

Hempfield School District

Year Ended June 30, 2018



TROUT, EBERSOLE & GROFF_{LLP}

CPAs | BUSINESS ADVISORS

SERVICE | ANSWERS | TRUST

Hempfield School District
 Financial Statements with Supplementary Information
 Year Ended June 30, 2018

TABLE of CONTENTS

	Page
Independent Auditors' Report	1 - 3
Required Supplementary Information	
Management's Discussion and Analysis	4 - 14
Basic Financial Statements	
Statement of Net Position	15 & 16
Statement of Activities	17 & 18
Balance Sheet - Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22 & 23
Statement of Net Position - Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	26 & 27
Statement of Net Position - Fiduciary Funds	28
Statement of Changes in Net Position - Fiduciary Funds	29
Notes to Financial Statements	30 - 67
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	68

Hempfield School District
 Financial Statements with Supplementary Information
 Year Ended June 30, 2018

TABLE of CONTENTS
 (Continued)

	Page
Required Supplementary Information (Continued)	
Notes to Required Supplementary Information	69
Schedule of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios - Single-Employer Defined Benefit OPEB Plan	70
Notes to Required Supplementary Information - Single-Employer Defined Benefit OPEB Plan	71
Schedule of Employer Contributions - Public School Employee's Retirement System (PSERS) Health Insurance Premium Assistance Plan	72
Schedule of the School District's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability - PSERS Health Insurance Premium Assistance Plan	73
Notes to Required Supplementary Information - PSERS Health Insurance Premium Assistance Plan	74
Schedule of School District's Proportionate Share of the Net Pension Liability - Public School Employees' Retirement System	75
Schedule of Employer Contributions - Public School Employees' Retirement System	76
Notes to Required Supplementary Information	77
Supplementary Information	
Schedule of Expenditures of Federal Awards	78 - 80
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 <i>Government Auditing Standards</i>	81 & 82
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance	83 & 84
Schedule of Findings and Questioned Costs	85 - 87
Summary Schedule of Prior Audit Findings	88

Hempfield School District
Financial Statements with Supplementary Information
Year Ended June 30, 2018

TABLE of CONTENTS
(Continued)

	Page
Supplementary Information (Continued)	
Corrective Action Plan	89 & 90

INDEPENDENT AUDITORS' REPORT

To the Board of School Directors
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**, (the School District) as of and for the year ended June 30, 2018, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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.

SERVICE | ANSWERS | TRUST

LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • Fax 717-569-0141

CAPITAL REGION OFFICE: 5000 Ritter Road, Suite 104, Mechanicsburg, PA 17055 • 717-697-2900 • Fax 717-697-2002

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, 2018, 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.

Change in Accounting Principle

As described in Note 22 to the financial statements in 2018, **Hempfield School District** adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 68 and 69, the other postemployment benefits (OPEB) health care benefits plan information on pages 70 through 74, and the pension information on pages 75 through 77, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **Hempfield School District's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Hempfield School District's** internal control over financial reporting and compliance.

December 3, 2018
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2018

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, 2018. 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 as a whole to enhance the understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 are as follows:

- The School District's financial statements for June 30, 2018, reflect the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, an Amendment of GASB Statement No. 45*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments. This standard requires the School District to record both the liability of the single-employer defined benefit OPEB plan as well as inclusion of the School District's proportionate share of PSERS Premium Assistance plan which is a cost sharing, multiple-employment program. Both plans are available to eligible retirees. The single-employer plan provides medical benefits to School District employees until age 65. The multiple-employer defined benefit plan provides health insurance premium assistance to eligible employees. Similar to GASB 68 which requires recognition of pension liability, the financial statements also include OPEB liability, OPEB expense, and OPEB deferred inflows and outflows of resources on government-wide and proprietary fund financial statements. As disclosed in the footnotes, the beginning net position has been restated for July 1, 2017, to record the cumulative effect of the change in this accounting principle. The 2017 amounts in this management's discussion and analysis have been restated to achieve comparability.
- Total governmental and business-type assets decreased \$2.9 million to \$182.2 million. Cash and investment balances increased \$.3 million while the value of net capital assets declined \$3.7 million primarily as a result of \$5.9 million of depreciation expense with \$2.5 million of capital additions placed into service during the fiscal year. Total governmental and business-type liabilities increased by \$7.8 million due to the recognition of an additional \$14.3 million in net OPEB liability. Bonds payable, net of unamortized discount and premium decreased \$6.0 million.
- Total governmental activities revenues totaled \$119.7 million. General revenues accounted for \$97.0 million, or 81% of this total, while program specific charges for services, grants, or contributions represented \$22.7 million or 19%. Revenues increased \$2.1 million from last year. Total tax revenues increased \$1.3 million while investment earnings increased \$300,000.
- The School District had \$122.3 million in expenses related to governmental activities; \$22.7 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$81.7 million of taxes, provided for these expenses. Net position decreased by \$2.6 million for governmental activities primarily due to pension and OPEB expenses of approximately \$5.4 million that are recorded on the government-wide financial statements as a result of GASB 68 and 75 but are not recognized in the fund financial statements.
- Among major funds, the general fund had \$119.7 million in revenues and \$120.4 million in expenditures and transfers. This resulted in a decrease of \$.7 million in the general fund balance, decreasing the general fund's fund balance to \$14.0 million.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

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 first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. Fund financial statements provide the next level of detail. For governmental funds, these 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 including proprietary and fiduciary fund statements. 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 6. 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 position 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-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 19 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.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

USING THIS ANNUAL REPORT (Continued)

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

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 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 activities (reported in the statement of net position 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

Statement of Net Position

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 2018 compared to 2017:

Table 1
Net Position at June 30
(In Millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Assets						
Current and Other Assets	45.5	45.0	(.4)	(.4)	45.1	44.6
Noncurrent Assets	<u>136.2</u>	<u>139.5</u>	<u>.9</u>	<u>1.0</u>	<u>137.1</u>	<u>140.5</u>
Total Assets	181.7	184.5	.5	.6	182.2	185.1
Deferred Outflow of Resources	33.5	39.4	.7	.8	34.2	40.2
Liabilities						
Current Liabilities	24.2	24.1	.1	.1	24.3	24.2
Noncurrent Liabilities	<u>302.6</u>	<u>309.0</u>	<u>4.3</u>	<u>4.3</u>	<u>306.9</u>	<u>313.3</u>
Total Liabilities	326.8	333.1	4.4	4.4	331.2	337.5

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Net Position (Continued)

Table 1
Net Position at June 30
(In Millions)
(Continued)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Deferred Inflows of Resources	2.1	1.7	.0	.0	2.1	1.7
Net Position						
Net Investment in Capital Assets	41.0	38.7	.9	1.0	41.9	39.7
Unrestricted (Deficit)	<u>(154.7)</u>	<u>(149.8)</u>	<u>(4.1)</u>	<u>(4.1)</u>	<u>(158.8)</u>	<u>(153.9)</u>
Total Net Position	(113.7)	(111.1)	(3.2)	(3.1)	(116.9)	(114.2)

Analysis of Table 1:

The School District's combined total net position reflects aggregated total liabilities and deferred inflow balances which exceed combined total asset and deferred outflow balances by \$116.9 million on June 30, 2018. Because the net pension liability and the net OPEB liability as required by GASB 68 and GASB 75, respectively, are included in the long-term liabilities, the result is a negative net position for both fiscal years. Recognizing the School District's proportionate share of these liabilities and the related deferred inflows and outflows adds a net liability to the government wide financial statements in the amount of \$182.4 million for 2018.

Governmental Activities

- Current assets increased \$.5 million which was primarily due to a \$.3 million increase in cash and investments.
- Noncurrent assets decreased \$3.3 million, from \$139.5 million to \$136.2 million. This decrease reflects both the addition of new assets as well as the disposition of assets no longer in use and the recognition of annual depreciation expense.

Business-Type Activities

- Net position of the business-type activities decreased \$138,000. Included in the decreased net position was depreciation of \$102,000, net pension expense recognized in the amount of \$103,000 and \$6,000 of additional OPEB expense.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

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			
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for Services	1.4	1.4	2.0	1.9	3.4	3.3
Operating Grants	20.3	19.7	1.7	1.6	22.0	21.3
Capital Grants	1.0	1.3	.0	.0	1.0	1.3
General Revenues:						
Property and Other Taxes	81.7	80.5	.0	.0	81.7	80.5
Grants and Entitlements	14.4	14.2	.0	.0	14.4	14.2
Other	<u>.9</u>	<u>.5</u>	<u>.0</u>	<u>.0</u>	<u>.9</u>	<u>.5</u>
Total Revenues	<u>119.7</u>	<u>117.6</u>	<u>3.7</u>	<u>3.5</u>	<u>123.4</u>	<u>121.1</u>
Expenses						
Program Expenses:						
Instruction	84.2	82.7	.0	.0	84.2	82.7
Support Services:						
Instructional Student Support	9.2	9.5	.0	.0	9.2	9.5
Administrative and Financial						
Support Services	10.5	11.1	.0	.0	10.5	11.1
Operation and Maintenance of						
Plant Services	7.9	8.4	.0	.0	7.9	8.4
Pupil Transportation	5.1	4.9	.0	.0	5.1	4.9
Student Activities	2.0	1.9	.0	.0	2.0	1.9
Interest on Long-Term Debt	2.5	2.5	.0	.0	2.5	2.5
Unallocated Depreciation Expense	.9	.8	.0	.0	.9	.8
Food Service and Day Care Operations	<u>.0</u>	<u>.0</u>	<u>3.8</u>	<u>3.8</u>	<u>3.8</u>	<u>3.8</u>
Total Expenses	<u>122.3</u>	<u>121.8</u>	<u>3.8</u>	<u>3.8</u>	<u>126.1</u>	<u>125.6</u>
Decrease in Net Position	(2.6)	(4.2)	(.1)	(.3)	(2.7)	(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, 2018

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	
	2018	2017	2018	2017
Instruction	84.2	82.7	68.7	67.4
Support Services:				
Instructional Student Support	9.2	9.5	8.1	8.3
Administrative and Financial Support Services	10.5	11.1	9.4	9.9
Operation and Maintenance of Plant Services	7.9	8.4	7.3	7.8
Pupil Transportation	5.1	4.9	2.8	2.7
Student Activities	2.0	1.9	1.0	1.3
Interest on Long-Term Debt	2.5	2.5	1.5	1.2
Unallocated Depreciation Expense	<u>.9</u>	<u>.8</u>	<u>.9</u>	<u>.8</u>
Total Governmental Activities	122.3	121.8	99.7	99.4

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, admission paid to athletic events, and transportation services provided to other local LEA's.
- 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. The community, as a whole, is by far the primary financial support for Hempfield School District.

- Property, earned income, and other taxes provided \$81.7 million, or 84.2% of the \$97.0 million general governmental revenues. Program related grants, subsidies and charges for services provided \$22.7 million of funding for program expenses, and \$14.4 million of additional grants, subsidies, interest, and other revenues provided for other expenses after the offset of asset disposals.
- Overall tax revenues increased \$1.3 million due to the increase of property tax revenue. The millage applied to the assessed valuation increased from 20.1246 in 2016-2017 to 20.3258 in 2017-2018, a 1.0% index-based increase.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

THE SCHOOL DISTRICT as a WHOLE (Continued)

Governmental Activities (Continued)

Total expenses for governmental activities have increased by \$0.5 million. Salary and benefit increases led to increased expenses of \$1.4 million. PSERS retirement costs continue to rise leading to increased expenses of approximately \$1.5 million. The employer rate increased from 30.03% in 2016-2017 to 32.57% in 2017-2018. Although health care costs are still increasing, changes made to the pharmaceutical plan have resulted in pharmacy rebates leading to an overall decrease in medical costs of \$360,000.

