

Hempfield School District

Year Ended June 30, 2012



TROUT, EBERSOLE & GROFF<sub>LLP</sub>

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# Hempfield School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2012

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# Hempfield School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2012

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District**, Pennsylvania (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 19 and 65 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



October 31, 2012  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
Year Ended June 30, 2012

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, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2012 are as follows:

- Total assets increased \$47.3 million, while total liabilities increased by \$41.3 million. This resulted in an overall increase in net assets of \$6.0 million.
- Revenues totaled \$101.9 million. General revenues accounted for \$84.0 million, or 82.5% of this total, while program specific charges for services, grants, or contributions represented \$17.9 million or 17.5%. The current year includes significant shifts from federal and state to local funding in most areas, and a decrease in revenue of \$0.5 million overall.
- The School District had \$92.4 million in expenses related to governmental activities; \$14.3 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$70.6 million of taxes and \$13.4 million of grants and subsidies, interest income and miscellaneous income, provided for these expenses. Net assets increased by \$6.0 million for governmental activities overall.
- Among major funds, the general fund had \$98.4 million in revenues and \$96.5 million in expenditures and transfers. This resulted in the addition of \$1.9 million to fund balance reserves, increasing the general fund's fund balance to \$10.3 million.

**USING THIS ANNUAL REPORT**

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

The statement of net assets and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of **Hempfield School District**, the general fund is the most significant fund.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**USING THIS ANNUAL REPORT (Continued)**

**Reporting the School District as a Whole**

Our analysis for the School District as a whole begins on page 5. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net assets 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 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 assets and changes in net assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

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

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

**Reporting the School District's Most Significant Funds**

**Fund Financial Statements**

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

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is 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.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**THE SCHOOL DISTRICT as a WHOLE**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011:

**Table 1**  
**Net Assets at June 30**  
(In Millions)

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>						
Current and Other Assets	65.5	34.9	.2	.2	65.7	35.1
Capital Assets	<u>137.6</u>	<u>120.9</u>	<u>.2</u>	<u>.2</u>	<u>137.8</u>	<u>121.1</u>
<b>Total Assets</b>	<b>203.1</b>	<b>155.8</b>	<b>.4</b>	<b>.4</b>	<b>203.5</b>	<b>156.2</b>
<b>Liabilities</b>						
Current Liabilities	21.5	17.8	.1	.1	21.6	17.9
Noncurrent Liabilities	<u>117.6</u>	<u>80.0</u>	<u>.1</u>	<u>.1</u>	<u>117.7</u>	<u>80.1</u>
<b>Total Liabilities</b>	<b>139.1</b>	<b>97.8</b>	<b>.2</b>	<b>.2</b>	<b>139.3</b>	<b>98.0</b>
<b>Net Assets</b>						
Invested in Capital Assets, net of Debt	41.8	40.8	.2	.2	42.0	41.0
Restricted	.0	.0	.0	.0	.0	.0
Unrestricted	<u>22.2</u>	<u>17.2</u>	<u>.0</u>	<u>.0</u>	<u>22.2</u>	<u>17.2</u>
<b>Total Net Assets</b>	<b>64.0</b>	<b>58.0</b>	<b>.2</b>	<b>.2</b>	<b>64.2</b>	<b>58.2</b>

**Analysis of Table 1:**

- Net assets increased \$6.0 million which is attributable to an increase in governmental activities. Business-type activities increased by \$34 thousand which is rounded to \$0 for purposes of this analysis.
  - Current assets increased \$30.6 million, as cash and investments increased by \$29.6 million and receivables increased \$1 million. Most of the increase in cash relates to bond proceeds available for ongoing construction projects.
  - Noncurrent assets increased \$16.7 million, from \$121.1 million to \$137.6 million. Construction in progress costs of the new Landisville Intermediate Center which was completed in August, plus initial architectural and construction costs for the new East Petersburg and Farmdale Elementary Schools, created this increase and offset depreciation costs on other existing assets.
  - Total liabilities increased \$41.3 million, primarily due to a \$37.6 million increase in bond debt caused by additional bond debt issuance within the year to fund the construction projects. Accounts payable for the projects also added \$3.7 million to the liability balance.



**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**THE SCHOOL DISTRICT as a WHOLE (Continued)**

**Investment in Capital Assets, net of Related Debt - Governmental Activities**

	<b>2012</b>	<b>2011</b>
Capital Assets, net of Accumulated Depreciation	136,302,266	119,821,203
Bonds Payable (Current and Long-Term Portions, net of Amortization of Bond Discount and Premium)	(117,473,006)	(80,719,620)
Add Back Unspent Bond Proceeds	<u>22,947,687</u>	<u>1,679,757</u>
<b>Total Investment in Capital Assets, Net of Related Debt - Governmental Activities</b>	<b>41,776,947</b>	<b>40,781,340</b>

Bond obligations increased from \$80.7 million to \$117.5 million. The increase of \$36.8 million resulted from the following: payments of \$5.7 million were made on the outstanding principal of existing bonds, new money of \$39.5 million was borrowed for construction, three bond issues were refinanced, and amortization of bond discount and premium continued.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**THE SCHOOL DISTRICT as a WHOLE (Continued)**

**Statement of Activities**

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

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	.7	.7	2.3	2.3	3.0	3.0
Operating Grants	12.5	15.0	1.2	1.3	13.7	16.3
Capital Grants	1.2	1.2	.0	.0	1.2	1.2
General Revenues:						
Property and Other Taxes	70.6	69.3	.0	.0	70.6	69.3
Grants and Entitlements	13.2	12.2	.0	.0	13.2	12.2
Other	<u>.2</u>	<u>.4</u>	<u>.0</u>	<u>.0</u>	<u>.2</u>	<u>.4</u>
<b>Total Revenues</b>	<b>98.4</b>	<b>98.8</b>	<b>3.5</b>	<b>3.6</b>	<b>101.9</b>	<b>102.4</b>
<b>Expenses</b>						
Program Expenses:						
Instruction	60.5	62.0	.0	.0	60.5	62.0
Support Services:						
Instructional Student Support	6.5	6.5	.0	.0	6.5	6.5
Administrative and Financial						
Support Services	8.3	8.6	.0	.0	8.3	8.6
Operation and Maintenance of						
Plant Services	7.4	9.6	.0	.0	7.4	9.6
Pupil Transportation	4.8	4.7	.0	.0	4.8	4.7
Student Activities	1.5	1.5	.0	.0	1.5	1.5
Interest on Long-Term Debt	2.9	2.5	.0	.0	2.9	2.5
Unallocated Depreciation Expense	.5	.5	.0	.0	.5	.5
Food Service and Day Care Operations	<u>.0</u>	<u>.0</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>
<b>Total Expenses</b>	<b>92.4</b>	<b>95.9</b>	<b>3.5</b>	<b>3.5</b>	<b>95.9</b>	<b>99.4</b>
<b>Increase in Net Assets</b>	<b>6.0</b>	<b>2.9</b>	<b>0.0</b>	<b>0.1</b>	<b>6.0</b>	<b>3.0</b>

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, 2012

**THE SCHOOL DISTRICT as a WHOLE (Continued)**

**Statement of Activities (Continued)**

**Table 3**  
**Governmental Activities at June 30**  
(In Millions)

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Instruction	60.5	62.0	51.0	49.9
Support Services:				
Instructional Student Support	6.5	6.5	5.8	5.6
Administrative and Financial Support Services	8.3	8.6	7.9	8.2
Operation and Maintenance of Plant Services	7.4	9.6	6.9	9.0
Pupil Transportation	4.8	4.7	3.0	3.0
Student Activities	1.5	1.5	1.3	1.4
Interest on Long-Term Debt	<u>2.9</u>	<u>2.5</u>	<u>1.7</u>	<u>1.3</u>
<b>Total Governmental Activities</b>	<b>91.9</b>	<b>95.4</b>	<b>77.6</b>	<b>78.4</b>

**Analysis of Tables 2 and 3:**

**Governmental Activities**

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

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

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

- Property, earned income, and other taxes provided 84% of the \$84 million general governmental revenues. Program related grants, subsidies and charges for services provided \$14.3 million of funding for program expenses, and \$13.4 million of additional grants, subsidies, interest and other revenues provided for other expenses.
- Total tax revenues increased \$1.3 million, or 1.85%. Current property taxes increased \$1.2 million. The assessed valuation increased from \$3.582 billion to \$3.597 billion, or 0.4% growth in the tax base. This growth is lower than long-term historical averages which exceed 1.5%, in large part due to increasing reduction in assessed valuations as a result of commercial and residential assessment appeals combined with slower new development. The millage applied to the assessed valuation increased from 17.9789 in 2010-2011 to 18.266 in 2011-2012, a 1.6% index-based increase. Other taxes were flat overall, given an increase of \$403 thousand in earned income tax, offset by decreases in interim, delinquent, and real estate transfer taxes of \$178 thousand, \$198 thousand, and \$43 thousand respectively. Deferred taxes that were due but not collected increased \$34 thousand.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**THE SCHOOL DISTRICT as a WHOLE (Continued)**

**Governmental Activities (Continued)**

Expenses for governmental activities decreased by \$3.5 million, which is a 4% decrease from the prior year. Decreases were achieved in most functional areas, and these reductions were the culmination of extensive cost cutting for a very challenging year. Due to the lower Federal revenues and downturns in most areas of state funding except retirement subsidies, budgets were planned with lower costs. To achieve this goal, employees agreed to a district-wide wage freeze combined with the elimination of 24 professional and numerous support staff positions. This produced savings on wages of \$2.2 million from the prior year. Those savings were offset by moving contract service components of special education costs back to School District payroll expense in the amount of approximately \$0.7 million. Overall, the School District reduced contract service costs about \$1.1 million. Planned elements for savings combined with the effects of a mild winter on operational savings in utilities, plus lower borrowing costs on variable rate debt, helped push costs dramatically lower for the year.

