001 were less than \$3.4 million, while in the current year, about \$10.3 million of School District expense. Positive results from the past four years have brought the historical trend down to about 10.3%. The chart clearly shows that changes made in 2011 based on the last negotiation have enabled the School District to flatten the growth curve somewhat, but it is important to recognize that some of the savings achieved result from a reduction in the number of lives covered by the plan. Per person costs continue to trend up over time, and the potential of the PPACA Cadillac tax in 2018 is a significant issue that must be addressed. These factors will be key elements of discussion in collective bargaining as we work on the new agreement for 2015.

Future Budgets

It has been common over the years to say that we are facing challenging budget situations. Nothing in the past compared, however, with the cost cutting initiatives involved in reducing annual budgets after federal stimulus funding ended but economic recovery continued to lag considerably. As we continue to find new normal economic conditions following the Great Recession, we seek ways to deal with flat or declining revenue at the same time we struggle to pay uncontrollable costs. Collaborative solutions have been key to our success, and really achieving a new mindset of what is essential to spend from School District budget dollars, and what can come from other sources - or not be spent at all - is new territory. While there may be years in which there will be some revenues that actually come in higher than predicted, and expenses may stay under budget when projects are delayed and winters are mild, the effort to balance budgets will continue to require innovative and collaborative thinking.

There is some concern that as we continue to maintain a healthy fund balance for now, our stakeholders will believe we have weathered the storm and all is well. PSERS retirement rates are set to increase from the 2014-15 rate certified at 21.4% to more than 30% within five years. Medical costs, while perhaps reset to a new level, are anticipated to increase at least 10% annually on a per member basis - so unless we remove a significant number of covered lives again, those costs will continue to grow. Penalties and fees related to national health care will compound local cost issues within the next few years as well. Contractual salary increases are set to escalate wage budgets through June 2015. The combination of these elements in an environment in which there is little revenue growth and erosion in the tax base - balancing budgets will continue to be a considerable challenge. Collaborative solutions will be needed each year to continue the overall success and financial well-being of the School District, so that quality education can be provided to our students and community.

As the open campus initiative gains momentum, new solutions for delivering education become possible. What impact will the program have on future budgets? Are there solutions that will enable us to reduce costs, or create revenue streams? It is too early to know the answers to all of those questions, but certainly exploring new concepts and seeking out-of-the-box methods will need to be part of the solution to be successful in the new reality faced in public education. As the School District plans for leadership transitions in the next year, it will be crucial to develop a cohesive strategy to continue collaborative and solutions-focused efforts to provide continuous improvement of educational opportunities for Hempfield students.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

FOR THE FUTURE (Continued)

In conclusion, **Hempfield School District** has committed itself to financial and educational excellence for many years. The School District's system of budgeting and internal controls are well regarded and consistently followed. All that we do must be evaluated from a long-term and strategic perspective to continue to meet the increasing demands and effectively address the financial pressures we face. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it received. If you have questions about this report or need additional financial information please contact Mary Lynne Kniley, Director of Finance at **Hempfield School District**, 200 Church Street, Landisville, PA 17538.

Hempfield School District

STATEMENT of NET POSITION

June 30, 2014

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 21,977,928 | \$ 6,037 | \$ 21,983,965 |
| Investments | 17,632,518 | 222,286 | 17,854,804 |
| Taxes Receivable, net | 2,585,279 | -0- | 2,585,279 |
| Internal Balances | 83,627 | (83,627) | -0- |
| Due from Other Governments | 2,410,290 | -0- | 2,410,290 |
| Other Receivables | 130,354 | 38,390 | 168,744 |
| Inventories | 17,394 | 47,056 | 64,450 |
| Prepaid Expenses | 14,096 | -0- | 14,096 |
| Total Current Assets | 44,851,486 | 230,142 | 45,081,628 |
| Noncurrent Assets | | | |
| Land | 4,687,257 | -0- | 4,687,257 |
| Building and Building Improvements, net of Accumulated Depreciation | 132,190,024 | -0- | 132,190,024 |
| Furniture and Equipment, net of Accumulated Depreciation | 11,765,004 | 1,293,464 | 13,058,468 |
| Vehicles, net of Accumulated Depreciation | 109,953 | 7,205 | 117,158 |
| Construction in Progress | 4,794,466 | -0- | 4,794,466 |
| Total Noncurrent Assets | 153,546,704 | 1,300,669 | 154,847,373 |
| TOTAL ASSETS | <u>198,398,190</u> | <u>1,530,811</u> | <u>199,929,001</u> |
| DEFERRED OUTFLOWS of RESOURCES | | | |
| Loss on Bond Refunding, net of Accumulated Amortization | <u>\$ 59,691</u> | <u>\$ -0-</u> | <u>\$ 59,691</u> |

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION

(Continued)

June 30, 2014

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|------------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 4,847,349 | \$ 47,331 | \$ 4,894,680 |
| Current Portion of Long-Term Debt | 6,385,000 | -0- | 6,385,000 |
| Accrued Salaries and Benefits | 9,338,315 | -0- | 9,338,315 |
| Compensated Absences, Due Within One Year | 769,367 | 17,731 | 787,098 |
| Accrued Interest on Long-Term Debt | 737,805 | -0- | 737,805 |
| Payroll Deductions and Withholdings | 631,724 | -0- | 631,724 |
| Unearned Revenues | 56,992 | 73,733 | 130,725 |
| Other Current Liabilities | 96,635 | -0- | 96,635 |
| Total Current Liabilities | 22,863,187 | 138,795 | 23,001,982 |
| Noncurrent Liabilities | | | |
| Bonds Payable, net of Unamortized Discount and Premium | 112,489,423 | -0- | 112,489,423 |
| Accrued Retirement Bonuses | 1,317,849 | 6,345 | 1,324,194 |
| Long-Term Portion of Compensated Absences | 2,080,827 | 47,532 | 2,128,359 |
| Net Other Postemployment Benefit (OPEB) Liability | 1,748,628 | -0- | 1,748,628 |
| Total Noncurrent Liabilities | 117,636,727 | 53,877 | 117,690,604 |
| TOTAL LIABILITIES | 140,499,914 | 192,672 | 140,692,586 |
| NET POSITION | | | |
| Invested in Capital Assets, net of Related Debt | 36,185,955 | 1,300,669 | 37,486,624 |
| Unrestricted | 21,772,012 | 37,470 | 21,809,482 |
| TOTAL NET POSITION | \$ 57,957,967 | \$ 1,338,139 | \$ 59,296,106 |

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) 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 | \$ 68,233,279 | \$ 153,683 | \$ 10,874,274 | \$ 90,747 | \$ (57,114,575) | \$ -0- | \$ (57,114,575) |
| Instructional Student Support | 7,229,021 | -0- | 848,635 | -0- | (6,380,386) | -0- | (6,380,386) |
| Administrative and Financial Support Services | 9,051,438 | 70,173 | 550,131 | -0- | (8,431,134) | -0- | (8,431,134) |
| Operation and Maintenance of Plant Services | 8,676,593 | 251,133 | 293,100 | -0- | (8,132,360) | -0- | (8,132,360) |
| Pupil Transportation | 4,500,764 | -0- | 1,821,660 | -0- | (2,679,104) | -0- | (2,679,104) |
| Student Activities | 1,624,173 | 247,836 | 106,246 | -0- | (1,270,091) | -0- | (1,270,091) |
| Interest on Long-Term Debt | 3,215,430 | -0- | -0- | 1,100,887 | (2,114,543) | -0- | (2,114,543) |
| Depreciation - Unallocated * | 558,422 | -0- | -0- | -0- | (558,422) | -0- | (558,422) |
| Total Governmental Activities | 103,089,120 | 722,825 | 14,494,046 | 1,191,634 | (86,680,615) | -0- | (86,680,615) |
| Business-Type Activities: | | | | | | | |
| Food Service | 3,261,890 | 1,694,705 | 1,369,427 | -0- | -0- | (197,758) | (197,758) |
| Child Care | 264,749 | 361,559 | -0- | -0- | -0- | 96,810 | 96,810 |
| Total Business-Type Activities | 3,526,639 | 2,056,264 | 1,369,427 | -0- | -0- | (100,948) | (100,948) |
| Total Government | \$ 106,615,759 | \$ 2,779,089 | \$ 15,863,473 | \$ 1,191,634 | \$ (86,680,615) | \$ (100,948) | \$ (86,781,563) |

* Excludes depreciation charged directly to various functions.

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position | | |
|---|----------|-------------------------|--|--|---|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes, Levied for | | | | | | | |
| General Purposes, net | | | | | \$ 66,570,011 | \$ -0- | \$ 66,570,011 |
| Public Utility Realty and Earned Income Taxes | | | | | | | |
| Levied for General Purposes, net | | | | | 7,688,576 | -0- | 7,688,576 |
| Unrestricted Grants and Subsidies | | | | | 13,493,325 | -0- | 13,493,325 |
| Unrestricted Investment Earnings | | | | | 162,327 | 98 | 162,425 |
| Miscellaneous Income | | | | | 161,840 | 102 | 161,942 |
| Loss on Fixed Asset Dispositions | | | | | (164,226) | -0- | (164,226) |
| Transfers In (Out) | | | | | 96,810 | (96,810) | -0- |
| Total General Revenues and Transfers | | | | | 88,008,663 | (96,610) | 87,912,053 |
| | | | | | | | |
| CHANGES in NET POSITION | | | | | 1,328,048 | (197,558) | 1,130,490 |
| | | | | | | | |
| NET POSITION | | | | | | | |
| Beginning | | | | | 56,629,919 | 1,535,697 | 58,165,616 |
| | | | | | | | |
| Ending | | | | | \$ 57,957,967 | \$ 1,338,139 | \$ 59,296,106 |

See notes to financial statements.