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 \$3.2 million, and expenses of \$3.4 million for the fiscal year 2018, which resulted in a loss of approximately \$144,000 for food service operations. Of this amount, \$102,000 represents depreciation expense and \$109,000 as additional pension and OPEB expenses. Therefore on a cash basis, food service recognized operating income of approximately \$67,000 which is a significant improvement over losses sustained in recent years. It remains a challenge but is still the goal that the food service operations continue to be able to operate in the positive and not need to rely on support from the general fund. Child care operations during 2017-2018 has resulted in a final profit of \$111,000, excluding transfers, for 2017-2018.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds starts on page 19. The governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had total revenues of \$119.7 million and expenditures of \$119.4 million, resulting in an increase to total fund balances of \$356,000.

General Fund

The general fund balance decreased by \$651,000 to a total of \$14.0 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. \$4.0 million has been committed to manage future increases in retirement contributions to PSERS, and \$1.0 million has been assigned for future capital projects. This leaves approximately \$9.0 million remaining as unassigned fund balance.

With these transactions recorded, the unassigned fund balance test yields a 7.5% fund balance against the 2017-2018 budgeted expenditures, which is within the 8% legal restriction. The assigned, committed 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.

Debt Service Fund

The debt service fund had a net increase of \$53,000 this year, leaving the ongoing fund balance at \$4.4 million. As historic low interest rates continued, the School District was able to manage 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. As interest

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

THE SCHOOL DISTRICT'S FUNDS (Continued)

Debt Service Fund (Continued)

rates have now begun to increase, the variable rate debt has a mandatory tender in August, 2019, at which time the School District will consider the options available.

Capital Project Fund

The capital reserve fund balance increased by about \$1.0 million to \$5.7 million. The School District utilizes capital reserve funds for spending needs related to major repair and small construction projects identified in a five year plan. Capital expenditures were \$2.0 million. Renovation of the athletic quad turf cost \$1.4 million, of which \$494,000 was reimbursed by the community soccer club. Boiler and HVAC upgrades as well as several renovations in the high school were the most significant expenditures incurred in order to extend the useful lives of the assets.

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 year 2018, 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 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.

For the general fund, actual revenues were \$119.7 million, which was approximately \$1.7 million more than the original budget estimates for revenues. Local sourced revenues were \$.9 million higher than budget. The transportation contracts with other LEA's have provided a greater source of local funding. State revenues of \$32.2 million were comparable to budget while federal revenues were \$.6 million higher than budget.

Actual expenditures for the year were \$120.4 million, \$108.8 million of that amount for instructional and operational expenses and \$11.6 million for fund transfers and debt service. These amounts were about \$2.1 more than the budgeted expenses.

CAPITAL ASSETS and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the School District had \$135.7 million invested in land, buildings, equipment, vehicles, and construction in progress with \$136.7 million in combined governmental activities. Table 4 shows the fiscal year 2018 balance compared to 2017.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

CAPITAL ASSETS and DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	4.7	4.7	.0	.0	4.7	4.7
Building and Building Improvements	120.2	122.3	.0	.0	120.2	122.3
Furniture, Equipment, and Vehicles	10.8	12.2	1.0	1.0	11.8	13.2
Construction in Progress	<u>.0</u>	<u>.3</u>	<u>.0</u>	<u>.0</u>	<u>.0</u>	<u>.3</u>
Total Capital Assets	135.7	139.5	1.0	1.0	136.7	140.5

Property and equipment additions were \$2.4 million for the year 2017-2018. There are no major building projects on the horizon, the focus now is on upgrades to existing systems to extend the useful lives of School District buildings. Annual depreciation expense of \$5.9 million was recorded.

Debt Administration

Because the Federal tax reform eliminated tax-exempt advance refundings, in December 2017, the School District executed a forward interest swap agreement with a bank counterparty intended to hedge interest rate risk on the future issuance of bonds to refund the outstanding 2012 and 2012A bonds. The swap agreement will terminate in April 2020. The School District will continue to work closely with financial investors to monitor the fair value of the interest rate swap.

At June 30, 2018, the School District had \$92.2 million in bonds outstanding, with \$5.7 million in principal due within one year. Table 5 summarizes bonds outstanding:

Table 5
Outstanding Debt at Year End
(In Millions)

	Governmental Activities	
	2018	2017
General Obligation Bonds:		
2012 Bond Financing	24.7	24.7
2012A Note Refinancing	7.4	8.5
2013 Bond	.5	.5
2014 Bond	4.2	4.8
2014A Bond	2.5	2.7
2015 Bond Variable Rate Refinancing	18.3	22.1
2015A Bond Refinancing	8.1	8.1
2016 Bond Refinancing	8.4	8.4
2016A Bond Refinancing	9.2	9.2
2017 Bond Refinancing	<u>8.9</u>	<u>8.9</u>
	92.2	97.9

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

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. At the time these financial statements were prepared and audited, the School District was aware of several existing circumstances that could impact its future financial health.

While School District enrollment has stayed fairly consistent over the past few years, there are immediate, short-term, and long-term building development projects scheduled. As a result, long-range projections suggest the potential for increases in student enrollments. School District enrollment is approximately 6,900 students. The School District will be pursuing a feasibility study in the 2018-19 school year to assess all building enrollments, building capacity, and building needs. The School District expects the study to be completed by the fall of 2019 and then develop a plan to address the outcomes of the study.

The School District's Collective Bargaining Agreement (CBA) is in effect through June 30, 2019. The Hempfield Education Association and the Hempfield Board of School Directors will negotiate a new agreement in an effort for the new CBA to go into effect July 1, 2019.

Although the total number of students has remained consistent, we continue to see higher numbers of special education students (16.9% of total enrollment as of December 1, 2017). The costs to provide special education services to a greater number of School District students is escalating, but the subsidy funding from the Commonwealth has not kept pace with the rising expenses.

Act 1 of 2006 puts a ceiling on the amount of real estate taxes a school district can levy. Act 1 index for 2018-19 was 2.5%; however the School District passed its 2018-19 budget to include an increase of just 1.0%. Lancaster County underwent a property tax reassessment with new property tax values and restated millage rates reset effective July 1, 2018. The School District recognized an increase in taxable value of 28.39% resulting in a comparable decrease in millage resulting in a revenue neutral tax rate of 15.8450 mills. After the 2018-19 tax increase of 1.0%, the millage rate for 2018-19 is 16.0034 mills. We continue to watch the growing trend of tax assessment appeals as taxpayers are dissatisfied with the reassessed property values.

Across the state of Pennsylvania, there is still uncertainty surrounding the future of real estate taxes as there is a desire to enact legislation for Property Tax Reform. Because the School District is heavily reliant on local funding, 72% of the revenue budget coming from local sources, there is continued concern about the loss of the School District's ability to levy taxes and keep collections at the local level. At this time, there is no proposal at the State level that is being considered, but this is an area that we will continue to watch closely.

The cost of mandated employee retirement benefits through the Pennsylvania Public School Employees' Retirement System (PSERS) continues to burden school districts. PSERS is a defined benefit pension plan funded by employer and employee contributions. The employer contribution rate has grown annually since the 2008-2009 rate of 4.76% increasing to the rate of 33.43% for the 2018-2019 fiscal year. State legislators, concerned with the financial burden placed upon taxpayers, worked for several years reviewing many options for pension reform. In June of 2017, Governor Tom Wolf signed into law a pension bill that will change the retirement plan for future public school employees hired in 2019 and after. Although this will be a positive change long-term to lower the expense to school districts, it will take many years for any relief to be recognized. PSERS rates are estimated to continue increasing to a projected 36.32% employer expense in the 2022-2023 school year.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2018

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 Sheryl Pursel, Director of Finance at **Hempfield School District**, 200 Church Street, Landisville, PA 17538.

Hempfield School District

STATEMENT of NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 11,634,410	\$ 2,929	\$ 11,637,339
Investments	25,449,410	55,444	25,504,854
Taxes Receivable, net	2,561,176	-0-	2,561,176
Internal Balances	507,126	(507,126)	-0-
Due from Other Governments	4,941,697	-0-	4,941,697
Other Current Assets	335,818	55,358	391,176
Inventories	21,200	35,159	56,359
Total Current Assets	45,450,837	(358,236)	45,092,601
Noncurrent Assets			
Derivative Instrument - Interest Rate Swap	475,000	-0-	475,000
Non-Depreciable Capital Assets	4,707,466	-0-	4,707,466
Depreciable Capital Assets, net	131,026,942	913,751	131,940,693
Total Noncurrent Assets	136,209,408	913,751	137,123,159
TOTAL ASSETS	181,660,245	555,515	182,215,760
DEFERRED OUTFLOWS of RESOURCES			
Pension	32,454,000	662,000	33,116,000
Other Postemployment Benefits	1,075,000	22,000	1,097,000
TOTAL DEFERRED OUTFLOWS of RESOURCES	\$ 33,529,000	\$ 684,000	\$ 34,213,000

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION

(Continued)

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 2,844,560	\$ 593	\$ 2,845,153
Current Portion of Long-Term Debt	5,655,000	-0-	5,655,000
Accrued Salaries and Benefits	12,381,599	-0-	12,381,599
Compensated Absences, Due Within One Year	863,769	17,659	881,428
Accrued Interest on Long-Term Debt	587,200	-0-	587,200
Payroll Deductions and Withholdings	590,636	-0-	590,636
Due to Other Governments	878,838	-0-	878,838
Unearned Revenues	354,166	79,004	433,170
Other Current Liabilities	88,041	-0-	88,041
Total Current Liabilities	24,243,809	97,256	24,341,065
Noncurrent Liabilities			
Net Pension Liability	193,893,000	3,957,000	197,850,000
Bonds Payable, net of Unamortized Discount and Premium	88,978,957	-0-	88,978,957
Accrued Retirement Bonuses	977,896	4,995	982,891
Long-Term Portion of Compensated Absences	1,917,560	40,532	1,958,092
Net Other Postemployment Benefit (OPEB) Liability	16,797,000	342,000	17,139,000
Total Noncurrent Liabilities	302,564,413	4,344,527	306,908,940
TOTAL LIABILITIES	326,808,222	4,441,783	331,250,005
DEFERRED INFLOWS of RESOURCES			
Gain on Bond Refunding, net of Accumulated Amortization	53,298	-0-	53,298
Pension	1,172,000	24,000	1,196,000
Other Postemployment Benefits	372,000	8,000	380,000
Accumulated Increase in Fair Value of Hedging Derivative	475,000	-0-	475,000
TOTAL DEFERRED INFLOWS of RESOURCES	2,072,298	32,000	2,104,298
NET POSITION			
Net Investment in Capital Assets	41,047,153	913,751	41,960,904
Unrestricted (Deficit)	(154,738,428)	(4,148,019)	(158,886,447)
TOTAL NET POSITION	\$ (113,691,275)	\$ (3,234,268)	\$ (116,925,543)

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2018

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	\$ 84,229,415	\$ 105,284	\$ 15,398,821	\$ -0-	\$ (68,725,310)	\$ -0-	\$ (68,725,310)
Instructional Student Support	9,160,581	-0-	1,085,062	-0-	(8,075,519)	-0-	(8,075,519)
Administrative and Financial Support Services	10,455,914	58,968	1,046,922	-0-	(9,350,024)	-0-	(9,350,024)
Operation and Maintenance of Plant Services	7,906,685	143,276	502,343	-0-	(7,261,066)	-0-	(7,261,066)
Pupil Transportation	5,127,540	775,347	1,530,565	-0-	(2,821,628)	-0-	(2,821,628)
Student Activities	2,019,424	327,870	682,605	-0-	(1,008,949)	-0-	(1,008,949)
Community Services	2,846	-0-	2,846	-0-	-0-	-0-	-0-
Interest on Long-Term Debt	2,526,677	-0-	-0-	1,014,344	(1,512,333)	-0-	(1,512,333)
Depreciation - Unallocated *	904,359	-0-	-0-	-0-	(904,359)	-0-	(904,359)
Total Governmental Activities	122,333,441	1,410,745	20,249,164	1,014,344	(99,659,188)	-0-	(99,659,188)
Business-Type Activities:							
Food Service	3,390,338	1,534,945	1,708,943	-0-	-0-	(146,450)	(146,450)
Child Care	391,320	501,954	-0-	-0-	-0-	110,634	110,634
Total Business-Type Activities	3,781,658	2,036,899	1,708,943	-0-	-0-	(35,816)	(35,816)
Total Government	<u>\$ 126,115,099</u>	<u>\$ 3,447,644</u>	<u>\$ 21,958,107</u>	<u>\$ 1,014,344</u>	\$ (99,659,188)	\$ (35,816)	\$ (99,695,004)

* Excludes depreciation charged directly to various functions.