**Business-Type Activities**

Business-type activities consist of food service operations, including child nutrition and catering operations, as well as the child care venture. The child nutrition programs had revenues, including state and federal support, of \$3.5 million, and expenses of \$3.5 million for the fiscal year 2012. This is the second year of positive financial results, with revenues over expenses of \$34 thousand. The child care operation continues to add positive value, as it generated a \$54 thousand profit on revenues of \$234 thousand; catering operations showed a loss of \$17 thousand based on \$69 thousand in revenues, as an extended absence of key personnel reduced revenues and it was difficult to rebuild lost business. Further changes have been initiated in that operation for the 2012-2013 year.

**THE SCHOOL DISTRICT'S FUNDS**

Information about the School District's major funds starts on page 24. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$98.4 million and expenditures of \$114.7 million. Other financing sources provided \$41.3 million, resulting in an increase to total fund balances of \$25 million. Most of the significant changes relate to ongoing capital projects and related borrowing.

**General Fund**

The general fund balance increased \$1.9 million, to a total of \$10.3 million. Commitments have been made by the board under GASB 54, to identify and protect contingent resources to address needs in some critical areas. A total of \$1.9 million has been committed as follows: \$1.5 million to provide resources for GASB 45 liabilities for postretirement benefits, and \$410 thousand to provide funds for the discount on retiree health care from last year's early retirement incentive. In addition, the board assigned general fund balance this year to provide \$1.5 million as a resource to deal with the anticipated 2012-2013 budget shortfall, \$1 million for short-term strategies to deal with the anticipated PSERS rate spike, and \$500 thousand for potential further transfers to capital reserve for additional projects, if needed. Those commitments and assignments leave approximately \$5.4 million as unassigned fund balance.

With these transactions recorded, the unassigned fund balance test yields a 5.3% fund balance against the original 2012-2013 budgeted expenditures, which is well within the 8% legal restriction. The committed, assigned, and unassigned amounts in the fund balance provide some contingency amounts, if needed, to deal

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

***THE SCHOOL DISTRICT'S FUNDS (Continued)***

**General Fund (Continued)**

with increasing costs and future liabilities. 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 were to occur. General fund transfers to other funds included the normal operating transfers to debt service for bond principal and interest of \$8.2 million and \$269 thousand to the activities fund for district support of extracurricular programs. Revenues from Market Street Sports Group sponsorships flowed through general fund to capital reserve to provide funding for approved projects, totaling \$70 thousand. As planned within the budget, a transfer to capital reserve was accrued for \$400 thousand to fund the purchase of technology infrastructure replacement and other capital equipment, and an additional \$1.6 million was recorded at year-end from surplus funds to provide a \$4 million balance in the capital reserve fund for future needs. Another accrual will add \$1 million to the retirement reserve to build additional funds for anticipated increases in PSERS retirement expenses. This retirement transfer was funded from surplus funds remaining in general fund, related to several areas of cost saving and some slightly higher revenues from state and local sources. These transfers allow the School District to plan for future contingencies under the stringent budgeting guidelines of Act 1.

**Debt Service Fund**

The debt service fund had a net increase of \$18 thousand this year, maintaining the ongoing fund balance at \$4.86 million. This reserve amount is set aside in part as a safety net because of the School District's variable rate debt to mitigate 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 the payments needed to meet debt service requirements approaches \$10 million, these reserves are critical to minimize financial impact on School District taxpayers.

**Capital Project Fund**

The School District's capital project fund is comprised of the capital reserve fund and the construction project fund. The capital reserve fund balance increased by \$1.8 million to \$4.0 million. That funding level represents about 4% of the general fund budget. The School District utilizes capital reserve funds for spending needs related to needs and projects identified in a five year plan. The capital project fund received bond proceeds to fund construction projects in the amount of \$42.0 million. Capital expenditures in the amount of \$20.8 million were incurred related to three building projects as follows: \$2.9 million for the construction of the East Petersburg Elementary School, \$14.3 million for the construction of the Landisville Intermediate Center, and \$3.6 million for the construction of the Farmdale Elementary School. The remaining construction fund balance of \$23.0 million is restricted for additional construction commitments related to these projects.

**GENERAL FUND BUDGETING HIGHLIGHTS**

The School District's general fund budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of fiscal 2012, 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. Year-end transfers made to other funds had been anticipated within the approved budget for the year. The board also approved transfers to the capital reserve and retirement reserve based on positive financial results for the year.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**GENERAL FUND BUDGETING HIGHLIGHTS (Continued)**

For the general fund, actual revenues and transfers in were \$98.4 million, which was \$1.4 million more than the original budget estimates. Overall financial results helped the School District avoid any need to draw down the budgeted \$500 thousand transfer from debt service, as borrowing was delayed due to changes in the Farmdale construction project, and variable interest rates remained dramatically below the 4% budgeted level. Other key factors in the 1.4% positive revenue variance included dramatically higher earned income tax collections and surplus state subsidy amounts. Earned income tax collection processes changed statewide as of January 2012, and initial predictions were for much slower cash flows due to the new processes. Proactive efforts by the Lancaster County Tax Collection Bureau resulted in stronger cash flows than anticipated. This was combined with one-time distributions from the 2010 tax reconciliation and distribution of "unidentified" funds to provide a surplus of \$785 thousand from this budget category. Original budget amounts for state dollars were based on the Governor's proposal from spring 2011; when the final state budget was adopted in June 2011, legislators had restored several areas of funding to higher levels. Therefore state sources brought in \$609 thousand more than anticipated in the original budget.

Actual expenditures for the year were \$96.5 million, \$85.0 million of that amount for operational expenses and \$11.5 million for fund transfers and debt service. These amounts left \$1.5 million unspent from the original budget of \$98 million. While most revenue targets were trending at or above the budget estimates, several key areas of the expenditure budget also saw positive trends. There was never any need within the year to touch the \$1 million budgetary reserve line item. Interest and principal payments for debt service enjoyed almost \$1.4 million of budget remaining unspent, as borrowing was delayed due to changes in the Farmdale project, and variable interest rates under 1% were dramatically lower than the 4% budgeted. Mild winter weather, combined with cost-saving strategies for summer work schedules, left over \$300 thousand unspent from utility budgets. Supply budgets were also underspent more than \$415 thousand, as items on hand or donated to the School District were utilized, and new strategies on shipping cost savings were achieved. Perhaps the most remarkable variance item was the fact that medical costs were relatively flat for the year, and under budget by over \$243 thousand - the first time in five years that the budget was even adequate to cover these expenses! Costs per member in the health plan did continue to grow at a 9% rate, but there are fewer covered lives on the plan due to changes in plan design, and that has had significant impact. Dollars from budget savings were repurposed to record year-end transfers of \$1 million to the retirement reserve for long-term strategies related to the PSERS rate spike, and \$1.6 million to bring the capital reserve fund balance to about 4% of the general fund annual budget, and to bring overall unspent general fund budget to \$1.5 million.

In comparison with the prior year, actual general fund expenses decreased \$2.2 million in total. Significant changes in spending included:

- After negotiating the first district-wide wage freeze in the state, and eliminating positions through an early retirement incentive in June 2011, the single largest cost reduction was achieved in salaries. The total reduction was \$1.5 million; this is after including additional costs moving to salaries from contract services as a result of the transfer between entities for our Life Skills and Diagnostic Kindergarten programs. That change shifted some costs from contract services to wages.
- Overall contract service costs were down \$1.1 million. This primarily relates to decreases in the contract services with the IU. In total, the shift from IU services to local provision of these services saved \$500 thousand, and offset other increases in special education costs.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**GENERAL FUND BUDGETING HIGHLIGHTS (Continued)**

- Benefits increased by \$925 thousand for the year, due to a mix of increases and decreases across benefit categories. Most notably PSERS retirement costs increased \$1.3 million, and employee medical and dental benefits increased \$250 thousand - although as noted earlier, these costs stayed under the budget for the year. Reductions in salary costs led to a correlated reduction in the employer FICA taxes for Social Security and Medicare of \$120 thousand, and a much smaller number of retirees drawing bonus and sick day payments at the end of the year decreased one-time retirement benefit payments by \$360 thousand.
- Other areas had more modest changes from the prior year. Contractual increases of \$200 thousand of transportation costs were offset by lower utility costs of over \$390 thousand, and decreased purchases of supplies, which were \$370 thousand lower than the prior year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2012, the School District had \$136.5 million invested in land, buildings, equipment, vehicles, and construction in progress with \$136.3 million in governmental activities. Table 4 shows the fiscal 2012 balance compared to 2011:

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	4.7	4.7	.0	.0	4.7	4.7
Buildings and Improvements	103.8	107.0	.0	.0	103.8	107.0
Furniture, Equipment, and Vehicles	5.7	6.7	.2	.2	5.9	6.9
Construction in Progress	<u>22.1</u>	<u>1.4</u>	<u>.0</u>	<u>.0</u>	<u>22.1</u>	<u>1.4</u>
<b>Total Capital Assets</b>	<b>136.3</b>	<b>119.8</b>	<b>.2</b>	<b>.2</b>	<b>136.5</b>	<b>120.0</b>

Property and equipment were increased by \$16.5 million for the year 2011-2012. This included the replacement of computers and other technology on the normal replacement cycle and significant increases of construction in progress. A total of \$7.4 million of equipment and building improvement items, most of which were fully depreciated, were removed from the fixed asset inventory as updates were made to School District records to fully record disposals. Depreciation expense of \$4.8 million was recorded for the year.