Hempfield School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

| | Major Funds | | | Total Governmental Funds |
|--|-----------------------------|----------------------------|----------------------------|--------------------------------|
| | General Fund | Debt Service Fund | Capital Project Fund | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 14,915,129 | \$ -0- | \$ 6,027,414 | \$ 20,942,543 |
| Investments | 4,264,939 | 4,876,784 | 369,475 | 9,511,198 |
| Taxes Receivable, net | 2,585,279 | -0- | -0- | 2,585,279 |
| Due from Other Funds | 83,627 | -0- | 443,273 | 526,900 |
| Due from Other Governments | 2,410,290 | -0- | -0- | 2,410,290 |
| Other Receivables | 103,283 | 20,581 | -0- | 123,864 |
| Inventories | 17,394 | -0- | -0- | 17,394 |
| Prepaid Expenses | 14,096 | -0- | -0- | 14,096 |
| TOTAL ASSETS | <u>24,394,037</u> | <u>4,897,365</u> | <u>6,840,162</u> | <u>36,131,564</u> |
| LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | 3,246,003 | -0- | 682,089 | 3,928,092 |
| Due to Other Funds | 443,273 | -0- | -0- | 443,273 |
| Accrued Salaries and Benefits | 9,338,315 | -0- | -0- | 9,338,315 |
| Payroll Deductions and Withholdings | 631,724 | -0- | -0- | 631,724 |
| Unearned Revenues | 56,992 | -0- | -0- | 56,992 |
| Other Liabilities | 101,892 | -0- | -0- | 101,892 |
| TOTAL LIABILITIES | <u>13,818,199</u> | <u>-0-</u> | <u>682,089</u> | <u>14,500,288</u> |
| DEFERRED INFLOWS of RESOURCES | | | | |
| Delinquent Real Estate Taxes | 796,068 | -0- | -0- | 796,068 |
| FUND BALANCES | | | | |
| Nonspendable | 31,490 | -0- | -0- | 31,490 |
| Restricted | -0- | -0- | 1,513,674 | 1,513,674 |
| Committed | 2,000,000 | -0- | -0- | 2,000,000 |
| Assigned | 1,400,000 | 4,897,365 | 4,644,399 | 10,941,764 |
| Unassigned | 6,348,280 | -0- | -0- | 6,348,280 |
| TOTAL FUND BALANCES | <u>9,779,770</u> | <u>4,897,365</u> | <u>6,158,073</u> | <u>20,835,208</u> |
| TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES | <u>\$ 24,394,037</u> | <u>\$ 4,897,365</u> | <u>\$ 6,840,162</u> | <u>\$ 36,131,564</u> |

See notes to financial statements.

Hempfield School District
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
 to the STATEMENT of NET POSITION
 June 30, 2014

Total fund balances - governmental funds \$ 20,835,208

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$218,877,639, and the accumulated depreciation is \$65,330,935. 153,546,704

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 8,249,195

Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 796,068

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

| | |
|---|--------------------|
| Bonds Payable | (114,445,000) |
| Accrued Interest on Long-Term Debt | (737,805) |
| Loss on Bond Refinancing | 59,691 |
| Bond Discount, net of Amortization | 18,350 |
| Bond Premium, net of Amortization | (4,447,773) |
| Net Other Postemployment Benefit (OPEB) Liability | (1,748,628) |
| Accrued Retirement Bonuses | (1,317,849) |
| Compensated Absences | <u>(2,850,194)</u> |

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 57,957,967

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

| | Major Funds | | | Total Governmental Funds |
|--|---------------------|----------------------|-------------------------|--------------------------------|
| | General Fund | Debt Service Fund | Capital Project Fund | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Real Estate Taxes | \$ 66,451,317 | \$ -0- | \$ -0- | \$ 66,451,317 |
| Other Taxes | 7,688,576 | -0- | -0- | 7,688,576 |
| Investment Earnings | 125,928 | 14,320 | 22,079 | 162,327 |
| Other Revenue | 2,295,091 | -0- | -0- | 2,295,091 |
| Total Local Sources | 76,560,912 | 14,320 | 22,079 | 76,597,311 |
| State Sources | 26,207,135 | -0- | -0- | 26,207,135 |
| Federal Sources | 1,576,149 | -0- | -0- | 1,576,149 |
| Total Revenues | 104,344,196 | 14,320 | 22,079 | 104,380,595 |
| EXPENDITURES | | | | |
| Instructional Services | 64,239,808 | -0- | -0- | 64,239,808 |
| Support Services | 28,549,825 | -0- | -0- | 28,549,825 |
| Noninstructional Services | 1,676,030 | -0- | -0- | 1,676,030 |
| Capital Outlay | -0- | -0- | 6,298,622 | 6,298,622 |
| Debt Service | -0- | 9,428,743 | -0- | 9,428,743 |
| Bond Issuance Costs | -0- | 141,505 | -0- | 141,505 |
| Total Expenditures | 94,465,663 | 9,570,248 | 6,298,622 | 110,334,533 |
| EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES | 9,878,533 | (9,555,928) | (6,276,543) | (5,953,938) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-Term Debt Proceeds | -0- | 3,000,000 | -0- | 3,000,000 |
| Advance Refunding Bond Proceeds | -0- | 6,325,000 | -0- | 6,325,000 |
| Advance Refunding of Bond Principal | -0- | (6,215,000) | -0- | (6,215,000) |
| Premium on Refunding Bonds | -0- | 101,822 | -0- | 101,822 |
| Refund of Prior Years' Revenues | (26,742) | -0- | -0- | (26,742) |
| Transfers In (Out) | (9,666,305) | 6,358,963 | 3,404,152 | 96,810 |
| Proceeds from Sale of Fixed Assets | 2,000 | -0- | 10,000 | 12,000 |
| Net Other Financing Sources (Uses) | (9,691,047) | 9,570,785 | 3,414,152 | 3,293,890 |
| NET CHANGES in FUND BALANCES | 187,486 | 14,857 | (2,862,391) | (2,660,048) |
| FUND BALANCES | | | | |
| Beginning | 9,592,284 | 4,882,508 | 9,020,464 | 23,495,256 |
| Ending | <u>\$ 9,779,770</u> | <u>\$ 4,897,365</u> | <u>\$ 6,158,073</u> | <u>\$ 20,835,208</u> |

See notes to financial statements.

Hempfield 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, 2014

Total net changes in fund balances - governmental funds \$ (2,660,048)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation exceeds capital outlays in the period is as follows:

| | | |
|---|------------------|---------|
| Remaining Basis of Capital Assets Sold or Retired | (164,226) | |
| Depreciation Expense | (6,072,642) | |
| Capital Outlays | <u>7,221,828</u> | 984,960 |

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 118,694

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and 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 obligations and related items. (8,852,658)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 11,805,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ 49,148

See notes to financial statements.

Hempfield School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of
REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES
to the STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2014

In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

\$ 64,365

In the statement of activities, certain operating expenses (e.g., retirement bonuses) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

126,284

In the statement of activities, certain operating expenses (e.g., other postemployment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(210,821)

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The change in net position of the internal service funds is allocated among the governmental activities.

(96,876)

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES

\$ 1,328,048

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2014

| | Enterprise Funds | | | |
|---|----------------------|------------------|---------------------------|---------------------------|
| | Major Fund | | | |
| | Food Service Fund | Nonmajor Fund | Total Enterprise Funds | Internal Service Funds |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 6,037 | \$ -0- | \$ 6,037 | \$ 1,035,385 |
| Investments | 222,286 | -0- | 222,286 | 8,121,320 |
| Other Receivables | 38,390 | -0- | 38,390 | 6,490 |
| Inventories | 47,056 | -0- | 47,056 | -0- |
| Total Current Assets | 313,769 | -0- | 313,769 | 9,163,195 |
| Noncurrent Assets | | | | |
| Furniture and Equipment, net of Accumulated Depreciation | 1,293,464 | -0- | 1,293,464 | -0- |
| Vehicles, net of Accumulated Depreciation | 7,205 | -0- | 7,205 | -0- |
| Total Noncurrent Assets | 1,300,669 | -0- | 1,300,669 | -0- |
| TOTAL ASSETS | 1,614,438 | -0- | 1,614,438 | 9,163,195 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 47,331 | -0- | 47,331 | 914,000 |
| Due to Other Funds | 83,627 | -0- | 83,627 | -0- |
| Compensated Absences, Due Within One Year | 17,731 | -0- | 17,731 | -0- |
| Unearned Revenues | 73,733 | -0- | 73,733 | -0- |
| Total Current Liabilities | 222,422 | -0- | 222,422 | 914,000 |
| Noncurrent Liabilities | | | | |
| Accrued Retirement Bonus | 6,345 | -0- | 6,345 | -0- |
| Long-Term Portion of Compensated Absences | 47,532 | -0- | 47,532 | -0- |
| Total Noncurrent Liabilities | 53,877 | -0- | 53,877 | -0- |
| TOTAL LIABILITIES | 276,299 | -0- | 276,299 | 914,000 |
| NET POSITION | | | | |
| Invested in Capital Assets | 1,300,669 | -0- | 1,300,669 | -0- |
| Unrestricted | 37,470 | -0- | 37,470 | 8,249,195 |
| TOTAL NET POSITION | \$ 1,338,139 | \$ -0- | \$ 1,338,139 | \$ 8,249,195 |