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2018

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					\$ 72,948,220	\$ -0-	\$ 72,948,220
Public Utility Realty and Earned Income Taxes Levied for General Purposes, net					8,783,299	-0-	8,783,299
Unrestricted Grants and Subsidies					14,440,603	-0-	14,440,603
Unrestricted Investment Earnings					505,991	2,689	508,680
Miscellaneous Income					238,852	1	238,853
Loss on Fixed Asset Dispositions					(384)	-0-	(384)
Transfers In (Out)					105,310	(105,310)	-0-
					97,021,891	(102,620)	96,919,271
					(2,637,297)	(138,436)	(2,775,733)
NET POSITION							
Beginning, as Previously Reported					(98,107,978)	(2,773,832)	(100,881,810)
Cumulative Effect of Change in Accounting Principle (Note 22)					(12,946,000)	(322,000)	(13,268,000)
Beginning, Restated					(111,053,978)	(3,095,832)	(114,149,810)
Ending					\$ (113,691,275)	\$ (3,234,268)	\$ (116,925,543)

See notes to financial statements.

Hempfield School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
ASSETS				
Cash and Cash Equivalents	\$ 7,421,257	\$ -0-	\$ 2,898,986	\$ 10,320,243
Investments	17,977,648	4,389,890	1,555	22,369,093
Taxes Receivable, net	2,561,176	-0-	-0-	2,561,176
Due from Other Funds	507,510	-0-	2,980,390	3,487,900
Due from Other Governments	4,941,697	-0-	-0-	4,941,697
Other Receivables	41,731	453	-0-	42,184
Inventories	21,200	-0-	-0-	21,200
Prepaid Expenses	161,080	-0-	-0-	161,080
TOTAL ASSETS	<u>33,633,299</u>	<u>4,390,343</u>	<u>5,880,931</u>	<u>43,904,573</u>
LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
LIABILITIES				
Accounts Payable	1,847,111	-0-	197,449	2,044,560
Due to Other Funds	2,980,390	-0-	-0-	2,980,390
Accrued Salaries and Benefits	12,381,599	-0-	-0-	12,381,599
Payroll Deductions and Withholdings	590,636	-0-	-0-	590,636
Due to Other Governments	878,838	-0-	-0-	878,838
Unearned Revenues	354,166	-0-	-0-	354,166
Other Liabilities	88,041	-0-	-0-	88,041
TOTAL LIABILITIES	19,120,781	-0-	197,449	19,318,230
DEFERRED INFLOWS of RESOURCES				
Delinquent Real Estate Taxes	473,996	-0-	-0-	473,996
FUND BALANCES				
Nonspendable	182,280	-0-	-0-	182,280
Committed	4,018,173	-0-	-0-	4,018,173
Assigned	1,000,000	4,390,343	5,683,482	11,073,825
Unassigned	8,838,069	-0-	-0-	8,838,069
TOTAL FUND BALANCES	<u>14,038,522</u>	<u>4,390,343</u>	<u>5,683,482</u>	<u>24,112,347</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	<u>\$ 33,633,299</u>	<u>\$ 4,390,343</u>	<u>\$ 5,880,931</u>	<u>\$ 43,904,573</u>

See notes to financial statements.

Hempfield School District
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
 to the STATEMENT of NET POSITION
 June 30, 2018

Total fund balances - governmental funds \$ 24,112,347

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

The derivative instrument - interest rate swap is not a current financial resource and, therefore, is not reported as an asset in the funds. 475,000

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 \$220,482,890 and the accumulated depreciation is \$84,748,482. 135,734,408

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. 3,726,654

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. 473,996

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:

Net Pension Liability	(193,893,000)
Bonds Payable	(92,220,000)
Accrued Interest on Long-Term Debt	(587,200)
Bond Discount, net of Amortization	76,968
Bond Premium, net of Amortization	(2,490,925)
Net Other Postemployment Benefit (OPEB) Liability	(16,797,000)
Accrued Retirement Bonuses	(977,896)
Compensated Absences	(2,781,329)

Deferred inflows of resources - pension, OPEB, accumulated increase in fair value of hedging derivative, and gain on bond refinancing are not due and collectable in the current period and, therefore, are not reported in the funds. (2,072,298)

Deferred outflows of resources - pension and OPEB are not due and payable in the current period and, therefore, are not reported in the funds. 33,529,000

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (113,691,275)

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Major Funds			Total
	General Fund	Debt Service Fund	Capital Project Fund	Governmental Funds
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 73,064,415	\$ -0-	\$ -0-	\$ 73,064,415
Other Taxes	8,743,299	-0-	-0-	8,743,299
Investment Earnings	444,008	53,570	8,414	505,992
Other Revenue	<u>3,677,964</u>	<u>-0-</u>	<u>-0-</u>	<u>3,677,964</u>
Total Local Sources	85,929,686	53,570	8,414	85,991,670
State Sources	32,183,072	-0-	-0-	32,183,072
Federal Sources	<u>1,566,825</u>	<u>-0-</u>	<u>-0-</u>	<u>1,566,825</u>
Total Revenues	119,679,583	53,570	8,414	119,741,567
EXPENDITURES				
Instructional Services	76,178,127	-0-	-0-	76,178,127
Support Services	30,680,420	-0-	-0-	30,680,420
Noninstructional Services	1,931,853	-0-	-0-	1,931,853
Capital Outlay	-0-	-0-	2,039,245	2,039,245
Debt Service	<u>-0-</u>	<u>8,595,403</u>	<u>-0-</u>	<u>8,595,403</u>
Total Expenditures	108,790,400	8,595,403	2,039,245	119,425,048
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	10,889,183	(8,541,833)	(2,030,831)	316,519
OTHER FINANCING SOURCES (USES)				
Refund of Prior Years' Expenses (Receipts)	(151,441)	64,375	12,889	(74,177)
Transfers In (Out)	(11,397,634)	8,530,554	2,972,390	105,310
Proceeds from Sale of Fixed Assets	<u>8,504</u>	<u>-0-</u>	<u>-0-</u>	<u>8,504</u>
Net Other Financing Sources (Uses)	(11,540,571)	8,594,929	2,985,279	39,637
NET CHANGES in FUND BALANCES	(651,388)	53,096	954,448	356,156
FUND BALANCES				
Beginning	<u>14,689,910</u>	<u>4,337,247</u>	<u>4,729,034</u>	<u>23,756,191</u>
Ending	<u>\$ 14,038,522</u>	<u>\$ 4,390,343</u>	<u>\$ 5,683,482</u>	<u>\$ 24,112,347</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, 2018

Total net changes in fund balances - governmental funds \$ 356,156

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	(8,888)	
Depreciation Expense	(5,858,094)	
Capital Outlays	<u>2,132,443</u>	(3,734,539)

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 revenue decreased by this amount this year. (76,195)

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, 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. 365,745

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 5,695,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ 9,100

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, 2018

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.

\$ 73,887

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.

45,459

In the statement of activities, deferred inflows of resources - OPEB, deferred outflows of resources - OPEB, and OPEB expense are recognized in conjunction with net OPEB liability. Whereas in the governmental funds, OPEB expense is recorded when required contributions are payable. This amount represents the current OPEB obligation expense over amounts payable.

(330,981)

In the statement of activities, deferred inflows of resources - pension, deferred outflows of resources - pension, and pension expense are recognized in conjunction with net pension liability. Whereas in the governmental funds, pension expense is recorded when required contributions are payable. This amount represents the current pension obligation expense over amounts payable.

(5,048,225)

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.

7,296

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES **\$ (2,637,297)**

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2018

	Enterprise Funds			
	Major Fund Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 2,929	\$ -0-	\$ 2,929	\$ 1,314,167
Investments	55,444	-0-	55,444	3,080,317
Other Receivables	47,632	7,726	55,358	132,170
Inventories	35,159	-0-	35,159	-0-
Total Current Assets	141,164	7,726	148,890	4,526,654
Noncurrent Assets				
Furniture and Equipment, net of Accumulated Depreciation	913,751	-0-	913,751	-0-
TOTAL ASSETS	1,054,915	7,726	1,062,641	4,526,654
DEFERRED OUTFLOWS of RESOURCES				
Pension	662,000	-0-	662,000	-0-
Other Postemployment Benefits	22,000	-0-	22,000	-0-
TOTAL DEFERRED OUTFLOWS of RESOURCES	684,000	-0-	684,000	-0-
TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES	1,738,915	7,726	1,746,641	4,526,654
LIABILITIES				
Current Liabilities				
Accounts Payable	593	-0-	593	800,000
Due to Other Funds	499,400	7,726	507,126	-0-
Compensated Absences, Due Within One Year	17,659	-0-	17,659	-0-
Unearned Revenues	79,004	-0-	79,004	-0-
Total Current Liabilities	596,656	7,726	604,382	800,000
Noncurrent Liabilities				
Accrued Retirement Bonuses	4,995	-0-	4,995	-0-
Net Pension Liability	3,957,000	-0-	3,957,000	-0-
Net Other Postemployment Benefits (OPEB) Liability	342,000	-0-	342,000	-0-
Long-Term Portion of Compensated Absences	40,532	-0-	40,532	-0-
Total Noncurrent Liabilities	4,344,527	-0-	4,344,527	-0-
TOTAL LIABILITIES	4,941,183	7,726	4,948,909	800,000
DEFERRED INFLOWS of RESOURCES				
Pension	24,000	-0-	24,000	-0-
Other Postemployment Benefits	8,000	-0-	8,000	-0-
TOTAL DEFERRED INFLOWS of RESOURCES	32,000	-0-	32,000	-0-
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES	4,973,183	7,726	4,980,909	800,000
NET POSITION				
Net Investment in Capital Assets	913,751	-0-	913,751	-0-
Unrestricted (Deficit)	(4,148,019)	-0-	(4,148,019)	3,726,654
TOTAL NET POSITION	\$ (3,234,268)	\$ -0-	\$ (3,234,268)	\$ 3,726,654

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
 PROPRIETARY FUNDS
 Year Ended June 30, 2018

	Enterprise Funds			
	<u>Major Fund</u>			
	Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES				
Food Service Revenue	\$ 1,397,761	\$ -0-	\$ 1,397,761	\$ -0-
Charges for Services	133,581	501,954	635,535	13,101,030
Miscellaneous	6,126	-0-	6,126	-0-
Total Operating Revenues	1,537,468	501,954	2,039,422	13,101,030
OPERATING EXPENSES				
Salaries	1,105,235	-0-	1,105,235	-0-
Employee Benefits	780,686	-0-	780,686	13,142,544
Purchased Professional and Technical Services	88,286	-0-	88,286	-0-
Other Purchased Services	782	391,320	392,102	-0-
Supplies	1,311,749	-0-	1,311,749	-0-
Depreciation	102,037	-0-	102,037	-0-
Other Operating Expenses	1,563	-0-	1,563	-0-
Total Operating Expenses	3,390,338	391,320	3,781,658	13,142,544
OPERATING INCOME (LOSS)	(1,852,870)	110,634	(1,742,236)	(41,514)
NONOPERATING REVENUES				
Investment Earnings	2,689	-0-	2,689	48,810
State Sources	292,956	-0-	292,956	-0-
Federal Sources	1,413,465	-0-	1,413,465	-0-
Net Nonoperating Revenues	1,709,110	-0-	1,709,110	48,810
Income (Loss) Before Transfers	(143,760)	110,634	(33,126)	7,296
TRANSFERS OUT	-0-	(105,310)	(105,310)	-0-
CHANGES in NET POSITION	(143,760)	5,324	(138,436)	7,296
NET POSITION				
Beginning, as Previously Reported	(2,768,508)	(5,324)	(2,773,832)	3,719,358
Cumulative Effect of Change in Accounting Principle (Note 22)	(322,000)	-0-	(322,000)	-0-
Beginning, as Restated	(3,090,508)	(5,324)	(3,095,832)	3,719,358
Ending	\$ (3,234,268)	\$ -0-	\$ (3,234,268)	\$ 3,726,654