As of June 30, 2012, there are significant costs totaling \$22.1 million in construction in progress. The bulk of this value is for the nearly-complete Landisville Intermediate Center construction project, which was subsequently placed in service in time for the opening of school in late August 2012. There are also architectural, engineering, and project management costs, and initial preparation work for the new Farmdale and East Petersburg Elementary school projects also under construction. Bids completed for these projects during the year were very competitive, and construction of these new buildings has proved more cost effective than previously discussed renovation/expansion projects.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

**Debt Administration**

At June 30, 2012, the School District had \$113 million in bonds outstanding, \$4.8 million in principal due within one year. Table 5 summarizes bonds outstanding:

**Table 5**  
**Outstanding Debt at Year End**  
(In Millions)

	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
General Obligation Bonds:		
2004A School Improvements	0.0	13.6
2007 Emmaus Financing (Variable Rate)	0.0	9.2
2009 Debt Refinancing	11.5	15.9
2009A Debt Refinancing	9.0	9.0
2010 Note Restructuring	8.1	8.1
2010A Note Restructuring	8.1	8.1
2010B Emmaus Financing (Variable Rate)	0.0	4.0
2011 Note Refinancing	3.2	3.4
2011A Bond Restructuring	8.1	8.2
2011B Floating Rate Note	25.3	0.0
2012 Bond Financing	27.3	0.0
2012A Note Refinancing	<u>12.4</u>	<u>0.0</u>
	<b>113.0</b>	<b>79.5</b>

Past bond issues, including 2009, 2009A, and 2011, were refinancing bonds and notes, issued to generate significant savings for the School District over the original bond costs. The 2010, 2010A, and 2011A notes and bonds were issued primarily to restructure a portion of various bond issues, to spread the millage impact of increased debt service over a longer period of time. These financings will be repaid in various years through 2030. During the year, the 2011B bond issue was generated to refinance the 2007 and 2010B Emmaus pool variable rate loans and replace with a new floating rate note structure which is projected to save \$725 thousand on a net present value basis; this issue also included new money of \$12 million for the current construction projects. A new money issue, 2012 bonds, was also generated to provide \$30 million of funding for the construction projects, and will be repaid in various years through 2031. To refinance the 2004A bonds, 2012A bonds were issued, taking advantage of historic low interest rates to save \$963 thousand on a net present value basis.

**FOR THE FUTURE**

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



**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

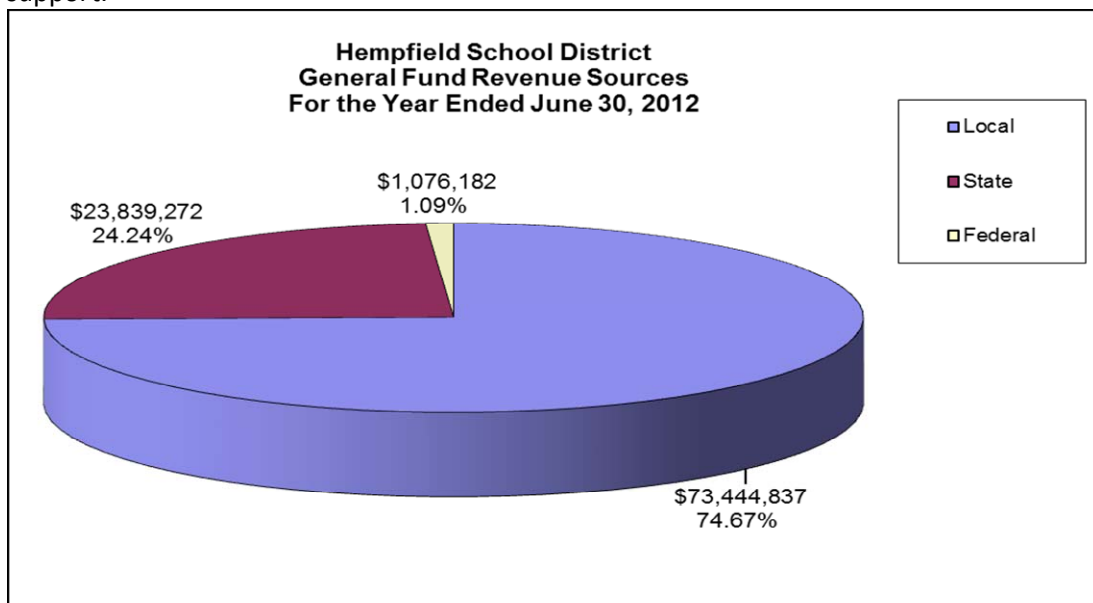
**FOR THE FUTURE (Continued)**

While the 2011-2012 year was a remarkable turning point for the School District, a single year does not make a trend. Efforts to not only restrict growth in the budget but accomplish specific cuts over the prior year were accomplished through a multi-faceted approach, including the district-wide wage freeze, reductions in both professional and support staff, and across-the-board cost cutting. Creating this type of result without major cuts in student programs is the culmination of efforts by the entire staff creating a “new normal” throughout the School District. As we look forward, continuing the momentum that has begun this year is a significant challenge.

Budgetary constraints under Act 1 must be balanced with increasing demands of a more diverse student population, both ethnically and economically. There is a much greater need for additional services to our English language learners, more stringent standards under No Child Left Behind, and ever-increasing state standards for special education services to both IEP and gifted students. All of these education and instruction-based needs must be balanced with the significant salary and benefit costs necessary to support a staff of highly-qualified professional teachers and support staff. While the district-wide wage freeze and early retirement incentive helped to accomplish a reduction in costs for the past year, contractual obligations will continue to challenge budgets over the next several years. There is a continued emphasis on innovation, delivering instruction in cost-effective ways, seeking revenue generation via initiatives such as our Chinese language distance learning partnerships and the new Open Campus initiative, and offering other districts the opportunity to buy slots in our highly effective Alternative Education program. 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.

**Funding of Public Education**

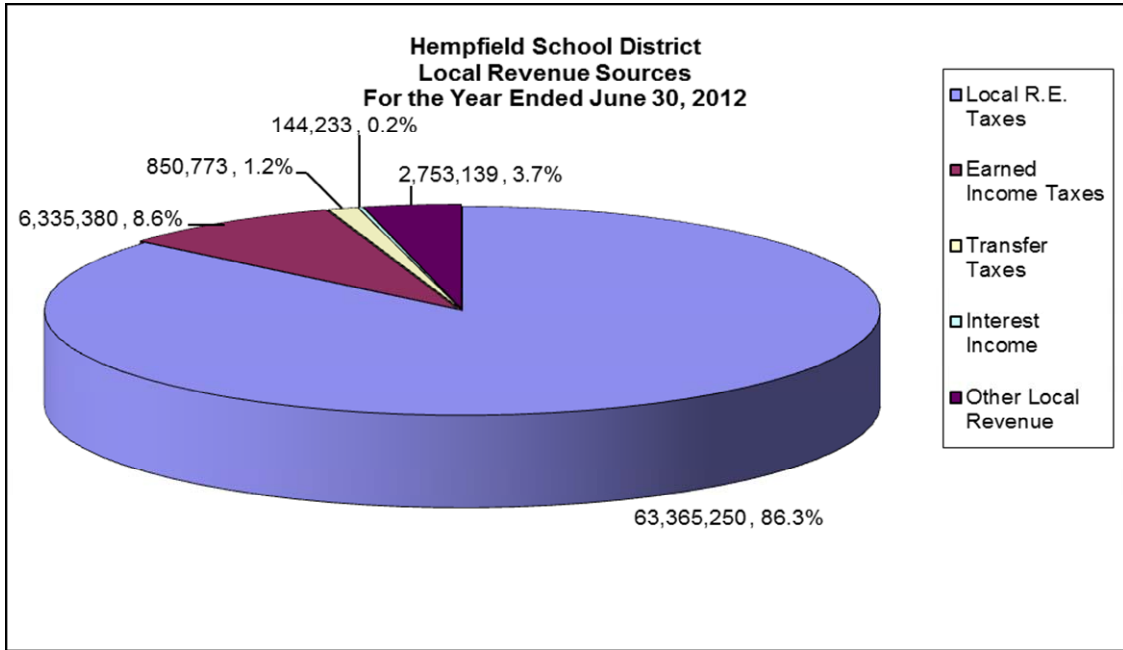
In many Pennsylvania school districts, state funding provided about one half the costs of public education in the 1970's. The following graphs illustrate the current funding provided by state funds for our School District, and the increased reliance on local dollars to fund public education. The School District relies heavily on local revenues at almost 75% of total support, and the loss of Federal Stimulus funding means Federal sources drop from 3.6% to about 1.1% this year. Within local sources, real estate and earned income taxes make up 95% of total local support.