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
 PROPRIETARY FUNDS
 Year Ended June 30, 2014

| | Enterprise Funds | | | |
|--|---------------------|-----------------|------------------------|------------------------|
| | Major Fund | | | |
| | Food Service Fund | Nonmajor Fund | Total Enterprise Funds | Internal Service Funds |
| OPERATING REVENUES | | | | |
| Food Service Revenue | \$ 1,598,529 | \$ -0- | \$ 1,598,529 | \$ -0- |
| Charges for Services | 91,749 | 361,559 | 453,308 | 11,672,124 |
| Miscellaneous | 4,499 | -0- | 4,499 | -0- |
| Total Operating Revenues | 1,694,777 | 361,559 | 2,056,336 | 11,672,124 |
| OPERATING EXPENSES | | | | |
| Salaries | 1,137,233 | -0- | 1,137,233 | -0- |
| Employee Benefits | 580,611 | -0- | 580,611 | 11,788,900 |
| Purchased Professional and Technical Services | 86,028 | -0- | 86,028 | -0- |
| Other Purchased Services | 670 | 264,749 | 265,419 | -0- |
| Supplies | 1,325,015 | -0- | 1,325,015 | -0- |
| Depreciation | 128,981 | -0- | 128,981 | -0- |
| Other Operating Expenses | 3,322 | -0- | 3,322 | -0- |
| Total Operating Expenses | 3,261,860 | 264,749 | 3,526,609 | 11,788,900 |
| OPERATING INCOME (LOSS) | (1,567,083) | 96,810 | (1,470,273) | (116,776) |
| NONOPERATING REVENUES | | | | |
| Investment Earnings | 98 | -0- | 98 | 19,900 |
| State Sources | 210,117 | -0- | 210,117 | -0- |
| Federal Sources | 1,159,310 | -0- | 1,159,310 | -0- |
| Net Nonoperating Revenues | 1,369,525 | -0- | 1,369,525 | 19,900 |
| Income (Loss) Before Transfers | (197,558) | 96,810 | (100,748) | (96,876) |
| TRANSFERS OUT | -0- | (96,810) | (96,810) | -0- |
| CHANGES in NET POSITION | (197,558) | -0- | (197,558) | (96,876) |
| NET POSITION | | | | |
| Beginning | 1,535,697 | -0- | 1,535,697 | 8,346,071 |
| Ending | \$ 1,338,139 | \$ -0- | \$ 1,338,139 | \$ 8,249,195 |

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2014

| | Enterprise Funds | | | |
|--|----------------------|------------------|---------------------------|---------------------------|
| | Major Fund | | | |
| | Food Service Fund | Nonmajor Fund | Total Enterprise Funds | Internal Service Funds |
| CASH FLOWS from OPERATING ACTIVITIES | | | | |
| Cash Received from Users | \$ 1,697,152 | \$ 361,559 | \$ 2,058,711 | \$ 11,672,124 |
| Cash Payments to Employees for Services | (995,837) | -0- | (995,837) | -0- |
| Cash Payments for Insurance Services | (580,611) | -0- | (580,611) | (11,626,521) |
| Cash Payments to Suppliers for Goods and Services | (1,199,318) | (264,749) | (1,464,067) | -0- |
| Cash Payments for Other Operating Expenses | (3,322) | -0- | (3,322) | (1,380) |
| Net Cash Provided (Used) by Operating Activities | (1,081,936) | 96,810 | (985,126) | 44,223 |
| CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES | | | | |
| Cash Payments for Purchase of Capital Assets | (1,636) | -0- | (1,636) | -0- |
| CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES | | | | |
| State Sources | 210,602 | -0- | 210,602 | -0- |
| Federal Sources | 1,006,865 | -0- | 1,006,865 | -0- |
| Transfers In (Out) from Other Funds | -0- | (96,810) | (96,810) | 1,200,000 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 1,217,467 | (96,810) | 1,120,657 | 1,200,000 |
| CASH FLOWS from INVESTING ACTIVITIES | | | | |
| Investment Earnings | 98 | -0- | 98 | 19,719 |
| Additions to Investment Pools | (130,571) | -0- | (130,571) | (1,223,969) |
| Net Cash Used by Investing Activities | (130,473) | -0- | (130,473) | (1,204,250) |
| INCREASE in CASH and CASH EQUIVALENTS | 3,422 | -0- | 3,422 | 39,973 |
| CASH and CASH EQUIVALENTS | | | | |
| Beginning of Year | 2,615 | -0- | 2,615 | 995,412 |
| End of Year | \$ 6,037 | \$ -0- | \$ 6,037 | \$ 1,035,385 |

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2014

| | Enterprise Funds | | | |
|---|-----------------------------|-------------------------|---------------------------|---------------------------|
| | <u>Major Fund</u> | | | |
| | Food Service Fund | Nonmajor Fund | Total Enterprise Funds | Internal Service Funds |
| RECONCILIATION of OPERATING INCOME | | | | |
| (LOSS) to NET CASH PROVIDED by | | | | |
| OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$(1,567,083) | \$ 96,810 | \$(1,470,273) | \$ (116,776) |
| ADJUSTMENTS to RECONCILE OPERATING | | | | |
| INCOME (LOSS) to NET CASH PROVIDED | | | | |
| by OPERATING ACTIVITIES | | | | |
| Depreciation | 128,981 | -0- | 128,981 | -0- |
| Donated Commodities Used | 157,142 | -0- | 157,142 | -0- |
| Decrease in Receivables | 2,325 | -0- | 2,325 | 17,868 |
| Decrease in Inventory | 8,214 | -0- | 8,214 | -0- |
| Increase in Accounts Payable | 47,039 | -0- | 47,039 | 143,131 |
| Increase in Accrued Salaries and Benefits | 141,396 | -0- | 141,396 | -0- |
| Increase in Unearned Revenue | 50 | -0- | 50 | -0- |
| Total Adjustments | 485,147 | -0- | 485,147 | 160,999 |
| Net Cash Provided (Used) by | | | | |
| Operating Activities | <u>\$(1,081,936)</u> | <u>\$ 96,810</u> | <u>\$(985,126)</u> | <u>\$ 44,223</u> |
| SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION | | | | |
| NONCASH FLOWS from NONCAPITAL and | | | | |
| RELATED FINANCING ACTIVITIES | | | | |
| Receipt of USDA Donated Commodities | 161,438 | -0- | 161,438 | -0- |
| Use of USDA Donated Commodities | (157,142) | -0- | (157,142) | -0- |

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2014

| | Scholarship Fund | Activity Fund |
|-----------------------------|-----------------------------|--------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 102,548 | \$ 149,311 |
| Investments | 994 | -0- |
| Other Receivables | <u>-0-</u> | <u>4,745</u> |
| TOTAL ASSETS | <u>103,542</u> | <u>154,056</u> |
| LIABILITIES | | |
| Accounts Payable | -0- | 4,816 |
| Other Current Liabilities | <u>-0-</u> | <u>149,240</u> |
| TOTAL LIABILITIES | <u>-0-</u> | <u>154,056</u> |
| NET POSITION | | |
| Restricted for Scholarships | <u>\$ 103,542</u> | <u>\$ -0-</u> |

See notes to financial statements.

Hempfield School District
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUNDS
 Year Ended June 30, 2014

| | Scholarship Fund |
|--------------------------------|---------------------------------|
| ADDITIONS | |
| Gifts and Contributions | \$ 8,774 |
| Investment Earnings | <u>320</u> |
| Total Additions | 9,094 |
| DEDUCTIONS | |
| Scholarships Awarded | <u>9,949</u> |
| CHANGES in NET POSITION | (855) |
| NET POSITION | |
| Beginning | <u>104,397</u> |
| Ending | <u><u>\$ 103,542</u></u> |

See notes to financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Hempfield School District, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in West Hempfield Township, East Hempfield Township, Mountville Borough, and East Petersburg Borough. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of seven elementary schools, two middle schools, and one high school, serving approximately 7,100 students.

The accounting policies of **Hempfield School District** conform with accounting principles generally accepted in the United States of America as applicable 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:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity* and as amended in Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the criteria used by the School District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Area Career and Technology Center Board for Lancaster County, 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 LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2014, was approximately \$934,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District has entered into an operating lease with the LCCTC and the Authority as more fully disclosed in Note 19 and paid approximately \$150,000 for debt service to the Authority. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2014. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. **Hempfield School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Hempfield School District** contracts with the LLIU for special education services for School District students. The amount paid for these services in the year ended June 30, 2014, was approximately \$3,005,000. Complete financial information for the LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Academy (Academy)

The Academy is an alternative public school organized by 10 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member school district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy for the year ended June 30, 2014, was approximately \$33,750. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2014, was \$111,762. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Health Care Consortium (EHCC)

The School District participates with 14 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to \$150,000. The pool reimburses monies to the School District for individual claims above \$150,000 up to \$200,000. The pool has commercial insurance for claims greater than \$200,000. The School District contribution to the pool for the year ended June 30, 2014, was approximately \$250,000 for administrative fees and \$590,000 for excess loss insurance coverage.

Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities as well as deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

Capital Project Fund - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

Debt Service Fund - This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest, and for the payment of future variable interest debt payments.

The School District reports the following major proprietary fund:

Food Service Fund - This fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year.

The School District reports the following nonmajor proprietary fund:

Child Care Fund - This fund accounts for revenues generated and related costs incurred from a child care center established by the School District.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service and compensated absence payments which are recognized when due.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2014, which are not intended to finance fiscal 2014 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. The principal operating revenues of the School District's daycare fund are charges for daycare services to parents. Operating expenses include the cost for the operation and management of the daycare center. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits and in repurchase agreements. They are carried at cost plus accrued interest, which approximates fair value.

Investments

Investments are recorded at market value.

Taxes Receivable and Deferred Inflows of Tax Revenues

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories in the cafeteria fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2014. Any unused commodities donated by the federal government at June 30, 2014, were reported as unearned revenue since title does not pass to the School District until the commodities are used.

Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

| | |
|------------------------------------|---------------|
| School Buildings | 30 - 40 Years |
| Building Improvements | 20 - 40 Years |
| Land Improvements | 15 - 20 Years |
| Furniture, Fixtures, and Equipment | 3 - 20 Years |
| Vehicles | 8 - 10 Years |

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. They are recategorized as loss on bond refinancing in the event that debt is refinanced. Amortization continues over the life of the new or refinanced debt, whichever is shorter.