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2018

	Enterprise Funds			
	Major Fund			
	Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES				
Cash Received from Users	\$ 1,540,290	\$ 496,630	\$ 2,036,920	\$ 13,557,801
Cash Payments to Employees for Services	(1,140,885)	-0-	(1,140,885)	-0-
Cash Payments for Employee Benefits	(671,253)	-0-	(671,253)	(12,763,756)
Cash Payments to Suppliers for Goods and Services	(1,222,083)	(391,320)	(1,613,403)	-0-
Cash Payments for Other Operating Expenses	(1,563)	-0-	(1,563)	(2,001)
	(1,495,494)	105,310	(1,390,184)	792,044
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES				
State Sources	293,281	-0-	293,281	-0-
Federal Sources	1,226,052	-0-	1,226,052	-0-
Interfund Transfers	-0-	(105,310)	(105,310)	-0-
	1,519,333	(105,310)	1,414,023	-0-
CASH FLOWS from INVESTING ACTIVITIES				
Investment Earnings	2,689	-0-	2,689	48,810
Additions to Investment Pools	(26,981)	-0-	(26,981)	(36,967)
	(24,292)	-0-	(24,292)	11,843
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	(453)	-0-	(453)	803,887
CASH and CASH EQUIVALENTS				
Beginning of Year	3,382	-0-	3,382	510,280
End of Year	\$ 2,929	\$ -0-	\$ 2,929	\$ 1,314,167

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2018

	Enterprise Funds			
	<u>Major Fund</u>		<u>Total Enterprise</u>	<u>Internal Service</u>
	Food Service	Nonmajor	Funds	Funds
	Fund	Fund		
RECONCILIATION of OPERATING INCOME				
(LOSS) to NET CASH PROVIDED (USED) by				
OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (1,852,870)	\$ 110,634	\$ (1,742,236)	\$ (41,514)
ADJUSTMENTS to RECONCILE OPERATING				
INCOME (LOSS) to NET CASH PROVIDED (USED)				
by OPERATING ACTIVITIES				
Depreciation	102,037	-0-	102,037	-0-
Donated Commodities Used	192,418	-0-	192,418	-0-
Pension - Changes Other than Periodic Pension Cost	103,433	-0-	103,433	-0-
OPEB - Related Changes Other than Periodic OPEB Costs	6,000	-0-	6,000	-0-
(Increase) Decrease in Receivables	1,526	(5,324)	(3,798)	833,558
Increase in Inventory	(12,890)	-0-	(12,890)	-0-
Decrease in Accounts Payable	(794)	-0-	(794)	-0-
Decrease in Accrued Salaries and Benefits	(35,650)	-0-	(35,650)	-0-
Increase in Unearned Revenue	1,296	-0-	1,296	-0-
Total Adjustments	357,376	(5,324)	352,052	833,558
Net Cash Provided (Used) by				
Operating Activities	\$ (1,495,494)	\$ 105,310	\$ (1,390,184)	\$ 792,044

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

NONCASH and RELATED FINANCING ACTIVITIES

Receipt of USDA Donated Commodities	192,418	-0-	192,418	-0-
-------------------------------------	---------	-----	---------	-----

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2018

	Scholarship Fund	Student Activity
ASSETS		
Cash and Cash Equivalents	\$ 104,774	\$ 182,595
Investments	<u>1,140</u>	<u>-0-</u>
TOTAL ASSETS	<u>105,914</u>	<u>182,595</u>
LIABILITIES		
Accounts Payable	-0-	6,159
Due to Other Funds		384
Other Current Liabilities	<u>-0-</u>	<u>176,052</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>182,595</u>
NET POSITION		
Restricted for Scholarships	<u>\$ 105,914</u>	<u>\$ -0-</u>

See notes to financial statements.

Hempfield School District
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUNDS
 Year Ended June 30, 2018

	Scholarship Fund
ADDITIONS	
Gifts and Contributions	\$ 15,395
Investment Earnings	<u>1,379</u>
Total Additions	16,774
DEDUCTIONS	
Scholarships Awarded	<u>9,749</u>
CHANGES in NET POSITION	7,025
NET POSITION	
Beginning	<u>98,889</u>
Ending	<u>\$ 105,914</u>

See notes to financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Hempfield School District (the 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 6,900 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, 2018, was approximately \$1,053,000. 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 21 and paid approximately \$159,000 for debt service to the Authority for the year ended June 30, 2018. 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, 2018. 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, 2018, was approximately \$4,116,000. 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 Tax Collection Bureau (Bureau)

The School District participates with 17 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 17 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, 2018, was \$124,759. 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 \$175,000. The pool reimburses monies to the School District for individual claims above \$175,000 up to \$300,000. The pool has commercial insurance for claims greater than \$300,000. The School District contribution to the pool for the year ended June 30, 2018, was approximately \$714,000 for excess loss insurance coverage.

Hempfield Area Recreation Commission (Commission)

The School District participates with 4 municipalities to provide recreational facilities and opportunities for the residents of the School District and participating municipalities. The School District appoints 2 of 12 members of the Board of Directors. The School District paid \$750 to the Commission and received \$140 from the Commission, both for facilities rentals, during the year ended June 30, 2018.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 represents the capital reserve fund.

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, 2018, which are not intended to finance fiscal 2018 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 child care fund are charges for child care services to parents. Operating expenses include the cost for the operation and management of the child care 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. They are carried at cost plus accrued interest, which approximates fair value.

Investments

The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a-7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

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).

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, 2018. Any unused commodities donated by the federal government at June 30, 2018, were reported as unearned revenue since title does not pass to the School District until the commodities are used.

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first in/first-out (FIFO) basis and are expensed when used.

Inventories in governmental funds represent the estimated cost using the first-in/first-out (FIFO) method of supplies on hand at June 30, 2018. The costs of inventory items are recorded as expenditures in the governmental funds when purchased. The inventory cost has been recorded as an asset in the governmental funds, offset by fund balance classified as nonspendable in an equal amount.

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 \$5,000 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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 categorized as gain or loss on bond refunding 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.

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.

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, 2018, and has recognized them as expenditures in the governmental funds.

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB)

Single-Employer Defined Benefit OPEB Plan

The School District sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The single-employer OPEB plan is unfunded.

Cost-Sharing Multiple-Employer Defined Benefit Plan

The School District participates in the Pennsylvania Public School Employees' Retirement System (PSERS) Health Insurance Premium Assistance Program. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2018, the School District had no encumbrances.

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 Business Administrator. 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. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, retirement bonus accrual, expense allocations, pension related items, hedging activities, and other postemployment benefits. Actual results could differ from those estimates.

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits, or OPEB). This statement replaces the requirements of GASB Statement No. 45. The School District participates in two OPEB plans: a single-employer defined benefit OPEB plan, and a cost-sharing multiple-employer defined benefit pension plan (the Pennsylvania Public School Employees' Retirement System Health Insurance Premium Assistance Program, or PSERS HIPAP.) As a result of implementation of this statement in 2018, the School District reports its full net OPEB liability for the single-employer plan in the statement of net position, and reports its proportionate share of the net OPEB liability of the PSERS HIPAP. The School District has provided additional disclosures related to other postemployment benefits provided to its employees, and provides supplementary information required by GASB Statement No. 75. Since the statement was implemented retroactively, beginning net position was restated, as discussed in Note 22, to account for the cumulative effect.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)

During the current year, the School District adopted GASB Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt using only existing resources. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement provides the applicable accounting guidance for the School District's interest rate swap arrangement further disclosed in Note 8.

Pending Changes in Accounting Principles

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this statement are effective for the School District's June 30, 2019 financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the School District's June 30, 2020 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for the School District's June 30, 2019 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

The effects of 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.

Certain other high-quality bank and corporate instruments.

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, 2018, \$11,516,808 of the School District's bank balance of \$12,016,808 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>11,516,808</u>
	11,516,808

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	11,516,808
Insured Amount	<u>500,000</u>
Bank Balance	12,016,808
Outstanding Checks	<u>(95,662)</u>
Carrying Amount - Bank Balances	11,921,146
Petty Cash	<u>3,562</u>
Total Cash and Cash Equivalents per Financial Statements	11,924,708

Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements are as follows at June 30, 2018:

Investments	Recorded Value	Fair Value Measurement Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments Recorded at Fair Value					
Money Market Mutual Funds	90	90	-0-	-0-	
Investments Recorded at Amortized Cost					
PLIGIT Class	1,369,934				<=397 days
PLIGIT I Class	6,969,949				<=397 days
PLIGIT Plus	5,222				<=397 days
PSDLAF/Max Series	2,660,799				<=397 days
PSDLAF Full Flex Pool	<u>14,500,000</u>				150 days
Total Investments per the Financial Statements	25,505,994				

The School District has the following recurring fair value measurements as of June 30, 2018:

Money Market Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the School District are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the School District are deemed to be actively traded.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

Investments (Continued)

The Pennsylvania Local Government Investment Trust (PLGIT) is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PFM Asset Management, LLC. The pool is audited annually by Ernst & Young, LLP, an independently elected public official.

The Pennsylvania School District Liquid Asset Fund (PSDLAF) is a 2a7-like pool with respect to Max Series investments. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PMA Financial Network, Inc. The pool's max series investment program is audited annually by CliftonLarsonAllen, LLP, an independently elected public official.

The PSDLAF Full Flex Pool is an external short-term fixed income investment pool. The School District carries fixed income investments at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments are one year or less.

Restrictions on Qualified Investment Pool Withdrawals

The School District's investments in the PLGIT account are subject to a one-day holding period. The School District is limited to two withdrawals per calendar month from the PLGIT I - Class account. Investments in the PLGIT/PLUS account are subject to a 30-day holding period for each deposit, and to penalty for early withdrawal.

The School District has an investment in a qualified investment pool (Max Series) with PSDLAF. Except for direct deposits from the Commonwealth, investments in the PSDLAF/MAX account are subject to a 14-day minimum holding period, and to penalty for early withdrawal. This requirement has been waived by the trust since inception.

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, 2018, the School District investments are rated as:

Investments	Standard & Poor's
PLGIT (Class, I-Class, and Plus)	AAAm
PSDLAF - Max Series	AAAm
PSDLAF - Collateralized Flex CD Pool	Unrated
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	AAAm

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. At June 30, 2018, the School District does not have any concentrations of credit risk in its investments.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

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 at June 30, 2018.

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, 2018, was 20.3258 mills as levied by the Board of School Directors.

The schedule for real estate taxes levied for the fiscal year ended June 30, 2018, 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, 2018, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	986,888	512,892	473,996
Realty Transfer Taxes	176,728	176,728	-0-
Earned Income Taxes	<u>1,397,560</u>	<u>1,397,560</u>	<u>-0-</u>
	2,561,176	2,087,180	473,996

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2018, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	507,510	2,980,390
Food Service Fund	-0-	499,400
Child Care Fund	-0-	7,726
Student Activity Fund	-0-	384
Capital Projects Fund	<u>2,980,390</u>	<u>-0-</u>
	3,487,900	3,487,900

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.

A transfer is pending from the student activity fund to the general fund to reimburse for salaries and sales tax of activities coordinators paid for by the general fund.

A transfer is pending from the child care fund to the general fund for revenue accrued at year-end.