**Hempfield School District**  
 MANAGEMENT'S DISCUSSION and ANALYSIS  
 (Continued)  
 Year Ended June 30, 2012

**FOR THE FUTURE (Continued)**

**Funding of Public Education (Continued)**



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

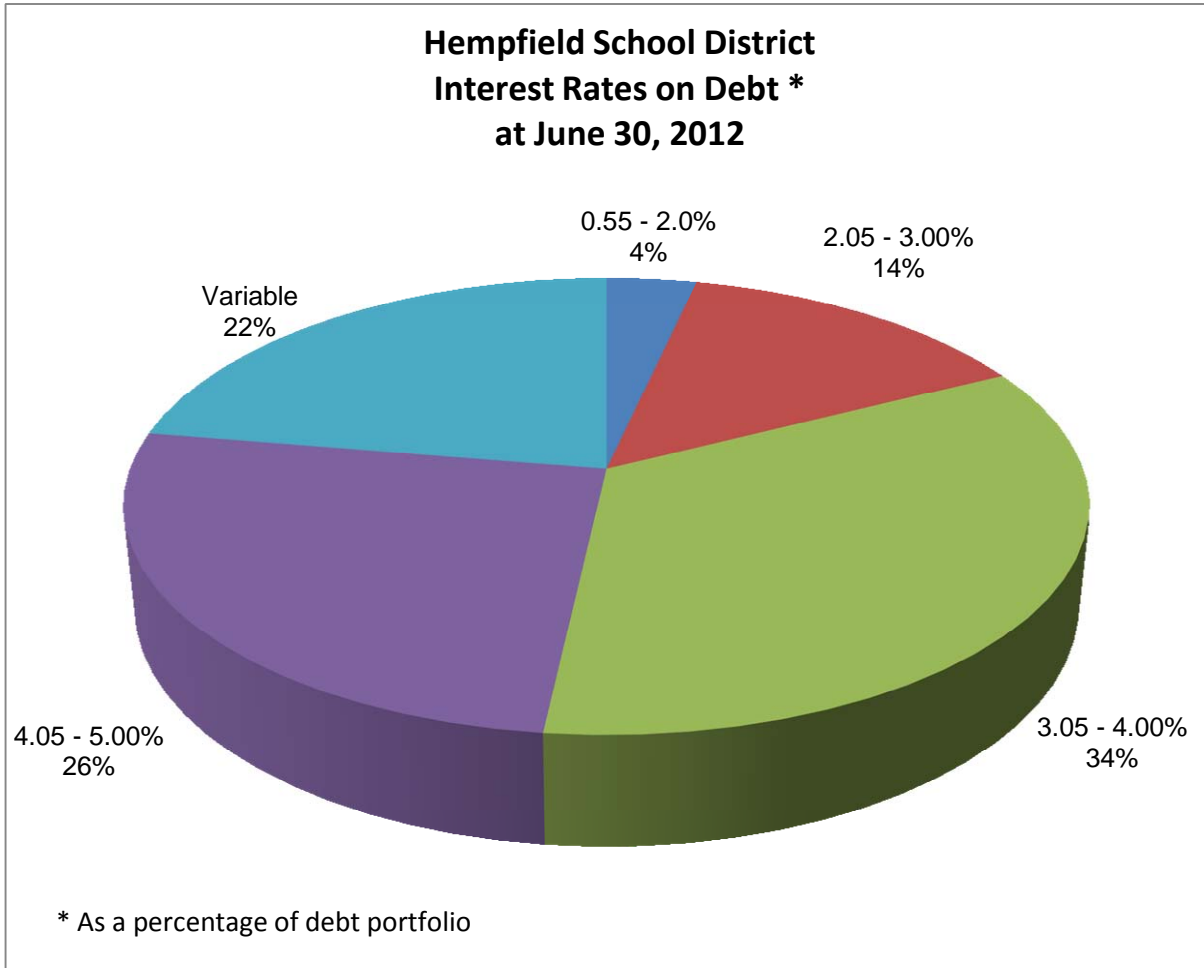
**Bond Debt and Debt Service**

The School District currently carries about \$113.0 million in debt through various bond issues. Most of this debt, about \$87.7 million, is carried in fixed rate bonds. Interest rates on these bonds are illustrated in the following graph, which reflects the various coupon interest rates that apply to each issue. The variable rate debt, issued as a new floating rate note in the current year, carries a variable interest rate that has remained below 1% since inception in December 2011. While there is some risk associated with variable rate debt, the current markets create a very favorable environment to carry a portion of the debt portfolio in variable rate instruments, and the School District monitors the rates closely to ensure proper management of this type of debt. Additional near-term borrowing needs will likely be financed with fixed rate bonds, so that the School District can continue to balance risk with the attractive rates available in today's markets. The School District's fixed rate debt also carries relatively low rates, due in part to the advantageous timing of bond issues during historically low interest rate markets, combined with the School District's AA2 bond rating. In most recent fixed rate issues, bonds have been issued at a premium, so effective bond yields are, in many cases, even lower than the coupon rates reflected in the graph, and the total debt load is lower than the proceeds generated.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**FOR THE FUTURE (Continued)**

**Bond Debt and Debt Service (Continued)**



**Construction Projects and Facility Management**

Current construction projects have taken advantage of the standardized building design for five of the School District's seven elementary schools, bringing equity in facilities across most of the School District, and potentially qualifying for a higher level of reimbursement through the state's cost-sharing PlanCon program. These standardized building designs also allow significant cost savings related to architectural fees, and saves time in the planning process that would otherwise be spent determining the basic building layout and design.

In the recently completed Feasibility Study, some other needs for potential construction projects were identified within the next five to ten years, but the School District continues to monitor and assess needs and search for solutions that minimize the need for major construction projects wherever possible. Continued diligence to ensure facilities are safe, well maintained, adequate for the needs of students and staff, and aligned with cost saving strategies such as geothermal-based HVAC systems is essential to provide adequate and appropriate buildings and facilities across the School District.

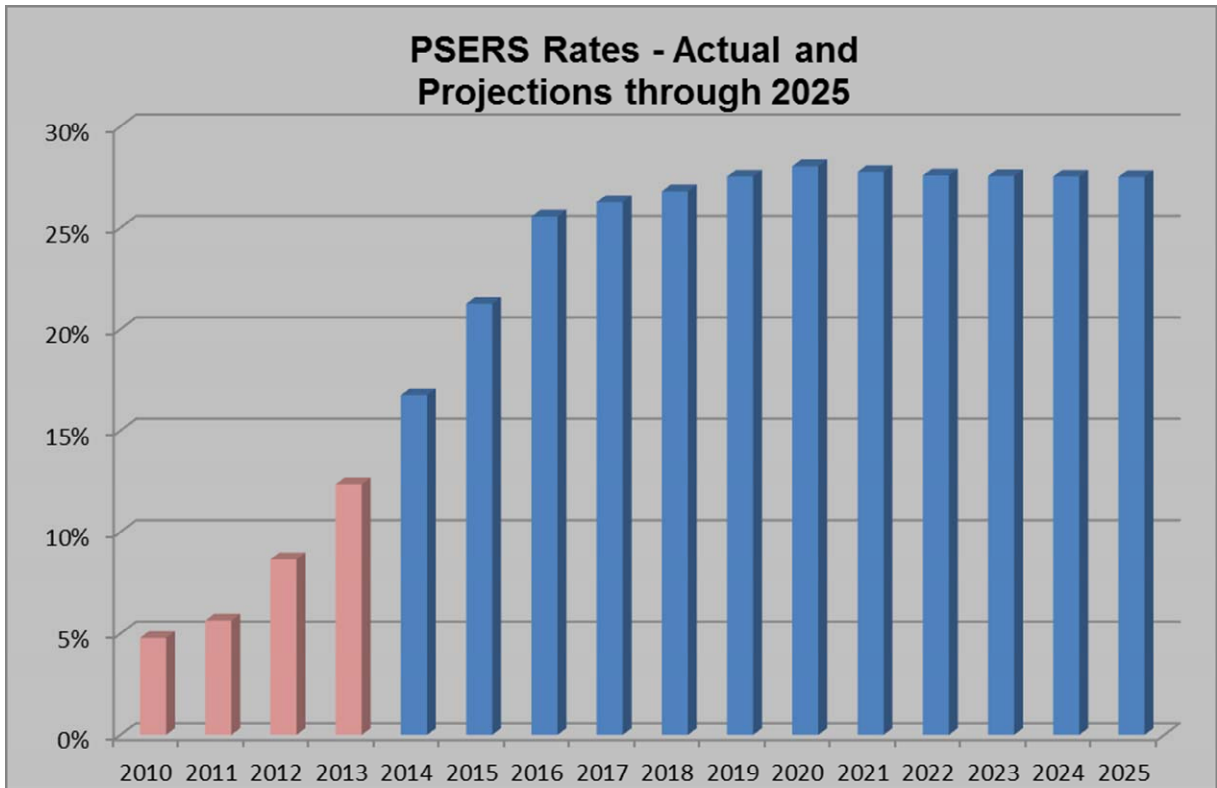
**Hempfield School District**  
 MANAGEMENT'S DISCUSSION and ANALYSIS  
 (Continued)  
 Year Ended June 30, 2012

**FOR THE FUTURE (Continued)**

**Retirement Benefits**

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

In 2010, the state legislature took up the issue of pension reform and made some modest changes to the retirement system. Starting with employees hired on or after July 1, 2011, there is a new class of service, and the employee must choose to pay more into the system to be assured of the same 2.5% multiplier that has been in place for existing employees. Those employees must also bear some risk related to the performance of pension system investments, as their contribution rate can increase over time if performance does not meet certain benchmarks. The period of vesting has also been increased, from five years to ten years, so fewer employees will likely draw a benefit from the retirement system over time. In terms of short-term relief, collars were put in place on the annual calculation of the employer rate, so that instead of spiking past 25% in 2012-2013, the rate will grow 3% to 4% each year for the next several years, as the graph illustrates. However, it is easy to see how daunting these increases will be in the School District budget over the next few years. There is still work to be done to reform the pension benefits further, if meaningful relief is to be realized, and there seems to be renewed emphasis brewing at the state capitol to take up that discussion in 2013.