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

Compensated Absences and Retirement Bonuses

The School District accrues unused vacation, sick leave, and personal days as a liability. Upon termination or retirement, the employee will be paid for these accumulated absences in accordance with School District policy. The School District also accrues retirement bonuses to be paid out at retirement in accordance with School District policy.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Retirement Bonuses (Continued)

For governmental funds, that portion of unpaid compensated absences and retirement bonuses that are expected to be paid using expendable, available resources are reported as expenditures in the fund from which the individual earning the leave or bonus is paid, and a corresponding liability reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences and retirement bonuses using the rates in effect at the balance sheet date. The School District has accrued the employer's share of social security and Medicare taxes on those balances not expected to be transferred to a tax-sheltered annuity (TSA) account.

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 included with committed or assigned fund balances, as appropriate, because they do not constitute expenditures or liabilities. As of June 30, 2014, the School District had no encumbrances.

Pension Plan

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2014, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Interfund Activity

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification

Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the government taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Finance Committee and the Director of Finance.

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose.

The School District typically pays expenditures from a fund's unrestricted resources when both restricted and unrestricted fund balance is available. The School District will elect to use restricted resources based on specific circumstances when considered necessary. The School District considers restricted, committed, and assigned amounts to have been spent when an expenditure is incurred and such an election has been made.

The School District has formally adopted a minimum fund balance policy for the general fund. The policy states that the School District will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent of the budgeted expenditures for that fiscal year.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

Pending Changes in Accounting Principles

In June 2012, GASB Issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this statement are effective for the School District's June 30, 2015, financial statements.

In January 2013, GASB Issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of governmental operations. The provisions of this statement are effective for the School District's June 30, 2015, financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of this statement are effective for the School District's June 30, 2015, financial statements.

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

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposits or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District has a written policy for custodial credit risk. The public school code requires that all deposits of the School District, which are not insured, are collateralized by the depository institution. As of June 30, 2014, \$21,850,459 of the School District's bank balance of \$22,383,510 is exposed to custodial credit risk as follows:

| | |
|---|-------------------|
| Uninsured and Uncollateralized | -0- |
| Collateralized with Securities Held by the Pledging Financial Institution | -0- |
| Uninsured and Collateral Held by the Pledging Bank's Trust Department not in the School District's Name | <u>21,850,459</u> |
| | 21,850,459 |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Cash and Cash Equivalents - Custodial Credit Risk (Continued)

Reconciliation of Cash and Cash Equivalents to the Financial Statements

| | |
|---|-------------------|
| Uninsured Amount Above | 21,850,459 |
| Insured Amount | <u>533,051</u> |
| Bank Balance | 22,383,510 |
| Outstanding Checks | <u>(149,296)</u> |
| Carrying Amount - Bank Balances | 22,234,214 |
| Petty Cash | <u>1,610</u> |
| Total Cash and Cash Equivalents per Financial Statements | 22,235,824 |

Investments

As of June 30, 2014, the School District had the following investments:

| Investments | Fair Value |
|--------------------------------------|-------------------|
| PA Local Government Investment Trust | 10,991,740 |
| PA School District Liquid Asset Fund | <u>6,864,058</u> |
| | 17,855,798 |

Interest Rate Risk

The School District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The School District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2014, the School District investments are rated as:

| Investments | Standard & Poor's |
|--------------------------------------|-------------------|
| PA Local Government Investment Trust | AAAm |
| PA School District Liquid Asset Fund | AAAm |

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. Investments that exceed 5% of the reporting unit's total investments, excluding federal government secured investments are as follows:

| | |
|--------------------------------------|-----|
| Governmental Activities: | |
| PA Local Government Investment Trust | 61% |
| PA School District Liquid Asset Fund | 39% |
| General Fund: | |
| PA Local Government Investment Trust | 59% |
| PA School District Liquid Asset Fund | 41% |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

Internal Service Funds:

| | |
|--------------------------------------|-----|
| PA Local Government Investment Trust | 37% |
| PA School District Liquid Asset Fund | 63% |

100% of the investments of the business-type activities, the debt service fund, the scholarship fund, and the capital projects fund are with the PA Local Government Investment Trust.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investment subject to custodial credit risk.

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2014, was 19.0030 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2014, follows:

| | |
|--------------------------|---|
| July 1 | - Levy Date |
| July 1 - August 31 | - 2% Discount Period |
| September 1 - October 31 | - Face Payment Period |
| November 1 - December 31 | - 10% Penalty Period |
| January 1 | - Lien Date (Lancaster County Tax Claim Bureau) |

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements. The balances at June 30, 2014, are as follows:

| | Taxes Receivable | Revenue Recognized | Deferred Taxes |
|-----------------------|---------------------|-----------------------|-------------------|
| Real Estate Taxes | 1,115,460 | 319,392 | 796,068 |
| Realty Transfer Taxes | 59,820 | 59,820 | -0- |
| Earned Income Taxes | <u>1,409,999</u> | <u>1,409,999</u> | <u>-0-</u> |
| | 2,585,279 | 1,789,211 | 796,068 |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2014, are as follows:

| Fund | Due from Other Funds | Due to Other Funds |
|----------------------|-------------------------|-----------------------|
| General Fund | 83,627 | 443,273 |
| Food Service Fund | -0- | 83,627 |
| Capital Project Fund | <u>443,273</u> | <u>-0-</u> |
| | 526,900 | 526,900 |

A transfer is pending from the food service fund to the general fund to reimburse for salaries and benefits of food service employees paid for by the general fund. A transfer is pending from the general fund to the capital project fund to set aside resources for future capital expenditures.

Interfund transfers for the year ended June 30, 2014, are as follows:

| Fund | Transfers In | Transfers Out |
|----------------------|-------------------|-------------------|
| General Fund | 106,453 | 9,772,758 |
| Capital Project Fund | 3,404,152 | -0- |
| Child Care Fund | 9,643 | 106,453 |
| Debt Service Fund | <u>9,319,842</u> | <u>2,960,879</u> |
| | 12,840,090 | 12,840,090 |

Transfers are made between the child care fund to the general fund equal to each month's net operating income or loss of the child care fund. Transfers are made from the debt service fund to the capital project fund to fund construction costs with bond issuance proceeds. Transfers in the amount of \$9,319,842 are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers from the general fund to the capital reserve fund, a component of the capital project fund, in the amount of \$443,273 were made to provide resources for future capital expenditures.

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2014, the following amounts are due from other governmental units:

| Due From | General Fund and Governmental Activities |
|--------------------------|---|
| Federal Grants | 112,559 |
| State Retirement Subsidy | 1,659,483 |
| State FICA Subsidy | 277,550 |
| Lancaster-Lebanon IU #13 | 147,302 |
| Other Local Governments | <u>213,396</u> |
| | 2,410,290 |

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2014, is as follows:

| Historical Cost: | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|---|---------------------------------|--------------------|--------------------|----------------------------------|
| Capital Assets not Being Depreciated: | | | | |
| Land | 4,687,257 | -0- | -0- | 4,687,257 |
| Capital Assets Being Depreciated: | | | | |
| Building and Building Improvements | 183,003,836 | 2,162,889 | (175,332) | 184,991,393 |
| Furniture and Equipment | 24,521,827 | 1,046,048 | (1,664,389) | 23,903,486 |
| Vehicles | 518,517 | -0- | (17,480) | 501,037 |
| Total Cost | 208,044,180 | 3,208,937 | (1,857,201) | 209,395,916 |
| Accumulated Depreciation: | | | | |
| Building and Building Improvements | 48,609,562 | 4,255,840 | (64,033) | 52,801,369 |
| Furniture and Equipment | 11,963,751 | 1,787,941 | (1,613,210) | 12,138,482 |
| Vehicles | 377,955 | 28,861 | (15,732) | 391,084 |
| Total Accumulated Depreciation | 60,951,268 | 6,072,642 | (1,692,975) | 65,330,935 |
| Net Capital Assets Being Depreciated | 147,092,912 | (2,863,705) | (164,226) | 144,064,981 |
| Net Capital Assets | 151,780,169 | (2,863,705) | (164,226) | 148,752,238 |
| Construction in Progress | 781,575 | 4,513,973 | (501,082) | 4,794,466 |

Capital asset activity for business-type activities for the year ended June 30, 2014, is as follows:

| Historical Cost: | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|---|---------------------------------|------------------|------------------|----------------------------------|
| Capital Assets Being Depreciated: | | | | |
| Furniture and Equipment | 1,729,582 | 1,636 | -0- | 1,731,218 |
| Vehicles | 115,281 | -0- | -0- | 115,281 |
| Total Cost | 1,844,863 | 1,636 | -0- | 1,846,499 |
| Accumulated Depreciation: | | | | |
| Furniture and Equipment | 323,183 | 114,571 | -0- | 437,754 |
| Vehicles | 93,666 | 14,410 | -0- | 108,076 |
| Total Accumulated Depreciation | 416,849 | 128,981 | -0- | 545,830 |
| Net Capital Assets | 1,428,014 | (127,345) | -0- | 1,300,669 |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Depreciation expenses were charged to governmental functions as follows:

| | |
|---|------------------|
| Instruction | 4,060,421 |
| Instructional Student Support | 585,800 |
| Administrative and Financial Support Services | 705,717 |
| Operation and Maintenance of Plant Services | 162,272 |
| Unallocated Depreciation Expense | <u>558,432</u> |
| | 6,072,642 |

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2014, the School District was liable for \$5,245,024 of payroll, which is payable during July and August 2014, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2014, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses. The School District was also liable for the benefits on payroll paid prior to or accrued as of June 30, 2014.