Interfund transfers for the year ended June 30, 2018, are as follows:

Fund	Transfers In	Transfers Out
General Fund	105,310	11,502,944
Capital Projects Fund	2,972,390	-0-
Child Care Fund	-0-	105,310
Debt Service Fund	<u>8,530,554</u>	<u>-0-</u>
	11,608,254	11,608,254

Transfers are made between the child care fund and the general fund equal to each month's net operating income or loss of the child care fund. Transfers in the amount of \$8,530,554 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 project fund, in the amount of \$2,972,390 were made to provide resources for future capital expenditures.

NOTE 6 - DUE from/to OTHER GOVERNMENTS

Amounts due to other governments primarily represent payables to other school districts for tuition expenses. Total amounts due to other school districts at June 30, 2018, totaled \$878,838.

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2018, the following amounts are due from other governmental units:

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 6 - DUE from/to OTHER GOVERNMENTS (Continued)

Due From	General Fund and Governmental Activities	Food Service Fund and Business-Type Activities
Federal Grants	139,517	-0-
State Retirement Subsidy	3,089,291	-0-
State FICA Subsidy	775,604	-0-
State Transportation Subsidy	172,277	-0-
State Rental Subsidy	15,204	-0-
Other Local Governments	749,804	-0-
Federal Subsidy	-0-	28,938
State Subsidy	<u>-0-</u>	<u>2,033</u>
	4,941,697	30,971

Due from other governments in the food service fund and business-type activities is included in other receivables in the accompanying financial statements.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2018, is as follows:

Historical Cost:	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets not Being Depreciated:				
Land	4,687,257	-0-	-0-	4,687,257
Construction in Progress	<u>315,584</u>	<u>20,209</u>	<u>(315,584)</u>	<u>20,209</u>
Total Cost	5,002,841	20,209	(315,584)	4,707,466
Capital Assets Being Depreciated:				
Building and Building Improvements	185,856,345	2,262,053	(28,588)	188,089,810
Furniture and Equipment	27,630,369	97,917	(667,253)	27,061,033
Vehicles	<u>556,733</u>	<u>67,848</u>	<u>-0-</u>	<u>624,581</u>
Total Cost	214,043,447	2,427,818	(695,841)	215,775,424
Accumulated Depreciation:				
Building and Building Improvements	63,593,281	4,343,083	(28,588)	67,907,776
Furniture and Equipment	15,545,404	1,485,877	(658,365)	16,372,916
Vehicles	<u>438,656</u>	<u>29,134</u>	<u>-0-</u>	<u>467,790</u>
Total Accumulated Depreciation	79,577,341	5,858,094	(686,953)	84,748,482
Net Capital Assets Being Depreciated	134,466,106	(3,430,276)	(8,888)	131,026,942
Net Capital Assets	139,468,947	(3,410,067)	(324,472)	135,734,408

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2018, is as follows:

Historical Cost:	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets Being Depreciated:				
Furniture and Equipment	1,632,565	-0-	-0-	1,632,565
Vehicles	<u>64,376</u>	<u>-0-</u>	<u>-0-</u>	<u>64,376</u>
Total Cost	1,696,941	-0-	-0-	1,696,941
Accumulated Depreciation:				
Furniture and Equipment	616,777	102,037	-0-	718,814
Vehicles	<u>64,376</u>	<u>-0-</u>	<u>-0-</u>	<u>64,376</u>
Total Accumulated Depreciation	<u>681,153</u>	<u>102,037</u>	<u>-0-</u>	<u>783,190</u>
Net Capital Assets	1,015,788	(102,037)	-0-	913,751

Depreciation expenses were charged to governmental functions as follows:

Instruction	4,100,341
Instructional Student Support	482,393
Administrative and Financial Support Services	312,772
Operation and Maintenance of Plant Services	137,343
Unallocated Depreciation Expense	<u>825,245</u>
	5,858,094

NOTE 8 - DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Objective - The School District executed a forward interest swap agreement with a bank counterparty intended to hedge interest rate risk on the future issuance of bonds to refund the outstanding 2012 and 2012A bonds. See Note 11 for more information on the debt associated with the interest rate swap as of June 30, 2018.

Terms - The interest rate swap will have a mandatory early termination on the effective date of April 15, 2020, when both bond issues are eligible to be currently refunded at the option of the School District. The swap's notional amount of \$29,850,000 is structured to correspond with the amortization of the bonds. The swap was entered into in December 2017. The termination payment is calculated such that the School District is responsible to pay the monthly fixed rate of 2.1285% and the bank counterparty is the payer of a variable interest rate of 80.00% of 3-month USD-LIBOR. Ultimately, because of the mandatory termination, there will be no exchange of periodic scheduled payments. The hedging concept of the swap is that if the future swap rates are higher than the executed swap rate, the School District would receive a termination payment and use that receipt to reduce the amount of refunding bonds needed, thereby helping to offset the higher bond rate. If future swap rates are lower than the executed swap rate, the School District would make a termination payment out of the proceeds of the refunding bonds, thereby increasing the par amount, and issue bonds in a lower interest rate environment.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 8 - DERIVATIVE INSTRUMENT - INTEREST RATE SWAP (Continued)

Fair Value - Due to interest rate fluctuations, the swap had a positive fair value as of June 30, 2018, of \$475,000. This fair value takes into consideration the prevailing interest rate environment and was estimated using a proprietary valuation model developed by the bank counterparty. The interest rate swap has been deemed an effective hedge and, therefore, qualifies for hedge accounting treatment. Since the fair value is positive, the fair value is recorded as a noncurrent asset. Changes in the interest rate swap's fair value are recorded as a deferred inflow and included in deferred inflows of resources.

Credit Risk - As of June 30, 2018, the School District was exposed to credit risk in the amount of the interest rate swap's fair value because the swap had a positive fair value. The interest rate swap's bank counterparty is rated AA- by Standard & Poor's. The interest rate swap agreement provides no collateral by the bank counterparty.

Interest Rate Risk - The School District is exposed to interest rate risk on its swap agreements. In case of a low interest environment in 2020, the School District will issue more debt and pay more debt service than it would without the swap agreement.

Basis Risk - There could be a mismatch or disruption between the LIBOR swap rates and the interest rates at which the School District can issue bonds. Such disruptions can result from changes in tax laws, among other factors.

Termination Risk - The School District or bank counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the interest rate swap is terminated, the School District would again face uncertainty about the interest rate at which it can advance refund the 2012 and 2012A bonds in 2020. If at the time of termination, the interest rate swap has a negative fair value, the School District would be liable to the bank counterparty for a payment equal to the swap's fair value.

Rollover Risk - There is no rollover risk.

Market-access Risk - The School District will need to access credit markets in 2020 to advance refund the 2012 and 2012A bonds. The School District's risk is that it will be unable to issue bonds in 2020, that the issuance costs would be higher than anticipated, or that legislative changes could alter the issuance process of bonds.

Foreign Currency Risk - There is no foreign currency risk.

Derivative instrument activity during the year ended June 30, 2018, is summarized as follows:

Cash Flow Hedges (Pay-Fixed Interest Rate Swap)

Notional Amount	Classification	Fair Value July 1, 2017	Changes in Fair Value	Termination	Fair Value June 30, 2018
Governmental Activities:					
29,850,000	Debt	-0-	475,000	-0-	475,000

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 8 - DERIVATIVE INSTRUMENT - INTEREST RATE SWAP (Continued)

The fair value of the interest rate swap is shown as a noncurrent asset on the statement of net position and is Level 2 of the fair value hierarchy. The fair value is estimated using a forward curve to project the future interest rate payments by both parties, and then is discounted for expected payments back to the date of valuation at a current discount curve to arrive at a present value of the expected payments. The accumulated increase in fair value is recorded as a deferred inflow of resources on the statement of net position.

NOTE 9 - ACCRUED SALARIES and BENEFITS

At June 30, 2018, the School District was liable for \$5,555,785 of payroll, which is payable during July and August 2018, 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, 2018, 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, 2018.

Accrued salaries and benefits as of June 30, 2018, are as follows:

Accrued Salaries	5,555,785
Accrued Benefits:	
Retirement	6,178,583
Social Security	414,188
Other Benefits	<u>233,043</u>
	12,381,599

NOTE 10 - UNEARNED REVENUES

Unearned revenues consist of the following as of June 30, 2018:

	General Fund	Food Service Fund
Unearned Grant Program Revenue	15,408	-0-
Summer School	34,025	-0-
Other	304,733	-0-
Unused Donated Commodities	-0-	3,818
Prepaid Lunch Sales	<u>-0-</u>	<u>75,186</u>
	354,166	79,004

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 11 - 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, 2018, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2018
Series of 2012 Bonds	October 15, 2031	3.00% - 5.00%	24,745,000
Series A of 2012 Bonds	October 15, 2023	2.00% - 4.00%	7,400,000
Series of 2013 Bonds	April 15, 2025	2.25% - 4.00%	490,000
Series of 2014 Bonds	October 15, 2023	2.00% - 2.70%	4,165,000
Series A of 2014 Bonds	October 15, 2031	1.10% - 4.00%	2,545,000
Series of 2015 Bonds	August 1, 2025	Variable	18,290,000
Series A of 2015 Bonds	September 15, 2023	2.00% - 4.00%	8,125,000
Series of 2016 Bonds	February 15, 2030	1.10% - 3.00%	8,390,000
Series A of 2016 Bonds	October 15, 2031	0.98% - 3.00%	9,175,000
Series of 2017 Bonds	April 15, 2032	1.30% - 3.13%	<u>8,895,000</u>
			92,220,000

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. During the year ended June 30, 2017, \$2,575,000 of the bonds were advance refunded through the issuance of the Series A of 2016 General Obligation Bonds. The remaining principal amount outstanding at June 30, 2018, was \$24,745,000 due in various amounts from October 2024 through October 15, 2031. There is no principal due within one year. See Note 12 for more information regarding the advance refunding. See Note 8 for information on the interest rate swap related to this bond.

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, 2018, was \$7,400,000 due in various installments through October 15, 2023. Principal due within one year is \$1,135,000. See Note 8 for information on the interest rate swap related to this bond.

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. During the year ended June 30, 2017, \$8,285,000 of the note was advance refunded through the issuance of Series of 2017 General Obligation Bonds. The remaining principal amount outstanding at June 30, 2018, was \$490,000 due in various installments through April 15, 2025. Principal due within one year is \$5,000.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 11 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

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, 2018 was \$4,165,000 due in various installments through October 15, 2023. Principal due within one year is \$660,000.

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, 2018, was \$2,545,000 due in various installments through October 15, 2031. Principal due within one year is \$155,000.

On January 13, 2015, the School District issued the Series of 2015 General Obligation Bonds of \$25,505,000. The proceeds were used to refund the Series B of 2011 General Obligation Bonds, which had special mandatory tender date, and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2018, was \$18,290,000 due in various installments through August 1, 2025. Principal due within one year is \$1,830,000. The interest rate for the Bonds is a variable rate which is calculated as the sum of (1) the product of the 30-Day LIBOR Index multiplied by an applicable factor of 0.67% plus (2) the applicable spread (ranging from 0.30% - 0.55%). The interest rate is not to exceed 10% through August 1, 2019, at which time the School District will need to renegotiate the terms of the Bonds. The blended variable interest rate in effect at June 30, 2018, is 1.87%.

On February 17, 2015, the School District issued the Series A of 2015 General Obligation Bonds of \$8,135,000 at a premium of \$184,302. The proceeds were used to advance refund the Series of 2010 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2018, was \$8,125,000 due in various installments through September 15, 2023. Principal due within one year is \$725,000.

On February 10, 2016, the School District issued the Series of 2016 General Obligation Bonds of \$8,400,000 at a discount of \$52,430. The proceeds were used to refund the Series A of 2010 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2018, was \$8,390,000 due in various installments through February 15, 2030. Principal due within one year is \$5,000.