Current and future rates obtained 10-15-2012 from PSERS Website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

Translating rates into dollars for this School District, the 2012-2013 PSERS expense budget of just over \$6 million is likely to grow to \$15 million by 2017-2018, and past \$17 million by 2022-2023, even if salaries grow by just 2% after the current collective bargaining agreement expires in 2015. There is currently a 50% state subsidy to assist districts with those payments - but even at 50%, the net impact on district budgets is atrocious!

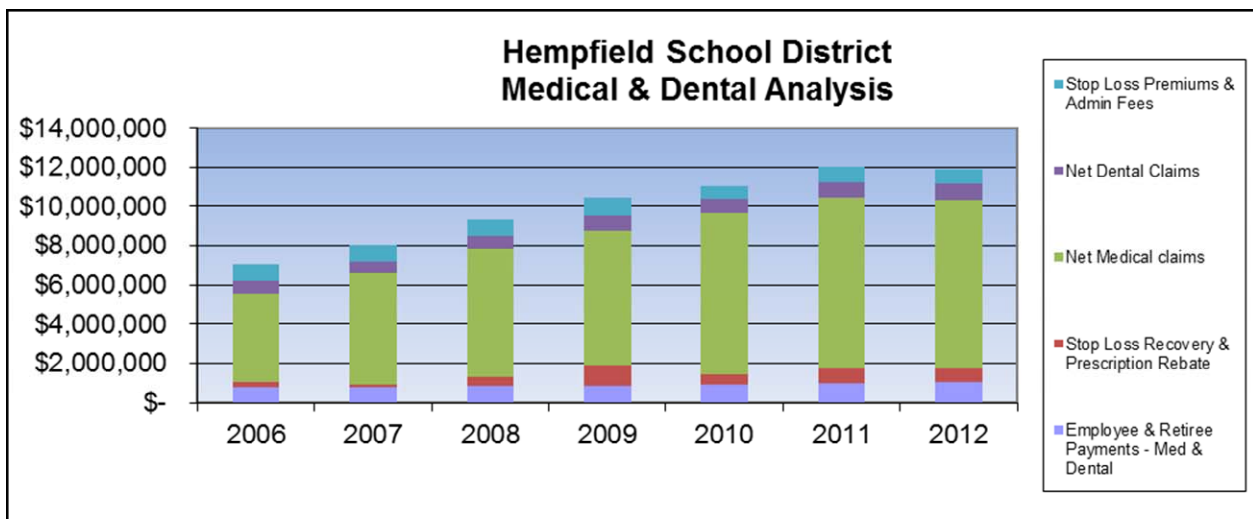
**Hempfield School District**  
 MANAGEMENT'S DISCUSSION and ANALYSIS  
 (Continued)  
 Year Ended June 30, 2012

**FOR THE FUTURE (Continued)**

**Retirement Benefits (Continued)**

To prepare for the pension challenges, the School District maintained retirement benefit budgets at 7% during the recent years when rates went below 5%, and has budgeted conservatively as the rate has begun to escalate. Excess funds from earlier budgets were placed in a retirement reserve, and \$1 million of the current year surplus has been added to that reserve, which now has a balance of about \$4 million. Those funds are regarded as a long-term strategy to provide a resource for the looming rate spike years, and use of those funds will likely be combined with use of general fund assigned fund balance for short-term purposes. Strategic use of that reserve will be required during the next few years to balance the millage impact on local taxpayers with the financial reality that this is not simply a spike for a year or two - it is a sustained increase to an annual expense based on 25% to 27% of eligible wages. There are no simple solutions to this dilemma, and continued pressure on state legislators for further reforms will be essential.

**Medical Benefits**



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

Costs of medical benefits continue to represent a significant challenge in annual budgets. Historically, expenses for health care have increased 12 - 14% on average, and those increases have had devastating effects on the budget. Total costs for medical and dental benefits in 2000-2001 were less than \$3.4 million, while in the current year, more than \$10 million of School District expense. These factors were key elements of discussion in collective bargaining a few years ago, and revised structures and payments have had the desired effect of resetting the costs. In addition to staying under budget in the financial results, claim expenses were essentially flat for the first time in recent memory. A single year is not a trend, but the slower growth in 2010-2011 combined with flat expenses in 2011-2012 have reinforced the interpretation that we have set a new baseline. Effects of national health care reform continue to create local cost control concerns, but at least the School District is in a better position to face those cost increases with the recent improved trends.

**Hempfield School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2012

**FOR THE FUTURE (Continued)**

**Future Budgets**

It has been common over the years to say that we are facing tough budget situations. Looking back at the past ten years, however, nothing in earlier years has compared with the process faced in the 2011-2012 and 2012-2013 budget preparations, as the School District needed to deal with \$6.0 million and \$4.3 million budget shortfalls respectively. The combination of losing Federal stimulus dollars and some state funding at the same time that costs continued to escalate has forced new models for budget development. Collaborative solutions have been key to our success, and really achieving a new mindset of what is essential to spend from School District budget dollars, and what can come from other sources - or not be spent at all - is new territory. While there may be years in which there will be some revenues that actually come in higher than predicted, and expenses may stay under budget when projects are delayed and winters are mild, the effort to balance budgets will continue to require innovative and collaborative thinking.

The greatest danger in having a year in which a surplus was achieved is in having stakeholders not understand how that result occurred. PSERS retirement rates are set to increase from 12.36% to more than 25% within five years. Medical costs, while perhaps reset to a new level, are continuing to increase about 9% on a per member basis - so unless we remove a significant number of covered lives again, those costs will continue to grow. Penalties and fees related to national health care will compound local cost issues within the next few years as well. Contractual salary increases are set to escalate wage budgets for the next three years. The combination of these elements in an environment in which there is little revenue growth and erosion in the tax base - balancing budgets will continue to be a huge challenge. Collaborative solutions will be needed each year to continue the overall success and financial well being of the School District, so that quality education can be provided to our students and community.

As the Open Campus initiative gains momentum, new solutions for delivering education become possible. What impact will the program have on future budgets? Are there solutions that will enable us to reduce costs, or create revenue streams? It is too early to know the answers to all of those questions, but certainly exploring new concepts and seeking out-of-the-box methods will need to be part of the solution to be successful in the new reality faced in public education.

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. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

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

# Hempfield School District

## STATEMENT of NET ASSETS

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 46,623,404	\$ 1,901	\$ 46,625,305
Investments	13,768,862	103,129	13,871,991
Taxes Receivable, net	2,441,264	-0-	2,441,264
Internal Balances	(7,991)	7,991	-0-
Due from Other Governments	2,529,127	-0-	2,529,127
Other Receivables	144,730	20,002	164,732
Inventories	-0-	48,734	48,734
<b>Total Current Assets</b>	<b>65,499,396</b>	<b>181,757</b>	<b>65,681,153</b>
<b>Noncurrent Assets</b>			
Land	4,687,257	-0-	4,687,257
Building and Building Improvements, net of Accumulated Depreciation	103,793,497	-0-	103,793,497
Furniture and Equipment, net of Accumulated Depreciation	5,613,760	152,609	5,766,369
Vehicles, net of Accumulated Depreciation	125,674	36,025	161,699
Construction in Progress	22,082,078	-0-	22,082,078
Deferred Bond Issue Costs, net of Accumulated Amortization	1,309,065	-0-	1,309,065
<b>Total Noncurrent Assets</b>	<b>137,611,331</b>	<b>188,634</b>	<b>137,799,965</b>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 203,110,727</u></b>	 <b><u>\$ 370,391</u></b>	 <b><u>\$ 203,481,118</u></b>

See notes to financial statements.

# Hempfield School District

## STATEMENT of NET ASSETS

(Continued)

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 6,749,331	\$ 929	\$ 6,750,260
Current Portion of Long-Term Debt	4,825,000	-0-	4,825,000
Accrued Salaries and Benefits	7,299,355	-0-	7,299,355
Compensated Absences, Due Within One Year	818,386	19,251	837,637
Accrued Interest on Long-Term Debt	612,244	-0-	612,244
Payroll Deductions and Withholdings	1,144,645	-0-	1,144,645
Deferred Revenues	34,842	72,771	107,613
Other Current Liabilities	81,574	-0-	81,574
<b>Total Current Liabilities</b>	<b>21,565,377</b>	<b>92,951</b>	<b>21,658,328</b>
<b>Noncurrent Liabilities</b>			
Bonds Payable, net of Amortized Discount and Premium	112,648,006	-0-	112,648,006
Accrued Retirement Bonuses	1,538,343	4,860	1,543,203
Long-Term Portion of Compensated Absences	2,178,738	50,743	2,229,481
Net Other Postemployment Benefit (OPEB) Liability	1,253,584	-0-	1,253,584
<b>Total Noncurrent Liabilities</b>	<b>117,618,671</b>	<b>55,603</b>	<b>117,674,274</b>
<b>TOTAL LIABILITIES</b>	<b>139,184,048</b>	<b>148,554</b>	<b>139,332,602</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, net of Related Debt	41,776,947	188,634	41,965,581
Restricted for Debt Service	1,593	-0-	1,593
Unrestricted	22,148,139	33,203	22,181,342
<b>TOTAL NET ASSETS</b>	<b>\$ 63,926,679</b>	<b>\$ 221,837</b>	<b>\$ 64,148,516</b>

See notes to financial statements.