Accrued salaries and benefits as of June 30, 2014, are as follows:

| | |
|-------------------|------------------|
| Accrued Salaries | 5,245,024 |
| Accrued Benefits: | |
| Retirement | 3,321,260 |
| Social Security | 391,362 |
| Other Benefits | <u>380,669</u> |
| | 9,338,315 |

NOTE 9 - UNEARNED REVENUES

Unearned revenues consist of the following as of June 30, 2014:

| | General Fund | Food Service Fund |
|--------------------------------|-------------------------|------------------------------|
| Unearned Grant Program Revenue | 29,009 | -0- |
| Other | 27,983 | -0- |
| Unused Donated Commodities | -0- | 13,737 |
| Prepaid Lunch Sales | <u>-0-</u> | <u>59,996</u> |
| | 56,992 | 73,733 |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2014, as follows:

| Issue | Final Maturity Date | Interest Rates | Principal Amount Outstanding at June 30, 2014 |
|------------------------|------------------------|-------------------|---|
| Series A of 2009 Bonds | October 15, 2014 | 4.00% | 4,760,000 |
| Series of 2010 Bonds | October 15, 2023 | 3.00% - 4.00% | 8,040,000 |
| Series A of 2010 Notes | April 15, 2030 | 2.70% - 4.05% | 8,045,000 |
| Series of 2011 Notes | October 15, 2023 | 2.50% - 3.25% | 3,185,000 |
| Series A of 2011 Bonds | October 15, 2021 | 3.00% - 4.00% | 8,050,000 |
| Series B of 2011 Bonds | August 1, 2025 | Variable | 25,280,000 |
| Series of 2012 Bonds | October 15, 2031 | 3.00% - 5.00% | 27,320,000 |
| Series A of 2012 Bonds | October 15, 2023 | 2.00% - 4.00% | 11,645,000 |
| Series of 2013 Bonds | April 15, 2032 | 0.65% - 4.00% | 8,795,000 |
| Series of 2014 Bonds | October 15, 2023 | 1.00% - 2.70% | 6,325,000 |
| Series A of 2014 Bonds | October 15, 2031 | 0.40% - 4.00% | <u>3,000,000</u> |
| | | | 114,445,000 |

On June 15, 2009, the School District issued Series of 2009 General Obligation Bonds of \$21,130,000. The proceeds were used to (1) refund the Series of 1998 General Obligation Bonds, (2) refund the Series A of 2001 General Obligation Bonds, (3) refund a portion of the Series B of 2003 General Obligation Bonds, and (4) pay the costs and expenses of issuing the Bonds. The Bonds were refunded during the year ended June 30, 2014, through the issuance of the Series 2014 General Obligation Bonds.

On September 15, 2009, the School District issued Series A of 2009 General Obligation Bonds of \$9,050,000 at a premium of \$1,063,080. The proceeds were used to refund the Series A 2003 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014, is \$4,760,000 due on October 15, 2014. Principal due within one year is \$4,760,000.

On May 10, 2010, the School District issued Series of 2010 General Obligation Bonds of \$8,060,000. The proceeds were used to refund the Series of 2005 General Obligation Bonds and pay the cost and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014, was \$8,040,000 due in various amounts through October 15, 2023. Principal due within one year is \$5,000.

On December 6, 2010, the School District issued the Series A of 2010 General Obligation Notes of \$8,555,000. The proceeds were used to currently refund the Series of 2006 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2014, was \$8,045,000 due in various amounts through April 15, 2030. Principal due within one year is \$5,000.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On June 13, 2011, the School District issued the Series of 2011 General Obligation Notes of \$3,445,000. The proceeds were used to currently refund a portion of the Series AA of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2014, was \$3,185,000 due in various amounts through October 15, 2023. Principal due within one year is \$5,000.

On June 13, 2011, the School District issued the Series A of 2011 General Obligation Bonds of \$8,190,000 at a premium of \$646,520. The proceeds were used to currently refund the remainder of the Series AA of 2004 General Obligation Bonds, to advance refund the Series A of 2006 General Obligation Notes, and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2014, was \$8,050,000 due in various installments from October 15, 2011 through October 15, 2021. Principal due within one year is \$40,000.

On December 14, 2011, the School District issued the Series B of 2011 General Obligation Bonds of \$25,285,000. A portion of the Bond proceeds was used to currently refund the Series A of 2007 General Obligation Notes and the Series B of 2010 General Obligation Notes. In addition, Bond proceeds were used to pay the costs and expenses of issuing the Bonds, construct renovations and additions to Landisville Elementary School, and other capital projects. The principal amount outstanding at June 30, 2014, was \$25,280,000 due in various amounts through August 1, 2025. Principal due within one year is \$5,000. Interest payments are due monthly. The interest rate for the Bonds is a variable rate which is calculated weekly based on 70% of the one-month LIBOR plus 0.68%. The variable interest rate will be remarketed as of December 31, 2014, as further outlined in the indenture. The interest rate shall not exceed 12%. The rate was 0.79% as of June 30, 2014.

On May 8, 2012, the School District issued the Series of 2012 General Obligation Bonds in the amount of \$27,320,000 at a premium of \$2,956,192. The Bonds were issued to provide funding for the construction of Landisville Elementary School, Farmdale Elementary School, and East Petersburg Elementary school and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014, was \$27,320,000 due in various amounts from October 2024 through October 15, 2031. There is no principal due within one year.

On May 8, 2012, the School District issued the Series A of 2012 General Obligation Bonds of \$12,385,000 at a premium of \$798,922. The proceeds were used to currently refund the Series A of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2014, was \$11,645,000 due in various installments from October 15, 2013 through October 15, 2023. Principal due within one year is \$1,025,000.

On February 15, 2013, the School District issued the Series of 2013 General Obligation Bonds of \$8,800,000 at a premium of \$681,502. The proceeds were used to provide funding for the construction of East Petersburg Elementary School and Farmdale Elementary School as well as other capital projects and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014, was \$8,795,000 due in various installments through April 15, 2032. Principal due within one year is \$5,000.

On February 11, 2014, the School District issued the Series of 2014 General Obligation Bonds of \$6,325,000 at a premium of \$98,677. The proceeds were used to refund the Series 2009 General Obligation Bonds as well as the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014 was \$6,325,000 due in various installments from October 15, 2014 through October 15, 2023. Principal due within one year is \$270,000. The purpose of the refunding was to achieve interest savings of \$377,673. The present value of the School District's savings amounts to \$369,308 over the term of the Bonds.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On February 11, 2014, the School District issued the Series A of 2014 General Obligation Bonds of \$3,000,000 at a premium of \$3,145. The proceeds were used to provide funding for the construction of Landisville Education Center as well as other capital projects and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2014, was \$3,000,000 due in various installments from October 15, 2015 through October 15, 2031. There is no principal due within one year.

Long-term obligation activity can be summarized as follows:

| | Balance | | | Balance |
|---------------------------------|----------------------|-------------------|---------------------|----------------------|
| | July 1, 2013 | Additions | Reductions | June 30, 2014 |
| Governmental Activities | | | | |
| General Obligation Debt | 116,925,000 | 9,325,000 | 11,805,000 | 114,445,000 |
| Bond Discount | (19,695) | -0- | (1,345) | (18,350) |
| Bond Premium | <u>5,079,974</u> | <u>101,822</u> | <u>734,023</u> | <u>4,447,773</u> |
| | 121,985,279 | 9,426,822 | 12,537,678 | 118,874,423 |
| Accrued Retirement Bonuses | 1,444,133 | -0- | 126,284 | 1,317,849 |
| Other Postretirement Benefits | 1,537,807 | 893,343 | 682,522 | 1,748,628 |
| Estimated Liability for | | | | |
| Compensated Absences | <u>2,914,558</u> | <u>-0-</u> | <u>64,364</u> | <u>2,850,194</u> |
| Total Governmental | | | | |
| Activities | 127,881,777 | 10,320,165 | 13,410,848 | 124,791,094 |
| Business-Type Activities | | | | |
| Accrued Retirement Bonuses | 6,660 | -0- | 315 | 6,345 |
| Estimated Liability for | | | | |
| Compensated Absences | <u>67,019</u> | <u>-0-</u> | <u>1,756</u> | <u>65,263</u> |
| Total Business-Type | | | | |
| Activities | <u>73,679</u> | <u>-0-</u> | <u>2,071</u> | <u>71,608</u> |
| Total Government | 127,955,456 | 10,320,165 | 13,412,919 | 124,862,702 |

The School District pays the long-term obligations of the governmental activities from the general fund, except for debt service. Debt service payments are paid from the debt service fund which is, however, funded by transfers from the general fund. All long-term debt of the business-type activities is paid from the food service fund.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

The following schedule reveals the annual aggregate debt service requirements to maturity for the general obligation debt:

| | Interest | Principal | Total |
|-------------|-------------------|--------------------|--------------------|
| 2015 | 3,568,625 | 6,120,000 | 9,688,625 |
| 2016 | 3,347,893 | 6,635,000 | 9,982,893 |
| 2017 | 3,183,723 | 5,490,000 | 8,673,723 |
| 2018 | 3,103,591 | 5,695,000 | 8,798,591 |
| 2019 | 3,005,980 | 5,930,000 | 8,935,980 |
| 2020 - 2024 | 12,808,454 | 32,880,000 | 45,688,454 |
| 2025 - 2029 | 8,441,437 | 28,845,000 | 37,286,437 |
| 2030 - 2032 | <u>1,886,354</u> | <u>22,850,000</u> | <u>24,736,354</u> |
| | 39,346,057 | 114,445,000 | 153,791,057 |

NOTE 11 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities and business-type activities for compensated absences is as follows as of June 30, 2014:

| | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| Accumulated Sick Leave | 2,247,774 | 51,008 |
| Accumulated Vacation Leave | 398,914 | 9,118 |
| Accumulated Personal Days | 160,696 | 4,124 |
| Employer Social Security and Medicare on Leave Amounts Above | <u>42,810</u> | <u>1,013</u> |
| | 2,850,194 | 65,263 |

NOTE 12 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus to be transferred into a TSA account. The accrual for estimated retirement benefits was \$1,324,194 at June 30, 2014. Of this liability, \$6,345 was attributed to business-type activities and \$1,317,849 was attributed to the governmental activities.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 13 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents the component of fund balance that is not in spendable form (such as inventory and prepaid items) or is required to be legally or contractually maintained intact. At June 30, 2014, the School District has the following nonspendable fund balance:

| | |
|----------------------|---------------|
| General Fund: | |
| Inventories | 17,394 |
| Prepaid Expenses | <u>14,096</u> |
| | 31,490 |

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At June 30, 2014, the School District has the following restricted balance:

| | |
|--|-----------|
| Capital Project Fund: | |
| Restricted for Future Capital Projects | 1,513,674 |

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. As of June 30, 2014, the School District has included the following as committed fund balances:

| | |
|--|------------------|
| General Fund: | |
| Committed for Prior Year Early Retirement Incentives | 200,000 |
| Committed to Offset Future Postemployment Benefit Expenditures | <u>1,800,000</u> |
| | 2,000,000 |

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or body to which the governing body delegates the authority. At June 30, 2014, the School District has the following as assigned fund balances:

| | |
|-----------------------------------|------------------|
| Debt Service Fund: | |
| Assigned for Debt Service Payment | 4,897,365 |
| Capital Project Fund: | |
| Assigned for Capital Outlays | 4,644,399 |
| General Fund: | |
| Transportation Department | 400,000 |
| One to One Initiative | <u>1,000,000</u> |
| | 1,400,000 |

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 14 - RISK MANAGEMENT

Hospitalization

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit #13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process, and pay the claims. The School District was limited in liability to \$150,000 per individual and \$12,893,220 in total for hospitalization claims for the year ended June 30, 2014.