On July 25, 2016, the School District issued the Series A of 2016 General Obligation Bonds of \$9,180,000 at a premium of \$454,680. The proceeds were used to refund the Series of 2011 General Obligation Bonds, the Series A of 2011 General Obligation Bonds, and the advanced refunding of a portion of the School District's Series of 2012 General Obligation Bonds, and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2018, was \$9,175,000 due in various installments through October 15, 2031. Principal due within one year is \$1,135,000.

On February 21, 2017, the School District issued the Series of 2017 General Obligation Bonds of \$8,900,000 at a discount of \$37,067. The proceeds were used for the advance refunding of the Series of 2013 General Obligation Bonds, and to pay the costs and expenses of issuing the Bonds. The principal outstanding at June 30, 2018, was \$8,895,000 due in various installments through April 15, 2032. Principal due within one year is \$5,000.

Interest cost incurred during the year ended June 30, 2018, was \$2,526,677, all of which was charged to expense.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 11 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
Governmental Activities				
General Obligation Debt	97,915,000	-0-	5,695,000	92,220,000
Bond Discount	(84,521)	-0-	(7,553)	(76,968)
Bond Premium	<u>2,822,700</u>	<u>-0-</u>	<u>331,775</u>	<u>2,490,925</u>
	100,653,179	-0-	6,019,222	94,633,957
Accrued Retirement Bonuses	1,023,355	-0-	45,459	977,896
Estimated Liability for				
Compensated Absences	<u>2,855,216</u>	<u>8,678</u>	<u>82,565</u>	<u>2,781,329</u>
Total Governmental Activities	104,531,750	8,678	6,147,246	98,393,182
Business-Type Activities				
Accrued Retirement Bonuses	3,645	1,350	-0-	4,995
Estimated Liability for				
Compensated Absences	<u>57,093</u>	<u>1,098</u>	<u>-0-</u>	<u>58,191</u>
Total Business-Type Activities	60,738	2,448	-0-	63,186
Total Government	104,592,488	11,126	6,147,246	98,456,368

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 obligations of the business-type activities are paid from the food service fund.

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

	Interest	Principal	Total
2019	2,849,673	5,655,000	8,504,673
2020	2,717,675	6,225,000	8,942,675
2021	2,557,167	6,495,000	9,052,167
2022	2,381,438	6,775,000	9,156,438
2023	2,205,660	7,010,000	9,215,660
2024-2028	8,673,220	31,425,000	40,098,220
2029-2032	<u>2,597,068</u>	<u>28,635,000</u>	<u>31,232,068</u>
	23,981,901	92,220,000	116,201,901

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 12 - DEBT DEFEASANCE

The School District has defeased portions of the Series of 2012 bond issues by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial purposes, the debt is considered defeased and removed as a liability from the School District's long-term debt obligation. As of June 30, 2018, the amount of defeased debt outstanding but removed from the School District's long-term liability totaled \$2,575,000.

NOTE 13 - 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, 2018:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	2,083,939	45,881
Accumulated Vacation Leave	530,170	11,435
Accumulated Personal Days	117,661	-0-
Employer Social Security and Medicare on Leave Amounts Above	<u>49,559</u>	<u>875</u>
	<u>2,781,329</u>	<u>58,191</u>

NOTE 14 - 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 Tax Sheltered Annuity account. The accrual for estimated retirement benefits was \$982,891 at June 30, 2018. Of this liability, \$4,995 was attributed to business-type activities and \$977,896 was attributed to the governmental activities.

NOTE 15 - 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, 2018, the School District has the following nonspendable fund balance:

General Fund:	
Inventories	21,200
Prepaid Expenses	<u>161,080</u>
	<u>182,280</u>

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - FUND BALANCE CLASSIFICATIONS (Continued)

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, 2018, the School District has included the following as committed fund balances:

General Fund:

Committed to Offset Future PSERS Contribution Rate Increases	4,018,173
--	-----------

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, 2018, the School District has the following as assigned fund balances:

Debt Service Fund:

Assigned for Debt Service Payment	4,390,343
-----------------------------------	-----------

Capital Reserve Fund:

Assigned for Capital Outlays	5,683,482
------------------------------	-----------

General Fund:

Capital Projects	1,000,000
------------------	-----------

NOTE 16 - RISK MANAGEMENT

Hospitalization

The School District participates 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 \$175,000 per individual and \$14,591,378 in total for hospitalization claims for the year ended June 30, 2018.

A liability for claims incurred prior to June 30, 2018, and subsequently paid is recorded in the amount of \$800,000 in accounts payable in the internal service fund. For the year ended June 30, 2017, the liability for claims incurred prior to June 30, 2017, and subsequently paid was \$800,000.

Changes in the School District's claims liability amount in fiscal years 2018 and 2017 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2016-2017	877,908	12,252,178	12,330,086	800,000
2017-2018	800,000	12,699,315	12,699,315	800,000

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - RISK MANAGEMENT (Continued)

Workers' Compensation

The School District participates in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the 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, 2018, 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, 2018, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 17 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Benefits Provided (Continued)

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Contributions

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. 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.

Member Contributions

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2018, was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$17,042,000 for the year ended June 30, 2018.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 17 - DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2018, the School District reported a liability of \$197,850,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2016 to June 30, 2017. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School District's proportion was .4006 percent, which was an increase of .0002 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$22,194,000. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	2,064,000	1,196,000
Changes in Assumptions	5,372,000	-0-
Net Difference between Projected and Actual		
Investment Earnings	4,588,000	-0-
Changes in Proportion	3,462,000	-0-
Difference between Employer Contributions and		
Proportionate Share of Total Contributions	588,000	-0-
Contributions Subsequent to the Measurement Date	<u>17,042,000</u>	<u>-0-</u>
	33,116,000	1,196,000

\$17,042,000 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will increase (decrease) pension expense as follows:

Year Ended June 30:	
2019	4,416,000
2020	6,774,000
2021	4,260,000
2022	<u>(572,000)</u>
	14,878,000

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

There were no changes in assumptions used in measurement of the total pension liability beginning June 30, 2017.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 17 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.1%
Fixed Income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute Return	10.0%	3.4%
Risk Parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real Estate	10.0%	3.6%
Alternative Investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	<u>(20.0%)</u>	1.1%
	100.0%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 17 - DEFINED BENEFIT PENSION PLAN (Continued)

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount 7.25%	1% Increase 8.25%
School District's Proportionate Share of the Net Pension Liability	243,536,000	197,850,000	159,278,000

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2018, the School District reported a payable of \$4,379,678 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2018. These amounts relate to the second quarter of 2018, and are payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania. In addition, the School District also reported a payable of \$366,445 for the employee contributions withheld during June 2018, which are payable to PSERS by July 6, 2018.

Pension Reform

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6.00%.

The pension reform act is anticipated to result in increases to employer contribution rates for the next 15 years through 2034 due to higher initial costs of the new retirement plans. From 2035 to 2050, employer rates are projected to begin to decline due to the lower long-term employer costs of the new retirement plans.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the OPEB Plan

Plan Description

The School District maintains a single-employer defined benefit OPEB plan to provide postemployment health care benefits. The Board of School Directors is authorized to establish and amend the financing requirements and benefits, subject to collective bargaining for certain classes of employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

Benefits Provided

The plan provides medical and prescription drug coverage to employees who retire from active service and qualify for pension benefits, and their spouse and eligible dependents. Generally, retirees are eligible for benefits until age 65 upon paying 100% of the premium; spouse and dependents are eligible for benefits until age 65, and may continue coverage until the spouse is Medicare age after the retiree's death upon paying the full premium.

Employees Covered by Benefit Terms

At July 1, 2016, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	759
Inactive Employees Entitled to but not yet Receiving Benefits	-0-
Active Employees	<u>87</u>
	846

Total OPEB Liability

The School District's total OPEB liability of \$8,978,000 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Discount Rate: 3.13%, Based on S&P Municipal Bond 20-Year High Grad Rate Index
- Long Term Expected Rate of Return: N/A, the Plan is Unfunded
- Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
- Healthcare Cost Trend: 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model
- Retirees' Share of Benefit-Related Costs: 100.0% of Premium

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Mortality Rates:

Preretirement - RP-2014 Employee (Male and Female)

Postretirement - RP-2014 Health Annuitant (Male and Female)

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period ended July 1, 2016.

Changes in the Total OPEB Liability

Balance, June 30, 2017	8,317,000
Changes for the Year	
Service Cost	535,000
Interest	215,000
Changes of Benefit Terms	-0-
Differences Between Expected and Actual Experience	-0-
Changes of Assumptions	325,000
Benefit Payments	<u>(414,000)</u>
Net Changes	<u>661,000</u>
Balance, June 30, 2018	8,978,000

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the School District for the single-employer plan, as well as what the School District's total OPEB liability for the single-employer plan would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

Total OPEB Liability

2.13% Discount Rate (1.0% Decrease)	9,644,000
3.13% Discount Rate (Current Rate)	8,978,000
4.13% Discount Rate (1.0% Increase)	8,352,000

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

The following presents the total OPEB liability of the School District's single-employer plan, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

Total OPEB Liability

4.5% (1% Decrease)	7,941,000
5.5% (Current Rate)	8,978,000
6.5% (1% Increase)	10,215,000

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The Pennsylvania Public School Employees' Retirement System (System) provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The School Districts' contractually required contribution rate for the fiscal year ended June 30, 2018, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School District were \$444,000 for the year ended June 30, 2018.

OPEB Liabilities and OPEB Expense

At June 30, 2018, the School District reported a liability of \$8,161,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The School District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School District's proportion was 0.4006 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$360,000 related to this plan.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions

The total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2016 to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial Cost Method: Entry age normal, level percent of pay
- Investment Return: 3.13%, based on the S&P municipal bond rate
- Salary Growth: Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed Healthcare Cost Trends: Applied to retirees with less than \$1,200 in Premium Assistance per year
- Mortality Rates: RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale
- Participation Rate:
 - Eligible retirees will elect to participate pre-age 65 at 50%
 - Eligible retirees will elect to participate post-age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015, determined the employer contribution rate for fiscal year 2017
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market Value
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits)

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

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions (Continued)

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.40%	0.60%
Fixed Income	<u>23.60%</u>	1.50%
	100.00%	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the plan’s funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a “pay-as-you-go” plan. A discount rate of 3.13% which represents the S&P 20-year municipal bond rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

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

The following presents the School District’s proportionate share of the net OPEB liability, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

Net OPEB Liability

2.13% Discount Rate (1.0% Decrease)	9,278,000
3.13% Discount Rate (Current Rate)	8,161,000
4.13% Discount Rate (1.0% Increase)	7,235,000

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

The following presents the School District’s proportionate share of the net OPEB liability, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

Net OPEB Liability

1% Decrease	8,160,000
Current Rate	8,161,000
1% Increase	8,164,000

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the PSERS OPEB plan's fiduciary net position is available in the separately issued PSERS comprehensive annual financial report which is available on the System's website at www.psers.pa.gov.

AGGREGATE OPEB INFORMATION

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School District recognized OPEB expense of \$1,140,000. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions and Benefit Payments After the Measurement Date	802,000	
Changes of Assumptions	<u>295,000</u>	<u>380,000</u>
	1,097,000	380,000

\$802,000 reported as deferred outflows of resources related to OPEB resulting from the School District's benefit payments after the measurement date of the single-employer plan and contributions after the measurement date of the cost-sharing multiple-employer plan will be recognized as a reduction in the total or net OPEB liability, respectively, in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an increase (decrease) in OPEB expense as follows:

Fiscal Year Ended June 30:	
2019	(34,000)
2020	(34,000)
2021	(33,000)
2022	(33,000)
2023	(33,000)
Thereafter	<u>82,000</u>
	(85,000)

NOTE 19 - CHILD CARE OPERATIONS

The School District operates a child care center (the Center) housed on School District property. The School District entered into an agreement with Bright Horizons Family Solutions Inc., formerly 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 20 - CONTINGENCIES and COMMITMENTS

General

The School District is involved in various claims, including real estate tax assessment appeals, 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.