## Hempfield School District

### STATEMENT of ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 60,470,081	\$ 145,114	\$ 9,367,687	\$ -0-	\$ (50,957,280)	\$ -0-	\$ (50,957,280)
Instructional Student Support	6,499,173	-0-	745,245	-0-	(5,753,928)	-0-	(5,753,928)
Administrative and Financial Support Services	8,336,798	75,771	354,743	-0-	(7,906,284)	-0-	(7,906,284)
Operation and Maintenance of							
Plant Services	7,385,477	278,557	196,520	-0-	(6,910,400)	-0-	(6,910,400)
Pupil Transportation	4,802,751	-0-	1,733,507	-0-	(3,069,244)	-0-	(3,069,244)
Student Activities	1,499,305	162,573	56,641	-0-	(1,280,091)	-0-	(1,280,091)
Interest on Long-Term Debt	2,946,086	-0-	-0-	1,221,520	(1,724,566)	-0-	(1,724,566)
Depreciation - Unallocated	471,146	-0-	-0-	-0-	(471,146)	-0-	(471,146)
<b>Total Governmental Activities</b>	<b>92,410,817</b>	<b>662,015</b>	<b>12,454,343</b>	<b>1,221,520</b>	<b>(78,072,939)</b>	<b>-0-</b>	<b>(78,072,939)</b>
Business-Type Activities:							
Food Service	3,236,190	1,989,433	1,241,846	-0-	-0-	(4,911)	(4,911)
Catering	88,639	68,839	2,432	-0-	-0-	(17,368)	(17,368)
Child Care	179,650	233,724	-0-	-0-	-0-	54,074	54,074
<b>Total Business-Type Activities</b>	<b>3,504,479</b>	<b>2,291,996</b>	<b>1,244,278</b>	<b>-0-</b>	<b>-0-</b>	<b>31,795</b>	<b>31,795</b>
<b>Total Government</b>	<b>\$ 95,915,296</b>	<b>\$ 2,954,011</b>	<b>\$ 13,698,621</b>	<b>\$ 1,221,520</b>	<b>\$ (78,072,939)</b>	<b>\$ 31,795</b>	<b>\$ (78,041,144)</b>

See notes to financial statements.

## Hempfield School District

### STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		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					\$ 63,305,880	\$ -0-	\$ 63,305,880
Public Utility Realty and Earned Income Taxes Levied for General Purposes, net					7,279,058	-0-	7,279,058
Unrestricted Grants and Subsidies					13,201,660	-0-	13,201,660
Unrestricted Investment Earnings					195,457	111	195,568
Miscellaneous Income					255,890	133	256,023
Gain (Loss) on Fixed Asset Dispositions					(235,196)	3,500	(231,696)
Transfers In (Out)					1,335	(1,335)	-0-
<b>Total General Revenues and Transfers</b>					<u>84,004,084</u>	<u>2,409</u>	<u>84,006,493</u>
<b>CHANGES in NET ASSETS</b>					<b>5,931,145</b>	<b>34,204</b>	<b>5,965,349</b>
<b>NET ASSETS</b>							
Beginning					<u>57,995,534</u>	<u>187,633</u>	<u>58,183,167</u>
<b>Ending</b>					<u>\$ 63,926,679</u>	<u>\$ 221,837</u>	<u>\$ 64,148,516</u>

See notes to financial statements.

**Hempfield School District**  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2012

	<u>Major Funds</u>			<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Project Fund</b>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 17,189,813	\$ -0-	\$ 28,604,583	\$ 45,794,396
Investments	2,971,630	4,857,367	62,308	7,891,305
Taxes Receivable, net	2,441,264	-0-	-0-	2,441,264
Due from Other Funds	-0-	-0-	2,080,898	2,080,898
Due from Other Governments	2,529,127	-0-	-0-	2,529,127
Other Receivables	63,747	19,397	-0-	83,144
<b>TOTAL ASSETS</b>	<b><u>25,195,581</u></b>	<b><u>4,876,764</u></b>	<b><u>30,747,789</u></b>	<b><u>60,820,134</u></b>
<b>LIABILITIES and FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	2,155,567	-0-	3,768,764	5,924,331
Due to Other Funds	3,078,076	10,813	-0-	3,088,889
Accrued Salaries and Benefits	7,299,355	-0-	-0-	7,299,355
Payroll Deductions and Withholdings	1,144,645	-0-	-0-	1,144,645
Deferred Revenues	1,087,166	-0-	-0-	1,087,166
Other Liabilities	81,574	-0-	-0-	81,574
<b>TOTAL LIABILITIES</b>	<b><u>14,846,383</u></b>	<b><u>10,813</u></b>	<b><u>3,768,764</u></b>	<b><u>18,625,960</u></b>
<b>FUND BALANCES</b>				
Restricted	-0-	1,593	22,947,687	22,949,280
Committed	1,910,000	-0-	-0-	1,910,000
Assigned	3,000,000	4,864,358	4,031,338	11,895,696
Unassigned	5,439,198	-0-	-0-	5,439,198
<b>TOTAL FUND BALANCES</b>	<b><u>10,349,198</u></b>	<b><u>4,865,951</u></b>	<b><u>26,979,025</u></b>	<b><u>42,194,174</u></b>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<b><u>\$ 25,195,581</u></b>	<b><u>\$ 4,876,764</u></b>	<b><u>\$ 30,747,789</u></b>	<b><u>\$ 60,820,134</u></b>

See notes to financial statements.

**Hempfield School District**  
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET  
 to the STATEMENT of NET ASSETS  
 June 30, 2012

Total Fund Balances - Governmental Funds \$ 42,194,174

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$197,500,797, and the accumulated depreciation is \$61,198,531. 136,302,266

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 assets. 6,943,151

Rental subsidies from the state were earned this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 155,772

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. 896,552

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

Bonds Payable	(112,950,000)
Accrued Interest on Long-Term Debt	(612,244)
Bond Issue Costs, net of Amortization	1,309,065
Loss on Bond Refinancing	479,305
Bond Discount, net of Amortization	21,040
Bond Premium, net of Amortization	(5,023,351)
Net Other Postemployment Benefit (OPEB) Liability	(1,253,584)
Accrued Retirement Bonuses	(1,538,343)
Compensated Absences	<u>(2,997,124)</u>

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 63,926,679**

See notes to financial statements.

# Hempfield School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
<b>REVENUES</b>				
Local Sources:				
Real Estate Taxes	\$ 63,272,345	\$ -0-	\$ -0-	\$ 63,272,345
Other Taxes	7,279,058	-0-	-0-	7,279,058
Investment Earnings	144,233	22,217	29,007	195,457
Other Revenue	<u>2,749,201</u>	<u>-0-</u>	<u>-0-</u>	<u>2,749,201</u>
Total Local Sources	73,444,837	22,217	29,007	73,496,061
State Sources	23,839,272	-0-	-0-	23,839,272
Federal Sources	<u>1,076,182</u>	<u>-0-</u>	<u>-0-</u>	<u>1,076,182</u>
<b>Total Revenues</b>	<b>98,360,291</b>	<b>22,217</b>	<b>29,007</b>	<b>98,411,515</b>
<b>EXPENDITURES</b>				
Instructional Services	57,493,548	-0-	-0-	57,493,548
Support Services	26,245,779	-0-	-0-	26,245,779
Noninstructional Services	1,231,583	-0-	-0-	1,231,583
Capital Outlay	-0-	-0-	20,965,808	20,965,808
Debt Service	-0-	8,179,038	-0-	8,179,038
Bond Issuance Costs	<u>-0-</u>	<u>574,655</u>	<u>-0-</u>	<u>574,655</u>
<b>Total Expenditures</b>	<b>84,970,910</b>	<b>8,753,693</b>	<b>20,965,808</b>	<b>114,690,411</b>
<b>EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES</b>				
	<b>13,389,381</b>	<b>(8,731,476)</b>	<b>(20,936,801)</b>	<b>(16,278,896)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-Term Debt Proceeds	-0-	39,505,000	-0-	39,505,000
Refunding Bond Proceeds	-0-	25,485,000	-0-	25,485,000
Premium on Refunding Bonds	-0-	3,755,114	-0-	3,755,114
Debt Service Advance Refunding of Bond Principal	-0-	(26,150,986)	-0-	(26,150,986)
Refund of Prior Years' Revenues	(25,030)	-0-	-0-	(25,030)
Transfers In (Out)	(11,458,993)	(33,844,197)	44,035,914	(1,267,276)
Proceeds from Sale of Fixed Assets	<u>3,938</u>	<u>-0-</u>	<u>-0-</u>	<u>3,938</u>
<b>Net Other Financing Sources (Uses)</b>	<b>(11,480,085)</b>	<b>8,749,931</b>	<b>44,035,914</b>	<b>41,305,760</b>
<b>NET CHANGES in FUND BALANCES</b>				
	<b>1,909,296</b>	<b>18,455</b>	<b>23,099,113</b>	<b>25,026,864</b>
<b>FUND BALANCES</b>				
Beginning	<u>8,439,902</u>	<u>4,847,496</u>	<u>3,879,912</u>	<u>17,167,310</u>
Ending	<b><u>\$ 10,349,198</u></b>	<b><u>\$ 4,865,951</u></b>	<b><u>\$ 26,979,025</u></b>	<b><u>\$ 42,194,174</u></b>

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, 2012

Total Net Changes in Fund Balances - Governmental Funds \$ 25,026,864

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	(239,134)	
Depreciation Expense	(4,792,367)	
Capital Outlays	<u>21,512,564</u>	16,481,063

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 33,536

Because some subsidies 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 subsidy revenues increased by this amount this year. 155,772

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 assets. Also, governmental funds report the effect of issuance costs, 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. (68,109,696)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 31,555,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ (231,825)

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, 2012

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.	\$ 113,735
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.	37,061
In the statement of activities, certain operating expenses (e.g., other postemployment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	(197,005)
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 net revenue of the internal service funds is allocated among the governmental activities.	<u>1,066,640</u>
<b>CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 5,931,145</u></b>

See notes to financial statements.