A liability for claims incurred prior to June 30, 2014, and subsequently paid is recorded in the amount of \$914,000 in accounts payable in the internal service fund. For the year ended June 30, 2013, the liability for claims incurred prior to June 30, 2013, and subsequently paid was \$770,869.

Changes in the School District's claims liability amount in fiscal years 2014 and 2013 are:

| | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year End |
|-------------|---|---|---------------------------|---|
| 2012 - 2013 | 825,000 | 10,158,136 | 10,212,267 | 770,869 |
| 2013 - 2014 | 770,869 | 10,945,494 | 10,802,363 | 914,000 |

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for sixteen member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance thereof.

It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2014, the School District is not aware of any additional assessments relating to the Fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2014, and the two previous fiscal years, no settlements exceeded insurance coverage.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 15 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg PA 17108-0125. The CAFR is also available on the Publications page of the PSERS website.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees, by participating employers, and the Commonwealth. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members. Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001, and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. For fiscal year ended June 30, 2014, the rate of employer contribution was 16.93% of covered payroll. This rate is comprised of a pension contribution rate of 16.00% for pension benefits and .93% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is 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 employer rate. **Hempfield School District's** contributions to PSERS for the years ended June 30, 2014, 2013, and 2012, were \$8,404,114, \$6,046,639, and \$4,100,177, respectively. Those amounts are equal to the required contribution for each year.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

The School District follows the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The School District maintains a single employer defined benefit plan to provide postretirement health care and life insurance benefits to School District employees who, in most cases, have retired with at least 5 years of PSERS service or attained age 62 or older with at least 1 year of PSERS service. Such benefits are available to retirees and retiree dependents until the retired employee reaches age 65, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

Funding Policy

The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the Plan Administrator. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual cost for other postemployment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

| | |
|--|------------------|
| Annual Required Contribution (ARC) | 918,550 |
| Interest on Net OPEB Obligation | 69,201 |
| Adjustment to Annual Required Contribution | <u>(94,408)</u> |
| Annual OPEB Cost | 893,343 |
| Contributions Made (Estimate) | <u>(682,522)</u> |
| Estimated Increase in Net OPEB Obligation | 210,821 |
| Net OPEB Obligation - Beginning of Year | <u>1,537,807</u> |
| Net OPEB Obligation - End of Year | 1,748,628 |

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation- End of Year |
|----------------------|---------------------|--|--|
| June 30, 2012 | 958,848 | 79% | 1,253,584 |
| June 30, 2013 | 898,002 | 68% | 1,537,807 |
| June 30, 2014 | 893,343 | 76% | 1,748,628 |

Funding Status and Funding Progress

As of June 1, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$7,323,913, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,323,913. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$44,070,561, and the ratio of the UAAL to the covered payroll equaled 16.62%.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Status and Funding Progress (Continued)

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

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the School District maintains no Plan assets, information relative to Plan asset required disclosures is not applicable.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the School District and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the School District and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated June 1, 2012, the entry age normal cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) legally held exclusively for paying the postretirement medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 7.5% in the first year gradually decreasing by 0.5% per year to a rate of 5.5% in 2014. The rates continue to gradually decrease thereafter to 4.2% in 2089 based on the Society of Actuaries Long-Run Medical Cost Trend Model.

In the actuarial valuation dated June 1, 2012, the assumption for the percentage of spouses expected to remain on the retiree's health care has been adjusted from 50% to 40%, due to the spousal policy enacted by the School District during the year ended June 30, 2012.

NOTE 17 - DAYCARE OPERATIONS

The School District operates a day care center (the Center) housed on School District property. The School District entered into an agreement with Hildebrandt Learning Centers, LLC to staff and manage the operations of the Center which has a capacity of approximately 50 child care spaces. The School District receives any profits generated by the Center, but also has to make up for any losses. These operations are accounted for in the child care fund, a nonmajor proprietary fund.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 18 - CONTINGENCIES and COMMITMENTS

General

The School District is involved in various claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

Grant Revenue

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Transportation Contract

The School District has entered into an agreement for the transportation of school pupils with Student Transportation of America. The Agreement is for the period of July 1, 2014 through June 30, 2019. The contractor provides all equipment and labor necessary. The cost for the transportation services will be determined based on rate schedules included in the contract which are subject to annual increases ranging from 2.0% to 3.0% for the duration of the contract.

Collective Bargaining Agreement

The School District has entered into an agreement with the Hempfield Education Association. The Agreement is for the period of July 1, 2010 through June 30, 2015. The agreement stipulates the overall working conditions as well as the provisions for wages and employee benefits for the School District's professional staff for the term of the contract.

Capital Project - Landisville Intermediate Center

The School District is in the process of building a new alternative education and information technology center. As of June 30, 2014, the School District has incurred expenditures of approximately \$4.6 million related to this project. The School District has committed itself to construction contract balances as follows:

| | |
|----------------------|------------------|
| General Construction | 596,694 |
| HVAC | 224,377 |
| Plumbing | 81,594 |
| Electrical | <u>214,293</u> |
| | 1,116,958 |

To date, the School District expects to finance the remaining construction costs with the funds available in its capital project fund.

NOTE 19 - OPERATING LEASE

On September 22, 2011, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2011 to provide funds for renovations and additions to Brownstown, Mount Joy, and Willow Street campuses of the Lancaster County Career and Technology Center (LCCTC), for the purchase and renovation of property for a practical nursing program at the LCCTC, for various ongoing and proposed capital projects of the LCCTC, and for the payment and cost of issuing the Bonds. The LCCTC and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 19 - OPERATING LEASE (Continued)

based on real estate market values as set forth in the LCCTC Organization Agreement. The aggregate amount borrowed was \$23,890,000. The Bonds were issued in three different series over three years. The amount of each series could not exceed \$10,000,000 without the member schools' approval. The Bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000.

On June 29, 2012, the LCCTCA issued the first of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2012, in the total amount of \$9,995,000.

On September 30, 2013, the LCCTCA issued the second of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2013, in the total amount of \$9,995,000.

Subsequent to June 30, 2014, the LCCTCA issued the third of the three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2014, in the total amount of \$3,900,000.

The School District's lease rental obligation for future minimum rental payments related to all three bond issues is as follows:

| Fiscal Year Ended June 30, | Future Minimum \$23,890,000 Rental Payments | Maximum Bonds Outstanding \$43,000,000 Maximum Potential for Future Minimum Rental Payments |
|-------------------------------|---|--|
| 2015 | 150,187 | 454,966 |
| 2016 | 150,153 | 444,485 |
| 2017 | 150,019 | 437,505 |
| 2018 | 166,697 | 430,915 |
| 2019 | 166,506 | 424,676 |
| 2020 - 2024 | 832,956 | 2,033,638 |
| 2025 - 2029 | 832,802 | 1,889,789 |
| 2030 - 2034 | 833,100 | 1,689,075 |
| 2035 - 2037 | <u>499,450</u> | <u>821,685</u> |
| | 3,781,870 | 8,626,734 |

NOTE 20 - EARLY RETIREMENT INCENTIVE

During the year ended June 30, 2011, the School District offered an early retirement incentive (ERI) to its employees. Employees that elected to retire under this arrangement were offered a reduced rate for continued medical coverage. The following table summarizes the estimated continued participation in the School District's health plan by personnel electing the ERI and the annual estimated cost to the School District as a result of the ERI.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 20 - EARLY RETIREMENT INCENTIVE (Continued)

| Fiscal Year Ended | Number of ERI Participants | Estimated Annual Cost |
|-------------------|----------------------------|-----------------------|
| June 30, 2015 | 11 | 86,100 |
| June 30, 2016 | 8 | 75,700 |
| June 30, 2017 | 8 | <u>38,200</u> |
| | | 200,000 |

The Hempfield School Board has committed general fund balance in the amount of the expected future costs of \$200,000 as of June 30, 2014. The cost effect of this ERI is also reflected in the liability for postemployment health care benefits further described in Note 16. The School District based its cost estimate on the following inputs: (1) actuarially determined current monthly rate for single coverage of \$684, (2) participation until 65 with no assumed mortality, and (3) annual growth rate of health care cost of 23% which includes a provision to account for the hidden subsidy of higher health care cost associated with retirees. The estimate has not been discounted to present value.