Capital Project - Baseball & Softball Field

The School District is in the process of replacing the school's baseball and softball fields. As of June 30, 2018, the School District had not incurred any expenditures for this project. The School District has committed itself to costs to complete of approximately \$107,000. The School District anticipates financing the construction costs using the capital projects fund balance.

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 a collective bargaining agreement with the Hempfield Education Association. The Agreement in effect is for the period of July 1, 2015 through June 30, 2019. 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 contracts.

NOTE 21 - OPERATING LEASES

On June 29, 2012, Lancaster County Career and Technology Center Authority issued Guaranteed Lease Revenue Bonds, Series of 2012, totaling \$9,995,000. On February 2017, LCCTC refinanced Guaranteed Lease Revenue Bonds, Series of 2013, and issued Guaranteed Lease Revenue Bonds, Series of 2017, totaling \$9,380,000. The LCCTC issued Guaranteed Lease Revenue Bonds, Series of 2014, totaling \$3,900,000 on July 9, 2014, which was the final of the three series. These bonds were issued for the purpose of providing funds for renovations and additions and various other ongoing and proposed capital projects on LCCTC facilities. The School District, along with the other member districts, has covenanted to pay lease rentals in amounts sufficient to service this debt, in proportions based on real estate market values. The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 21 - OPERATING LEASES (Continued)

Fiscal Year Ended June 30,	Future Minimum Rental Payments
2019	157,701
2020	157,682
2021	157,550
2022	157,341
2023	157,564
Thereafter	<u>2,205,823</u>
	2,993,661

The School District leases certain equipment under non-cancellable operating leases expiring September 2019, September 2020, June 2020, June 2021, and June 2022. The School District paid a security deposit in the amount of \$85,680, \$20,453, \$-0-, \$-0-, and \$-0-, respectively, upon the execution of the leases. If there is no event of default, the security deposit may be applied toward the total amounts due. The future minimum lease payments under the operating leases at June 30, 2018, are as follows:

2019	987,059
2020	778,029
2021	535,310
2022	<u>341,976</u>
	2,642,374

Total rental expenses for non-cancellable operating leases reflected in the accompanying financial statements is \$816,225 during the year ended June 30, 2018.

NOTE 22 - CHANGE in ACCOUNTING PRINCIPLE

In conjunction with implementation of GASB Statement No. 75, the School District restated the beginning net position of the governmental activities, the business-type activities, and proprietary fund. In prior years, the School District accounted for other postemployment benefits (OPEBs) in accordance with GASB Statement No. 45, which permitted amortization of the initial unfunded OPEB liability for a period of thirty years, and did not require the School District to report its proportionate share of cost-sharing multiple-employer OPEB plans. Accordingly, net position as of July 1, 2017, has been restated as follows:

	Governmental Activities	Business-Type Activities	Proprietary Fund Food Service Fund
Net Position as Previously Reported on June 30, 2017	(98,107,978)	(2,773,832)	(2,768,508)
Prior Period Adjustment:			
Net OPEB Liability	(13,786,000)	(339,000)	(339,000)
Deferred Outflows of Resources	<u>840,000</u>	<u>17,000</u>	<u>17,000</u>
Total Prior Period Adjustment	<u>(12,946,000)</u>	<u>(322,000)</u>	<u>(322,000)</u>
Net Position as Restated, July 1, 2017	(111,053,978)	(3,095,832)	(3,090,508)

Hempfield School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL - GENERAL FUND

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary	Final Budget -
REVENUES			Basis	Favorable
				(Unfavorable)
Local Sources:				
Real Estate Taxes	\$ 73,794,727	\$ 73,794,727	\$ 73,064,415	\$ (730,312)
Other Taxes	8,365,000	8,365,000	8,743,299	378,299
Investment Earnings	115,000	115,000	444,008	329,008
Other Revenue	2,780,526	2,780,526	3,677,964	897,438
Total Local Sources	85,055,253	85,055,253	85,929,686	874,433
State Sources	32,015,407	32,015,407	32,183,072	167,665
Federal Sources	925,000	925,000	1,566,825	641,825
Total Revenues	117,995,660	117,995,660	119,679,583	1,683,923
EXPENDITURES				
Instructional Services:				
Regular Programs	55,841,770	55,851,195	55,135,177	716,018
Special Programs	17,798,723	17,798,723	18,942,863	(1,144,140)
Vocational Programs	900,000	1,070,000	1,212,206	(142,206)
Other Instructional Programs	768,802	768,802	887,881	(119,079)
Support Services:				
Pupil Personnel	4,576,400	4,576,400	4,596,157	(19,757)
Instructional Staff	2,022,969	2,024,469	2,632,549	(608,080)
Administrative	5,241,356	5,230,381	4,888,097	342,284
Pupil Health	956,096	956,096	979,231	(23,135)
Business	1,527,896	1,519,896	992,750	527,146
Operation of Plant and Maintenance	8,042,707	7,972,536	7,611,447	361,089
Student Transportation	5,069,925	5,069,925	5,126,797	(56,872)
Central and Other Business	3,033,280	2,941,501	3,853,392	(911,891)
Noninstructional Services	2,635,510	2,635,510	1,931,853	703,657
Total Expenditures	108,415,434	108,415,434	108,790,400	(374,966)
EXCESS of REVENUES				
over EXPENDITURES	9,580,226	9,580,226	10,889,183	1,308,957
OTHER FINANCING SOURCES (USES)				
Transfers Out	(8,832,975)	(8,832,975)	(11,397,634)	(2,564,659)
Refund of Prior Years' Receipts	-0-	-0-	(151,441)	(151,441)
Proceeds from Sale of Fixed Assets	-0-	-0-	8,504	8,504
Budgetary Reserve	(1,000,000)	(1,000,000)	-0-	1,000,000
Net Other Financing Uses	(9,832,975)	(9,832,975)	(11,540,571)	(1,707,596)
NET CHANGES in FUND BALANCES	\$ (252,749)	\$ (252,749)	(651,388)	\$ (398,639)
FUND BALANCES				
Beginning			14,689,910	
Ending			\$ 14,038,522	

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.

See independent auditors' report.

Hempfield School District
 SCHEDULE of CHANGES in NET OPEB LIABILITY and RELATED RATIOS -
 SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN
 Last 10 Fiscal Years

	2018
Total OPEB Liability	
Service Cost	\$ 535,000
Interest	215,000
Change of Benefit Terms	-0-
Differences Between Expected and Actual Experience	-0-
Changes of Assumptions	325,000
Benefit Payments	<u>(414,000)</u>
Net Changes in Total OPEB Liability	661,000
Total OPEB Liability - Beginning	<u>8,317,000</u>
Total OPEB Liability - Ending	<u>\$ 8,978,000</u>
Covered Payroll	46,928,908
Net OPEB Liability as a Percentage of Covered Payroll	19.1%

Note: Information is not available prior to 2018.

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN
Last 10 Fiscal Years

Funding:

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, to pay related benefits.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Discount rate was reduced from 4.50% to 3.13%.

Hempfield School District
 SCHEDULE of EMPLOYER CONTRIBUTIONS -
 PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
 Last 10 Fiscal Years

Fiscal Year Ended June 30	Contractually Required Contributions	Contributions from Employer	Contributions Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	453,378	453,378	-0-	50,638,050	.90%
2016	438,616	438,616	-0-	51,858,123	.85%
2017	443,316	443,316	-0-	53,334,038	.83%
2018	444,121	444,121	-0-	53,549,682	.83%

Note: Information is not available prior to 2015.

See independent auditors' report.

Hempfield School District

SCHEDULE of the SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET OPEB LIABILITY -

PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN

Last 10 Fiscal Years

Fiscal Year Ended June 30	School District's Proportion of the Net OPEB Liability	School District's Proportionate Share of the Net OPEB Liability	School District's Covered- Employee Payroll	School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2016	.4004%	8,625,000	51,858,123	16.63%	5.73%
2017	.4006%	8,161,000	53,549,682	15.24%	5.47%

Note: Information is not available prior to 2016. The data provided in the schedule is based on the measurement date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Changes of Assumptions:

Measurement period ending June 30, 2016:

Discount rate was increased from 2.71% to 3.13%.

Salary growth changes from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

See independent auditors' report.

Hempfield School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY - PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered- Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	.3876%	153,414,859	49,455,772	310.21%	57.24%
2015	.3936%	170,488,892	50,638,050	336.68%	54.36%
2016	.4004%	198,433,163	51,858,123	382.65%	50.14%
2017	.4006%	197,850,000	53,334,038	370.96%	51.84%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in the schedule is based on the measurements date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Hempfield School District
 SCHEDULE of EMPLOYER CONTRIBUTIONS -
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
 Last 10 Fiscal Years

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Defined Benefit Pension Plan:					
2009	1,777,815	1,777,815	-0-	44,445,378	4.00%
2010	1,895,339	1,895,339	-0-	47,383,473	4.00%
2011	2,461,814	2,461,814	-0-	49,236,277	5.00%
2012	3,792,071	3,792,071	-0-	47,400,890	8.00%
2013	5,624,264	5,624,264	-0-	48,906,642	11.50%
2014	7,912,924	7,912,924	-0-	49,455,772	16.00%
2015	10,146,779	10,146,779	-0-	50,638,050	20.50%
2016	13,097,515	13,097,515	-0-	51,858,123	25.00%
2017	15,569,002	15,569,002	-0-	53,334,038	29.20%
2018	15,323,000	15,323,000	-0-	53,549,682	31.74%

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION
Last 10 Fiscal Years

Changes of Benefit Terms:

Measurement period ending June 30, 2017:

Beginning June 12, 2017, with the passage of Act 5 class T-E & T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Investment rate of return was adjusted from 7.50% to 7.25%.

Inflation assumption was decreased from 3.0% to 2.75%.

Salary growth changed from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

See independent auditors' report.

Hempfield School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor Project Title	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Passed Through to Subrecipients
Child Nutrition Cluster												
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	7/01/17 - 6/30/18	N/A	\$ 7,529	\$ 243,180	\$ 242,318	\$ 6,667	\$ -0-
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	7/01/17 - 6/30/18	N/A	26,414	982,871	978,729	22,272	-0-
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program (Note 2)	I	10.555	N/A	7/01/17 - 6/30/18	N/A	<u>(3,314) A)</u>	<u>192,922 B)</u>	<u>192,418 C)</u>	<u>(3,818) D)</u>	<u>-0-</u>
Total				10.555				<u>23,100</u>	<u>1,175,793</u>	<u>1,171,147</u>	<u>18,454</u>	<u>-0-</u>
Total Child Nutrition Cluster								30,629	1,418,973	1,413,465	25,121	-0-
General Services Administration	Pennsylvania Department of General Services	Donation of Federal Surplus Personal Property	I	39.003	N/A	7/01/17 - 6/30/18	842	-0-	842	842	-0-	-0-
Special Education Cluster												
U.S. Department of Education	Lancaster Lebanon Intermediate Unit # 13	Special Education Grants to States	I	84.027	062-150013	7/01/17 - 6/30/18	1,348,210	-0-	1,348,210	1,348,210	-0-	-0-
U.S. Department of Education	Lancaster Lebanon Intermediate Unit # 13	Special Education Preschool Grants	I	84.173	131-150013	7/01/17 - 6/30/18	5,394	<u>-0-</u>	<u>5,394</u>	<u>5,394</u>	<u>-0-</u>	<u>-0-</u>
Total Special Education Cluster								<u>-0-</u>	<u>1,353,604</u>	<u>1,353,604</u>	<u>-0-</u>	<u>-0-</u>
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies (Note 5)	I	84.010	013-180189	8/16/17 - 9/30/18	849,261	-0-	726,417	858,154	131,737	-0-
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-170189	7/12/16 - 9/30/17	668,747	<u>41,212</u>	<u>41,212</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total				84.010				\$ <u>41,212</u>	\$ <u>767,629</u>	\$ <u>858,154</u>	\$ <u>131,737</u>	\$ <u>-0-</u>

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2018

Federal Grantor Project Title	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	English Language Acquisition Grants	I/F	84.365	010-180189	8/16/17 - 9/30/18	81,277	\$ -0-	\$ 40,639	\$ 55,235	\$ 14,596	\$ -0-
U.S. Department of Education	Pennsylvania Department of Education	English Language Acquisition Grants	I	84.365	010-170189	7/12/16 - 9/30/17	85,610	4,461	22,829	18,368	-0-	-0-
Total				84.365				4,461	63,468	73,603	14,596	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-160189	8/16/17 - 9/30/18	193,124	-0-	193,124	177,716	(15,408)	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-150189	7/12/16 - 9/30/17	187,053	12,078	12,078	-0-	-0-	-0-
Total				84.367				12,078	205,202	177,716	(15,408)	-0-
U.S. Department of Education	Pennsylvania Department of Education	Student Support and Academic Enrichment Program (Note 5)	I	84.424	144-180189	8/16/17 - 9/30/18	19,087	-0-	6,817	-0-	(6,817)	-0-
U.S. Department of Education	Pennsylvania Department of Education	Striving Readers	I	84.371	143-140188	10/1/16 - 9/30/17	648,761	(171,960)	162,190	334,150	-0-	-0-
TOTAL EXPENDITURES OF FEDERAL AWARDS								\$ (83,580)	\$ 3,978,725	\$ 4,211,534	\$ 149,229	\$ -0-

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report

Hempfield School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2018

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 - 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 3 - DE MINIMIS INDIRECT COST RATE

The School District did not elect to use the 10% de minimis indirect cost rate.