# Hempfield School District

## STATEMENT of NET ASSETS -

### PROPRIETARY FUNDS

June 30, 2012

	Enterprise Funds			
	Major Fund			
	Food Service Fund	Nonmajor Funds	Total Funds	Internal Service Funds
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 1,901	\$ -0-	\$ 1,901	\$ 829,008
Investments	103,129	-0-	103,129	5,877,557
Due from Other Funds	7,991	-0-	7,991	1,000,000
Other Receivables	20,002	-0-	20,002	61,586
Inventories	48,734	-0-	48,734	-0-
<b>Total Current Assets</b>	<b>181,757</b>	<b>-0-</b>	<b>181,757</b>	<b>7,768,151</b>
<b>Noncurrent Assets</b>				
Furniture and Equipment, net of Accumulated Depreciation	152,609	-0-	152,609	-0-
Vehicles, net of Accumulated Depreciation	36,025	-0-	36,025	-0-
<b>Total Noncurrent Assets</b>	<b>188,634</b>	<b>-0-</b>	<b>188,634</b>	<b>-0-</b>
<b>TOTAL ASSETS</b>	<b>370,391</b>	<b>-0-</b>	<b>370,391</b>	<b>7,768,151</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	929	-0-	929	825,000
Compensated Absences, Due Within One Year	19,251	-0-	19,251	-0-
Deferred Revenues	72,771	-0-	72,771	-0-
<b>Total Current Liabilities</b>	<b>92,951</b>	<b>-0-</b>	<b>92,951</b>	<b>825,000</b>
<b>Noncurrent Liabilities</b>				
Accrued Retirement Bonus	4,860	-0-	4,860	-0-
Long-Term Portion of Compensated Absences	50,743	-0-	50,743	-0-
<b>Total Noncurrent Liabilities</b>	<b>55,603</b>	<b>-0-</b>	<b>55,603</b>	<b>-0-</b>
<b>TOTAL LIABILITIES</b>	<b>148,554</b>	<b>-0-</b>	<b>148,554</b>	<b>825,000</b>
<b>NET ASSETS</b>				
Invested in Capital Assets	188,634	-0-	188,634	-0-
Restricted	-0-	-0-	-0-	6,943,151
Unrestricted	33,203	-0-	33,203	-0-
<b>TOTAL NET ASSETS</b>	<b>\$ 221,837</b>	<b>\$ -0-</b>	<b>\$ 221,837</b>	<b>\$ 6,943,151</b>

See notes to financial statements.



# Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2012

	Enterprise Funds			
	Major Fund			
	Food Service Fund	Nonmajor Funds	Total Funds	Internal Service Funds
<b>OPERATING REVENUES</b>				
Food Service Revenue	\$ 1,944,380	\$ -0-	\$ 1,944,380	\$ -0-
Charges for Services	39,836	302,563	342,399	11,320,651
Miscellaneous	6,838	12	6,850	-0-
<b>Total Operating Revenues</b>	<b>1,991,054</b>	<b>302,575</b>	<b>2,293,629</b>	<b>11,320,651</b>
<b>OPERATING EXPENSES</b>				
Salaries	1,200,071	38,103	1,238,174	-0-
Employee Benefits	545,383	17,862	563,245	11,267,654
Purchased Professional and Technical Services	74,426	-0-	74,426	-0-
Other Purchased Services	784	179,650	180,434	-0-
Supplies	1,370,414	30,713	1,401,127	-0-
Depreciation	42,679	-0-	42,679	-0-
Other Operating Expenses	2,433	1,961	4,394	-0-
<b>Total Operating Expenses</b>	<b>3,236,190</b>	<b>268,289</b>	<b>3,504,479</b>	<b>11,267,654</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(1,245,136)</b>	<b>34,286</b>	<b>(1,210,850)</b>	<b>52,997</b>
<b>NONOPERATING REVENUES</b>				
Investment Earnings	111	-0-	111	13,643
Gain on Fixed Assets Dispositions	3,500	-0-	3,500	-0-
State Sources	188,233	2,432	190,665	-0-
Federal Sources	1,052,113	-0-	1,052,113	-0-
<b>Total Nonoperating Revenues</b>	<b>1,243,957</b>	<b>2,432</b>	<b>1,246,389</b>	<b>13,643</b>
<b>Income (Loss) Before Transfers</b>	<b>(1,179)</b>	<b>36,718</b>	<b>35,539</b>	<b>66,640</b>
<b>TRANSFERS IN (OUT)</b>	<b>35,383</b>	<b>(36,718)</b>	<b>(1,335)</b>	<b>1,000,000</b>
<b>CHANGES in NET ASSETS</b>	<b>34,204</b>	<b>-0-</b>	<b>34,204</b>	<b>1,066,640</b>
<b>NET ASSETS</b>				
Beginning	187,633	-0-	187,633	5,876,511
<b>Ending</b>	<b>\$ 221,837</b>	<b>\$ -0-</b>	<b>\$ 221,837</b>	<b>\$ 6,943,151</b>

See notes to financial statements.

# Hempfield School District

## STATEMENT of CASH FLOWS -

### PROPRIETARY FUNDS

Year Ended June 30, 2012

	Enterprise Funds			
	Major Fund			
	Food Service	Nonmajor	Total Funds	Internal
	Fund	Funds		Service Funds
<b>CASH FLOWS from OPERATING ACTIVITIES</b>				
Cash Received from Users	\$ 2,002,112	\$ 302,575	\$ 2,304,687	\$ 11,320,651
Cash Payments to Employees for Services	(1,217,767)	(38,103)	(1,255,870)	-0-
Cash Payments for Insurance Services	(545,383)	(17,862)	(563,245)	(10,967,586)
Cash Payments to Suppliers for Goods and Services	(1,323,222)	(210,363)	(1,533,585)	-0-
Cash Payments for Other Operating Expenses	(2,433)	(1,961)	(4,394)	(4,175)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(1,086,693)</b>	<b>34,286</b>	<b>(1,052,407)</b>	<b>348,890</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>				
Cash Payments for Purchase of Capital Assets	(56,906)	-0-	(56,906)	-0-
<b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>				
State Sources	191,132	2,432	193,564	-0-
Federal Sources	950,073	-0-	950,073	-0-
Transfers In (Out) from Other Funds	35,383	(36,718)	(1,335)	-0-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>1,176,588</b>	<b>(34,286)</b>	<b>1,142,302</b>	<b>-0-</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>				
Investment Earnings	111	-0-	111	18,078
Additions to Investment Pools	(32,820)	-0-	(32,820)	(16,266)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(32,709)</b>	<b>-0-</b>	<b>(32,709)</b>	<b>1,812</b>
<b>INCREASE in CASH and CASH EQUIVALENTS</b>	<b>280</b>	<b>-0-</b>	<b>280</b>	<b>350,702</b>
<b>CASH and CASH EQUIVALENTS</b>				
Beginning of Year	1,621	-0-	1,621	478,306
<b>End of Year</b>	<b>\$ 1,901</b>	<b>\$ -0-</b>	<b>\$ 1,901</b>	<b>\$ 829,008</b>

See notes to financial statements.

# Hempfield School District

## STATEMENT of CASH FLOWS -

### PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2012

	Enterprise Funds			
	<u>Major Fund</u>			
	Food Service Fund	Nonmajor Funds	Total Funds	Internal Service Funds
<b>RECONCILIATION of OPERATING INCOME</b>				
<b>(LOSS) to NET CASH PROVIDED by</b>				
<b>OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (1,245,136)	\$ 34,286	\$ (1,210,850)	\$ 52,997
 <b>ADJUSTMENTS to RECONCILE OPERATING</b>				
<b>INCOME (LOSS) to NET CASH PROVIDED</b>				
<b>by OPERATING ACTIVITIES</b>				
Depreciation	42,679	-0-	42,679	-0-
Donated Commodities Used	130,308	-0-	130,308	-0-
Decrease in Receivables	4,239	-0-	4,239	150,041
Increase in Inventory	(7,992)	-0-	(7,992)	-0-
Increase in Accounts Payable	86	-0-	86	145,852
Decrease in Accrued Salaries and Benefits	(17,696)	-0-	(17,696)	-0-
Increase in Deferred Revenue	6,819	-0-	6,819	-0-
<b>Total Adjustments</b>	<b>158,443</b>	<b>-0-</b>	<b>158,443</b>	<b>295,893</b>
 <b>Net Cash Provided (Used) by</b>				
<b>Operating Activities</b>	<b>\$ (1,086,693)</b>	<b>\$ 34,286</b>	<b>\$ (1,052,407)</b>	<b>\$ 348,890</b>
 <b>SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION</b>				
 <b>NONCASH FLOWS from NONCAPITAL and</b>				
<b>RELATED FINANCING ACTIVITIES</b>				
Receipt of USDA Donated Commodities	131,035	-0-	131,035	-0-
Use of USDA Donated Commodities	(130,308)	-0-	130,308	-0-

See notes to financial statements.