Hempfield School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL - GENERAL FUND
Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget - Favorable (Unfavorable) |
|---|---------------------|---------------------|---------------------|---|
| REVENUES | Original | Final | Budgetary Basis | |
| Local Sources: | | | | |
| Real Estate Taxes | \$ 66,165,870 | \$ 66,165,870 | \$ 66,451,317 | \$ 285,447 |
| Other Taxes | 7,062,000 | 7,062,000 | 7,688,576 | 626,576 |
| Investment Earnings | 115,750 | 115,750 | 125,928 | 10,178 |
| Other Revenue | 2,359,600 | 2,359,600 | 2,295,091 | (64,509) |
| Total Local Sources | 75,703,220 | 75,703,220 | 76,560,912 | 857,692 |
| State Sources | 26,490,456 | 26,490,456 | 26,207,135 | (283,321) |
| Federal Sources | 1,750,000 | 1,750,000 | 1,576,149 | (173,851) |
| Total Revenues | 103,943,676 | 103,943,676 | 104,344,196 | 400,520 |
| EXPENDITURES | | | | |
| Instructional Services: | | | | |
| Regular Programs | 49,491,162 | 49,164,747 | 48,574,066 | 590,681 |
| Special Programs | 13,799,149 | 13,729,719 | 13,710,308 | 19,411 |
| Vocational Programs | 1,484,346 | 1,362,969 | 1,312,156 | 50,813 |
| Other Instructional Programs | 643,963 | 640,698 | 640,685 | 13 |
| Adult Education Programs | 6,050 | 2,594 | 2,593 | 1 |
| Support Services: | | | | |
| Pupil Personnel | 3,805,174 | 3,662,196 | 3,615,794 | 46,402 |
| Instructional Staff | 1,978,728 | 2,018,816 | 2,018,756 | 60 |
| Administrative | 5,017,324 | 4,718,334 | 4,647,665 | 70,669 |
| Pupil Health | 1,082,180 | 1,035,897 | 1,005,299 | 30,598 |
| Business | 1,230,639 | 1,267,569 | 1,267,552 | 17 |
| Operation of Plant and Maintenance | 7,686,290 | 8,448,500 | 8,448,414 | 86 |
| Student Transportation | 5,176,547 | 4,816,405 | 4,502,319 | 314,086 |
| Central and Other Business | 2,611,017 | 3,044,054 | 3,044,026 | 28 |
| Noninstructional | 1,593,730 | 1,676,142 | 1,676,030 | 112 |
| Total Expenditures | 95,606,299 | 95,588,640 | 94,465,663 | 1,122,977 |
| EXCESS of REVENUES over EXPENDITURES | 8,337,377 | 8,355,036 | 9,878,533 | 1,523,497 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt Service, Current | (9,589,821) | (9,580,737) | (9,319,844) | 260,893 |
| Other Fund Transfers | 1,255,000 | 1,255,000 | (346,461) | (1,601,461) |
| Refund of Prior Years' Revenues | -0- | (26,743) | (26,742) | 1 |
| Proceeds from Sale of Fixed Assets | 2,000 | 2,000 | 2,000 | -0- |
| Budgetary Reserve | (1,000,000) | (1,000,000) | -0- | 1,000,000 |
| Net Other Financing Uses | (9,332,821) | (9,350,480) | (9,691,047) | (340,567) |
| NET CHANGES in FUND BALANCES | \$ (995,444) | \$ (995,444) | 187,486 | \$ 1,182,930 |
| FUND BALANCES | | | | |
| Beginning | | | 9,592,284 | |
| Ending | | | \$ 9,779,770 | |

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

Hempfield School District follows the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. Under Act I requirements, management submits to the School Board a preliminary budget for adoption 90 days prior to the primary election, and then a final budget for adoption on or before June 30, 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.
2. Public meetings are conducted to obtain taxpayer comments for both the preliminary and final budget adoption process. The proposed budgets are made available to the public 20 days before each adoption date, and are advertised 10 days before each adoption date.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year.
7. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

Hempfield School District
 SCHEDULE of FUNDING PROGRESS -
 OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
 POSTRETIREMENT HEALTH CARE BENEFITS PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a] / c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| June 1, 2008 | -0- | 6,160,558 | 6,160,558 | 0.00% | 39,070,549 | 15.77% |
| June 1, 2010 | -0- | 8,015,221 | 8,015,221 | 0.00% | 42,866,047 | 18.70% |
| June 1, 2012 | -0- | 7,323,913 | 7,323,913 | 0.00% | 44,070,561 | 16.62% |

See independent auditors' report.

Hempfield School District
SCHEDULE of EMPLOYER CONTRIBUTIONS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN

| Fiscal Year Ended | Annual OPEB Cost | Percentage Contributed |
|------------------------------|-----------------------------|-----------------------------------|
| June 30, 2012 | 958,848 | 79.00% |
| June 30, 2013 | 898,002 | 68.00% |
| June 30, 2014 | 893,343 | 76.00% |

See independent auditors' report.

Hempfield School District

NOTES to REQUIRED SUPPLEMENTARY INFORMATION -

The information presented on the required supplementary schedules on pages 64 and 65 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

| Valuation Dates | June 1, 2012 | June 1, 2010 | June 1, 2008 |
|--|---|---|---|
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Dollar Method | Level Dollar Method | Level Dollar Method |
| Amortization Period | 30 Years | 30 Years | 30 Years |
| Discount Rate | 4.5% | 4.5% | 4.5% |
| Mortality | Same as Rates in the PSERS Actuarial Valuation | Same as Rates in the PSERS Actuarial Valuation | Same as Rates in the PSERS Actuarial Valuation |
| Retirement | Retirement Rate Based on PSERS Plan Experience | Retirement Rate Based on PSERS Plan Experience | Retirement Rate Based on PSERS Plan Experience |
| Coverage Election | | | |
| Administrators | 100% | 100% | 100% |
| HEA Professional Staff | 70% | 70% | 70% |
| Support Staff | 35% | 35% | 35% |
| Percent Married with Election of Spousal Coverage by Plan | 40% | 50% | 50% |
| Per Capita Claims Cost: | | | |
| Female (Age 45 - 65+) | \$8,147 - \$14,167 | \$7,351 - \$12,782 | \$6,607 - \$11,053 |
| Male (Age 45 - 65+) | \$5,641 - \$15,205 | \$5,090 - \$13,718 | \$4,757 - \$11,819 |
| Demographic Information: | | | |
| Active Participants | 826 | 830 | 786 |
| Retired Participants | <u>87</u> | <u>78</u> | <u>77</u> |
| Total Participants | 913 | 908 | 863 |
| Health Care Cost Trend Rate | 7.5% decreasing to 5.5% in 2016 and to 4.2% in 2089 | 7.5% decreasing to 5.5% in 2014 and to 4.2% in 2099 | 8.5% decreasing to 0.5% a year to 5.0% to in 2015 and later |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Accordingly, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective, and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of cost-sharing between the employer and plan members at the time of the valuations.

See independent auditors' report.

Hempfield School District
 COMBINING BALANCE SHEET SCHEDULE - CAPITAL PROJECT FUND
 June 30, 2014

| | Capital Reserve Fund | Construction Fund | Total Capital Project Fund |
|--|----------------------------|----------------------------|-------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 3,831,651 | \$ 2,195,763 | \$ 6,027,414 |
| Investments | 369,475 | -0- | 369,475 |
| Due from Other Funds | 443,273 | -0- | 443,273 |
| TOTAL ASSETS | <u>4,644,399</u> | <u>2,195,763</u> | <u>6,840,162</u> |
| LIABILITIES and FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts Payable | -0- | 682,089 | 682,089 |
| FUND BALANCES | | | |
| Restricted | -0- | 1,513,674 | 1,513,674 |
| Assigned | 4,644,399 | -0- | 4,644,399 |
| TOTAL FUND BALANCES | <u>4,644,399</u> | <u>1,513,674</u> | <u>6,158,073</u> |
| TOTAL LIABILITIES and FUND BALANCES | <u>\$ 4,644,399</u> | <u>\$ 2,195,763</u> | <u>\$ 6,840,162</u> |

See independent auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
CAPITAL PROJECT FUND
Year Ended June 30, 2014

| | Capital Reserve Fund | Construction Fund | Total Capital Project Fund |
|---|----------------------------|----------------------------|-------------------------------|
| REVENUES | | | |
| Local Sources: | | | |
| Investment Earnings | \$ 11,754 | \$ 10,325 | \$ 22,079 |
| EXPENDITURES | | | |
| Capital Outlay | <u>154,244</u> | <u>6,144,378</u> | <u>6,298,622</u> |
| DEFICIENCY of REVENUES OVER EXPENDITURES | (142,490) | (6,134,053) | (6,276,543) |
| OTHER FINANCING SOURCES | | | |
| Transfers In | 443,273 | 2,960,879 | 3,404,152 |
| Proceeds from Sale of Fixed Assets | <u>10,000</u> | <u>-0-</u> | <u>10,000</u> |
| Total Other Financing Sources | <u>453,273</u> | <u>2,960,879</u> | <u>3,414,152</u> |
| NET CHANGES in FUND BALANCES | 310,783 | (3,173,174) | (2,862,391) |
| FUND BALANCES | | | |
| Beginning | <u>4,333,616</u> | <u>4,686,848</u> | <u>9,020,464</u> |
| Ending | <u>\$ 4,644,399</u> | <u>\$ 1,513,674</u> | <u>\$ 6,158,073</u> |

See independent auditors' report.