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, 2018 was \$16,358, which was received through the Lancaster-Lebanon Intermediate Unit #13.

NOTE 5 - TRANSFER OF FUNDS

Federal Guidelines allows for Title IV funds to be transferred and spent as Title I funds in the same grant period. During the year ended June 30, 2018, \$19,087 of Title IV funds awarded to the School District were spent in Title I. These expenditures are included in Title I expenditures for the grant period 8/16/17 - 9/30/18.

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, 2018, 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 December 3, 2018.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2018-001 that we consider to be a significant deficiency.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2018-001.

Hempfield School District's Response to Finding

Hempfield School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **Hempfield School District's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

December 3, 2018
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
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 the UNIFORM GUIDANCE**

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 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, 2018. **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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **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, 2018.

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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

December 3, 2018
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2018

A. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **Hempfield School District**.
2. No material weaknesses and one significant deficiency 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. An immaterial instance of noncompliance that warrants the attention of those charged with governance of **Hempfield School District** was disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The independent 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 federal programs are: Child Nutrition Cluster - School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555 and Title I - Grants to Local Educational Agencies - CFDA #84.010.
8. The threshold for distinguishing type A and B programs was \$750,000.
9. **Hempfield School District** was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Significant Deficiency and Compliance Finding

#2018-001 - Internal Control over Financial Reporting

Criteria: A governmental entity has to develop internal controls over purchasing to ensure compliance with laws and regulations. This includes establishing processes to identify purchases subject to quote and bid requirements.

Statement of Condition: We noted instances where the School District utilized one or multiple vendors for building and grounds related tasks where individual billings remained below quote and bid thresholds. There are instances though, where individual tasks should have been aggregated into a project and quotes or bids should have been obtained in the purchasing process. We also noted one instance of a procurement greater than bid thresholds where sole source procurement was not formally substantiated.

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2018

Significant Deficiency and Compliance Finding (Continued)

#2018-001 - Internal Control over Financial Reporting (Continued)

Cause and Effect: The School District personnel responsible for purchasing and contracting did not sufficiently analyze and enforce the laws and regulations pertaining to quote and bid requirements. This matter was highlighted in the prior year's audit and the School District implemented changes to the procurement process. While those changes were developed, as a result of the condition described above, the School District engaged vendors for projects without obtaining required quotes and/or bids.

Identification of Repeat Finding: Yes

Recommendation: By the end of June 30, 2018, the School District developed a procurement manual that establishes processes designed to achieve compliant procurement. We recommend that the School District fully implement these processes in a collaborative manner across departments. We recommend that School District management and the School Board monitor the School District's procurement practices. We recommend that the School District continually provide training to all involved in the procurement process. We recommend that the School District perform a mid-year self-review to ascertain that the processes are implemented as designed and that compliant procurement actions are achieved.

Management Response: The Superintendent, Director of Finance, and Chief Operating Officer were made aware of the weaknesses in the School District's procurement processes. As a result, they worked throughout the past school year to strengthen the internal controls and provide training to ensure better compliance with Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements. While changes were evident, they took longer than expected and as a result, additional work is still required in order to ensure full compliance with the Pennsylvania statutory requirements.

Effective December 2018, the following will take place in order to ensure compliance:

- Training on the Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements will be required for administrators in the School District.
- The leadership team will review the compliance findings to determine where the issues arose and identify what would have been the proper procurement procedures to execute to ensure compliance.
- Bi-weekly operational meetings are scheduled. These meetings will provide the Chief Operating Officer, Director of Finance, Director of Technology, Director of Maintenance, and the Director of Human Resources the opportunity to review School District needs and determine the appropriate method to procure the necessary items/services.
- Weekly School District procurements meetings are scheduled. These meetings allow any School District administrator to meet with the Director of Finance to ask questions and seek clarification about the procurement process for any item/service needed.
- Agenda items discussed at Building and Grounds Meetings that require items/services to be procured will also be reviewed at Finance Committee Meetings prior to seeking board approval. This will ensure that proper procurement processes have been followed and properly documented. Agenda items for these committee meetings will have already been reviewed/discussed during the operational and/or School District procurement meetings.

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2018

Significant Deficiency and Compliance Finding (Continued)

#2018-001 - Internal Control over Financial Reporting (Continued)

- The School District's procurement manual will be reviewed and revised/updated by the leadership team, at least annually. Once updated, the manual will be reviewed with all School District leaders.
- The School District will perform an internal self-review.

The current Acting Superintendent recognizes the need for compliance to ensure fiscal accountability for the School District and will hold School District leaders accountable to ensure that the provisions outlined above are executed. In addition, it is recognized that improved ethical purchasing decisions that produce the best economic results while promoting achievement of the organization's educational objectives must always be the desired outcome of School District processes.

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

None

Hempfield School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

#2017-001 - Internal Control over Financial Reporting

Criteria: A governmental entity has to develop internal controls over purchasing to ensure compliance with laws and regulations. This includes establishing processes to identify purchases subject to quote and bid requirements.

Statement of Condition: We noted instances where the School District utilized one or multiple vendors for building and grounds related tasks where individual billings remained below quote and bid thresholds. There were instances though, where individual tasks should have been aggregated into a project and quotes or bids should have been obtained in the purchasing process.

Recommendation: We recommended that the School District provide additional training to individuals involved in purchasing decisions and centralize purchasing within the business office when possible. In addition, the School District's facilities team should develop procedures that identify projects on an ongoing basis, analyze the anticipated costs to make proper determinations of the need for quotes or bids, document how compliance with such requirements was achieved, and inventory such projects for proper tracking. The Director of Finance should perform periodic reviews of this project inventory and activity in repair and maintenance accounts to ensure compliance, and contracts should be brought to the board for vote.

Current Status: The School District has adopted new policies and procedures that were established to address the purchasing compliance matters. We were informed that the new purchasing manual is effective as of July 1, 2018. During implementation, we recommend that management and the Board review and modify the policy as needed to ensure its accuracy and completeness. Due to the fact that the new policies and procedures were not yet in place at June 30, 2018, this finding is included in the Schedule of Findings and Questioned costs at #2018-001.



200 Church Street
Landisville, PA 17538-1332
Phone: 717-898-5560
Fax: 717-898-5628
www.hempfieldsd.org

Christopher S. Adams, Ed.D.
Superintendent of Schools
717-898-5564

Corrective Action Plan
December 3, 2018

Hempfield School District respectfully submits the following corrective action plan for the year ending June 30, 2018.

Oversight Agency for Audit: U.S. Department of Education

Name and address of independent public accounting firm: Trout, Ebersole & Groff, LLP, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2017 through June 30, 2018.

The finding from the Schedule of Findings and Questioned Costs for the year ended June 30, 2018 is discussed below. The finding is numbered consistently with the number assigned in the schedule:

Findings - Financial Statements Audit

Significant Deficiency and Compliance Finding

#2018-001 Internal Control over Financial Reporting

Criteria: A governmental entity has to develop internal controls over purchasing to ensure compliance with laws and regulations. This includes establishing processes to identify purchases subject to quote and bid requirements.

Statement of Condition: We noted instances where the School District utilized one or multiple vendors for building and grounds related tasks where individual billings remained below quote and bid thresholds. There are instances though, where individual tasks should have been aggregated into a project and quotes or bids should have been obtained in the purchasing process. We also noted one instance of a procurement greater than bid thresholds where sole source procurement was not formally substantiated.

Cause and Effect: The School District personnel responsible for purchasing and contracting did not sufficiently analyze and enforce the laws and regulations pertaining to quote and bid requirements. This matter was highlighted in the prior year's audit and the School District implemented changes to the procurement process. While those changes were developed, as a result of the condition described above, the School District engaged vendors for projects without obtaining required quotes and/or bids.

Identification of Repeat Finding: Yes

Recommendation: By the end of June 30, 2018, the School District developed a procurement manual that establishes processes designed to achieve compliant procurement. We recommend that the School District fully implement these processes in a collaborative manner across departments. We recommend that School District management and the School Board monitor the School District's procurement practices. We recommend that the School District continually provide training to all involved in the procurement process. We recommend that the

Michael J. Bromirski
Assistant Superintendent
717-898-5561

Daniel L. Forry, PRSBA
Chief Operating Officer
School Board Secretary
717.ROR.c;c;7()

Tab J. Musser, Ed.D.
Director of Student Services
717-459-9009

School District perform a mid-year self-review to ascertain that the processes are implemented as designed and that compliant procurement actions are achieved.

Management Response: The Superintendent, Director of Finance, and Chief Operating Officer were made aware of the weaknesses in the School District's procurement processes. As a result, they worked throughout the past school year to strengthen the internal controls and provide training to ensure better compliance with Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements. While changes were evident, they took longer than expected and as a result, additional work is still required in order to ensure full compliance with the Pennsylvania statutory requirements.

Effective December 2018, the following will take place in order to ensure compliance:

- Training on the Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements will be required for administrators in the School District.
- The leadership team will review the compliance findings to determine where the issues arose and identify what would have been the proper procurement procedures to execute to ensure compliance.
- Bi-weekly operational meetings are scheduled. These meetings will provide the Chief Operating Officer, Director of Finance, Director of Technology, Director of Maintenance, and the Director of Human Resources the opportunity to review School District needs and determine the appropriate method to procure the necessary items/services.
- Weekly School District procurements meetings are scheduled. These meetings allow any School District administrator to meet with the Director of Finance to ask questions and seek clarification about the procurement process for any item/service needed.
- Agenda items discussed at Building and Grounds Meetings that require items/services to be procured will also be reviewed at Finance Committee Meetings prior to seeking board approval. This will ensure that proper procurement processes have been followed and properly documented. Agenda items for these committee meetings will have already been reviewed/discussed during the operational and/or School District procurement meetings.
- The School District's procurement manual will be reviewed and revised/updated by the leadership team, at least annually. Once updated, the manual will be reviewed with all School District leaders.
- The School District will perform an internal self-review.

The current Acting Superintendent recognizes the need for compliance to ensure fiscal accountability for the School District and will hold School District leaders accountable to ensure that the provisions outlined above are executed. In addition, it is recognized that improved ethical purchasing decisions that produce the best economic results while promoting achievement of the organization's educational objectives must always be the desired outcome of School District processes.

If the United States Department of Education has questions regarding this plan, please call Michael Bromirski at **717-898-5564**.

Sincerely,



Michael Bromirski
Acting Superintendent
Hempfield School District