Hempfield School District
 COMBINING SCHEDULE of NET POSITION -
 INTERNAL SERVICE FUNDS
 June 30, 2014

| | Hospitalization Fund | Retirement Benefit Reserve Fund | Workers' Compensation Fund | Unemployment Compensation Fund | Total Internal Service Funds |
|----------------------------|---------------------------------|--|---|---|---|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Cash | | | | | |
| Equivalents | \$ 1,035,385 | \$ -0- | \$ -0- | \$ -0- | \$ 1,035,385 |
| Investments | 2,532,016 | 5,119,559 | 247,685 | 222,060 | 8,121,320 |
| Other Receivables | <u>1,135</u> | <u>5,355</u> | <u>-0-</u> | <u>-0-</u> | <u>6,490</u> |
| TOTAL ASSETS | <u>3,568,536</u> | <u>5,124,914</u> | <u>247,685</u> | <u>222,060</u> | <u>9,163,195</u> |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | <u>914,000</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>914,000</u> |
| NET POSITION | | | | | |
| Unrestricted | <u>\$ 2,654,536</u> | <u>\$5,124,914</u> | <u>\$ 247,685</u> | <u>\$ 222,060</u> | <u>\$ 8,249,195</u> |

See independent auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET POSITION -
INTERNAL SERVICE FUNDS
Year Ended June 30, 2014

| | Hospitalization Fund | Retirement Benefit Reserve Fund | Workers' Compensation Fund | Unemployment Compensation Fund | Total Internal Service Funds |
|------------------------------------|-------------------------|---------------------------------------|----------------------------------|--------------------------------------|---------------------------------|
| OPERATING REVENUES | | | | | |
| Charges for Services | \$ 11,672,124 | \$ -0- | \$ -0- | \$ -0- | \$ 11,672,124 |
| OPERATING EXPENSES | | | | | |
| Employee Benefits | <u>11,788,900</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>11,788,900</u> |
| OPERATING LOSS | (116,776) | -0- | -0- | -0- | (116,776) |
| NONOPERATING REVENUES | | | | | |
| Investment Earnings | <u>4,337</u> | <u>13,949</u> | <u>1,042</u> | <u>572</u> | <u>19,900</u> |
| CHANGES in NET POSITION | (112,439) | 13,949 | 1,042 | 572 | (96,876) |
| NET POSITION | | | | | |
| Beginning | <u>2,766,975</u> | <u>5,110,965</u> | <u>246,643</u> | <u>221,488</u> | <u>8,346,071</u> |
| Ending | <u>\$ 2,654,536</u> | <u>\$ 5,124,914</u> | <u>\$ 247,685</u> | <u>\$ 222,060</u> | <u>\$ 8,249,195</u> |

See independent auditors' report.

Hempfield School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2014

| Federal Grantor Project Title | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/ Ending Date | Grant Amount | Accrued (Deferred) Revenue at July 1, 2013 | Total Received for the Year | Expenditures | Accrued (Deferred) Revenue at June 30, 2014 |
|--|----------------|---------------------------|-------------------------------------|---|-----------------|---|-----------------------------------|-------------------|--|
| U.S. Department of Agriculture | | | | | | | | | |
| Passed Through the Pennsylvania Department of Education: | | | | | | | | | |
| School Breakfast Program (Note 2) | I | 10.553 | N/A | 07/01/13 - 06/30/14 | N/A | \$ -0- | \$ 168,176 | \$ 172,920 | \$ 4,744 |
| School Breakfast Program (Note 2) | I | 10.553 | N/A | 07/01/12 - 06/30/13 | N/A | 5,442 | 5,442 | -0- | -0- |
| National School Lunch Program (Note 2) | I | 10.555 | N/A | 07/01/13 - 06/30/14 | N/A | -0- | 810,453 | 829,248 | 18,795 |
| National School Lunch Program (Note 2) | I | 10.555 | N/A | 07/01/12 - 06/30/13 | N/A | <u>22,793</u> | <u>22,793</u> | <u>-0-</u> | <u>-0-</u> |
| Total Passed Through the Pennsylvania Department of Education | | | | | | 28,235 | 1,006,864 | 1,002,168 | 23,539 |
| Passed Through the Pennsylvania Department of Agriculture: | | | | | | | | | |
| National School Lunch Program (Notes 2 and 3) | I | 10.555 | N/A | 07/01/13 - 06/30/14 | N/A | <u>(9,441) A)</u> | <u>161,438 B)</u> | <u>157,142 C)</u> | <u>(13,737) D)</u> |
| Total U.S. Department of Agriculture | | | | | | 18,794 | 1,168,302 | 1,159,310 | 9,802 |
| General Services Administration | | | | | | | | | |
| Passed Through the Pennsylvania Department of General Services: | | | | | | | | | |
| Donation of Federal Surplus Personal Property | I | 39.003 | | 07/01/13 - 06/30/14 | 440 | \$ -0- | \$ 440 | \$ 440 | \$ -0- |

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

| Federal Grantor Project Title | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/ Ending Date | Grant Amount | Accrued (Deferred) Revenue at July 1, 2013 | Total Received for the Year | Expenditures | Accrued (Deferred) Revenue at June 30, 2014 |
|---|----------------|---------------------------|-------------------------------------|---|-----------------|---|-----------------------------------|---------------------|--|
| U.S. Department of Education | | | | | | | | | |
| Passed Through the Pennsylvania Department of Education: | | | | | | | | | |
| Title I Grants to Local Educational Agencies | I | 84.010 | 013-140189 | 09/03/13 - 09/30/14 | 497,590 | \$ -0- | \$ 499,439 | \$ 489,790 | \$ (9,649) |
| English Language Acquisition Grants | I | 84.365 | 010-140189 | 09/03/13 - 09/30/14 | 71,145 | -0- | 60,200 | 71,145 | 10,945 |
| Improving Teacher Quality State Grants | I | 84.367 | 020-140189 | 09/03/13 - 09/30/14 | 191,167 | -0- | 176,623 | 183,904 | 7,281 |
| Improving Teacher Quality State Grants | I | 84.367 | 020-130189 | 08/23/12 - 09/30/13 | 198,892 | (9,901) | -0- | 9,901 | -0- |
| Striving Readers | I | 84.371 | 143-130188 | 10/01/13 - 09/30/14 | 861,263 | 0 | 574,175 | 668,508 | 94,333 |
| Striving Readers | I | 84.371 | 143-120188 | 04/05/12 - 09/30/13 | 999,841 | <u>180,378</u> | <u>333,280</u> | <u>152,902</u> | <u>-0-</u> |
| Total Passed Through the Pennsylvania Department of Education | | | | | | 170,477 | 1,643,717 | 1,576,150 | 102,910 |
| Passed Through the Lancaster-Lebanon Intermediate Unit #13: | | | | | | | | | |
| Special Education - Grants to States (Note 2) | I | 84.027 | 062-140013 | 07/01/13 - 09/30/14 | 1,207,484 | -0- | 1,207,484 | 1,207,484 | -0- |
| Special Education - Grants to States (Note 2) | I | 84.027 | 062-130013 | 07/01/13 - 09/30/14 | 1,295,532 | 1,054,710 | 1,054,710 | -0- | -0- |
| Special Education - Preschool Grants (Note 2) | I | 84.173 | 131-130013 | 07/01/12 - 06/30/13 | 8,533 | <u>-0-</u> | <u>-0-</u> | <u>5,106</u> | <u>5,106</u> |
| Total Passed Through the Lancaster-Lebanon Intermediate Unit #13 | | | | | | \$ 1,054,710 | \$ 2,262,194 | \$ 1,212,590 | \$ 5,106 |

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

| Federal Grantor Project Title | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/ Ending Date | Grant Amount | Accrued (Deferred) Revenue at July 1, 2013 | Total Received for the Year | Expenditures | Accrued (Deferred) Revenue at June 30, 2014 |
|---|----------------|---------------------------|-------------------------------------|---|-----------------|---|-----------------------------------|---------------------|--|
| Total U.S. Department of Education | | | | | | <u>1,225,187</u> | <u>3,905,911</u> | <u>2,788,740</u> | <u>108,016</u> |
| TOTAL EXPENDITURES of FEDERAL AWARDS | | | | | | <u>\$ 1,243,981</u> | <u>\$ 5,074,653</u> | <u>\$ 3,948,490</u> | <u>\$ 117,818</u> |

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - CLUSTER IDENTIFICATION

| Project Title | Federal CFDA Number | Cluster |
|--------------------------------------|---------------------------|----------------------------------|
| School Breakfast Program | 10.553 | Child Nutrition Cluster |
| National School Lunch Program | 10.555 | Child Nutrition Cluster |
| Special Education - Grants to States | 84.027 | Special Education Cluster (IDEA) |
| Special Education - Preschool Grants | 84.173 | Special Education Cluster (IDEA) |

NOTE 3 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

- A) Beginning inventory at July 1.
- B) Total amount of commodities received from the Department of Agriculture.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2014, was \$236,486. Of this amount, \$140,000 is listed on the PDE confirmation as program #044-007189 and \$96,486 was received through the Lancaster-Lebanon Intermediate Unit #13.

See independent auditors' report.

**INDEPENDENT AUDITORS' 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**

To the Board Officers and Members
Hempfield School District
Lancaster County, 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 **Hempfield School District**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Hempfield School District's** basic financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

October 29, 2014
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for each MAJOR PROGRAM and on INTERNAL CONTROL
over COMPLIANCE as REQUIRED by OMB CIRCULAR A-133**

To the Board Officers and Members
Hempfield School District
Lancaster County, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited **Hempfield School District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Hempfield School District's** major federal programs for the year ended June 30, 2014. **Hempfield School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Hempfield School District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Hempfield School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, **Hempfield School District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of **Hempfield School District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Hempfield School District's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Hempfield School District's** internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

October 29, 2014
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2014

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of **Hempfield School District**.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of **Hempfield School District** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for **Hempfield School District** expresses an unmodified opinion.
6. Audit findings relative to the major federal award programs for **Hempfield School District** are reported in part C of this schedule.
7. The programs tested as major programs are: Title I - Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, and Special Education - Preschool Grants - CFDA #84.173.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Hempfield School District** was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None

Hempfield School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

Compliance Finding

#2013-1 - English Language Acquisition Grants - CFDA #84.365, Grant Number 010-130189, year ended June 30, 2013.

The School District did not conduct timely and meaningful consultations with all private school officials.

Recommendation: Procedures should be established to ensure that the School District engages in timely and meaningful consultation with private school officials and maintains documentation to support this timely and meaningful consultation.

Current Status: The School District correctly demonstrated that letters are being sent to eligible private school children and teachers in a timely and meaningful manner. These letters are being kept on file as support for their compliance with this requirement.