# Hempfield School District

## STATEMENT of NET ASSETS -

### FIDUCIARY FUNDS

June 30, 2012

	<b>Scholarship Fund</b>	<b>Student Activity Fund</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 120,104	\$ 209,236
Investments	<u>1,005</u>	<u>-0-</u>
<b>TOTAL ASSETS</b>	<b><u>121,109</u></b>	<b><u>209,236</u></b>
<b>LIABILITIES</b>		
Accounts Payable	1,043	36,724
Other Current Liabilities	<u>-0-</u>	<u>172,512</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,043</u></b>	<b><u>209,236</u></b>
<b>NET ASSETS</b>		
Restricted for Scholarships	<b><u>\$ 120,066</u></b>	<b><u>\$ -0-</u></b>

See notes to financial statements.

**Hempfield School District**  
 STATEMENT of CHANGES in NET ASSETS -  
 FIDUCIARY FUNDS  
 Year Ended June 30, 2012

	<b>Scholarship Fund</b>
<b>ADDITIONS</b>	
Gifts and Contributions	\$ 5,650
Investment Earnings	<u>293</u>
<b>Total Additions</b>	<b>5,943</b>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>12,975</u>
<b>CHANGES in NET ASSETS</b>	<b>(7,032)</b>
<b>NET ASSETS</b>	
Beginning	<u>127,098</u>
<b>Ending</b>	<b><u>\$ 120,066</u></b>

See notes to financial statements.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES**

**Hempfield School District**, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in West Hempfield Township, East Hempfield Township, Mountville Borough, and East Petersburg Borough. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of seven elementary schools, two middle schools, and one high school, serving approximately 7,000 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*, 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. 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, 2012, was approximately \$1,113,080. The School District has entered into an operating lease with the LCCTC as more fully disclosed in Note 20. 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 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 did not have any financial transactions with the Authority during the year ended June 30, 2012. 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, 2012. 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, 2012, was approximately \$3,288,733. Complete financial information for the LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Joint Ventures (Continued)**

**Lancaster County Academy (Academy)**

The Academy is an alternative public school organized by 10 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member school district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy for the year ended June 30, 2012, was approximately \$30,000. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

**Lancaster County Tax Collection Bureau (Bureau)**

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2012, was \$219,290. 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 \$138,000. The pool reimburses monies to the School District for individual claims above \$138,000 up to \$200,000. The pool has commercial insurance for claims greater than \$200,000. The School District contribution to the pool for the year ended June 30, 2012, was approximately \$222,551.

**Basis of Presentation - Fund Accounting**

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

**Basis of Presentation - Financial Statements**

**Government-Wide Financial Statements**

The statement of net assets 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 associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation - Financial Statements (Continued)**

**Fund Financial Statements (Continued)**

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

The School District reports the following major proprietary fund:

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

The School District reports the following nonmajor proprietary funds:

**Catering Fund** - This fund accounts for revenues generated from catering services and related costs.

**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, 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, 2012, which are not intended to finance fiscal 2012 operations, have been recorded as deferred revenues. 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.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the School District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 and catering fund are charges to students, staff and external customers for food. Operating expenses include the costs to provide food. The principal operating revenues of the School District's catering fund are charges for daycare services to parents. Operating expenses include the cost for the operation and management of the daycare center. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned. The School District may elect to selectively spend unassigned balances first to defer the use of these classified balances.

**Cash and Cash Equivalents**

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

Investments are recorded at market value.

**Taxes Receivable and Deferred 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 tax revenues. All taxes receivable are considered to be fully collectible (Note 4).

**Inventories**

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

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, 2012. Any unused commodities donated by the federal government at June 30, 2012, were reported as deferred revenue since title does not pass to the School District until the commodities are used.

**Capital Assets and Depreciation**

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

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

**Long-Term Obligations**

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is 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 TSA account.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year end are included with committed or assigned fund balances, as appropriate, because they do not constitute expenditures or liabilities. As of June 30, 2012, the School District had no encumbrances.

**Pension Plan**

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2012, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

**Interfund Activity**

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

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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

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

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

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

The School District typically considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. However, the School District reserves the right to selectively spend unassigned resources first to defer the use of the classified balances. The School District considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

**Estimates**

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

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pending Changes in Accounting Principles**

In June 2011, GASB issued Statement No. 61, The Financial Reporting Entity. The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for the School District's June 30, 2013, financial statements.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this Statement are effective for the School District's June 30, 2013, financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for the School District's June 30, 2014, financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections, an Amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The provisions of this Statement are effective for the School District's June 30, 2014, financial statements.

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

The effects of the implementation of these standards has 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.

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

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, 2012, \$46,647,596 of the School District's bank balance of \$47,180,585 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>46,647,596</u>
	<b>46,647,596</b>

**Reconciliation of Cash and Cash Equivalents to the Financial Statements**

Uninsured Amount Above	46,647,596
Insured Amount	<u>532,989</u>
Bank Balance	47,180,585
Outstanding Checks	<u>(227,600)</u>
Carrying Amount - Bank Balances	46,952,985
Petty Cash	<u>1,660</u>
<b>Total Cash and Cash Equivalents per Financial Statements</b>	<b>46,954,645</b>

**Investments**

As of June 30, 2012, the School District had the following investments:

Investments	Fair Value
PA Local Government Investment Trust	9,793,108
PA School District Liquid Asset Fund	4,067,481
Goldman Sachs Financial Square Treasury Obligations	<u>12,407</u>
	<b>13,872,996</b>

**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.



**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

**Credit Risk**

The School District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2012, the School District investments are rated as:

Investments	Standard & Poor's
PA Local Government Investment Trust	AAAm
PA School District Liquid Asset Fund	AAAm
Goldman Sachs Financial Square Treasury Obligations	AAAm

**Concentration of Credit Risk**

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

Governmental Activities:	
PA Local Government Investment Trust	70%
PA School District Liquid Asset Fund	30%
General Fund:	
PA Local Government Investment Trust	67%
PA School District Liquid Asset Fund	33%
Internal Service Funds:	
PA Local Government Investment Trust	48%
PA School District Liquid Asset Fund	52%

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

**Custodial Credit Risk**

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

**NOTE 3 - REAL ESTATE TAXES**

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2012, was 18.2660 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2012, 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)

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**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, 2012, are as follows:

	<b>Taxes Receivable</b>	<b>Revenue Recognized</b>	<b>Deferred Taxes</b>
Real Estate Taxes	1,107,537	181,289	926,248
Realty Transfer Taxes	68,699	68,699	-0-
Earned Income Taxes	<u>1,265,028</u>	<u>1,265,028</u>	<u>-0-</u>
	<b>2,441,264</b>	<b>1,515,016</b>	<b>926,248</b>

**NOTE 5 - INTERFUND ACCOUNTS**

Individual fund receivable and payable balances at June 30, 2012, are as follows:

<b>Fund</b>	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
General Fund	-0-	3,078,076
Food Service Fund	7,991	-0-
Retirement Benefit Reserve Fund	1,000,000	-0-
Debt Service Fund	-0-	10,813
Capital Project Fund	<u>2,080,898</u>	<u>-0-</u>
	<b>3,088,889</b>	<b>3,088,889</b>

A transfer is pending from the general fund to the food service fund for a refund of health insurance overpayment.

A transfer in the amount of \$2,070,085 is pending from the general fund to the capital reserve fund, a component of the capital project fund, to provide resources for future capital expenditures.

A transfer is pending from the general fund to the retirement benefit reserve fund to set aside resources for future PSERS rate increases.

A transfer is pending from the debt service fund to the capital projects fund for bond proceeds to be used to finance construction.

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 5 - INTERFUND ACCOUNTS (Continued)**

Interfund transfers for the year ended June 30, 2012, are as follows:

Fund	Transfers In	Transfers Out
General Fund	54,074	11,513,067
Food Service Fund	52,739	17,356
Catering Fund	17,356	-0-
Capital Project Fund	44,088,653	52,739
Retirement Benefit Reserve Fund	1,000,000	-0-
Child Care Fund	-0-	54,074
Debt Service Fund	8,174,371	42,018,568
Student Activity Fund	<u>268,611</u>	<u>-0-</u>
	<b>53,655,804</b>	<b>53,655,804</b>

Transfers to the catering fund from the food service fund were made in the amount equal to the fund's net operating loss for the fiscal year ended June 30, 2012.

Transfers from the general fund to the capital reserve fund, a component of the capital project fund, in the amount of \$2,070,085 were made to provide resources for future capital expenditures.

Transfers in the amount of \$8,174,371 are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds.

Transfers are made from the debt service fund to the construction fund, a component of the capital project fund, of net bond proceeds in the amount of \$42,018,568 to fund construction costs.

Transfers are made from the general fund to the retirement benefit reserve fund to increase the reserve for upcoming PSERS rate increases.

Transfers are made from the general fund to the student activity fund to provide funding for the student activities.

Transfers are made from the child care fund to the general fund equal to the fiscal year's net operating profit.

Transfers are made from the capital projects fund to the cafeteria fund for equipment purchases.

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 6 - DUE from OTHER GOVERNMENTS**

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2012, the following amounts are due from other governmental units:

Due From	General Fund	Governmental Activities
Federal Grants	50,486	50,486
State Retirement Subsidy	804,834	804,834
State FICA Subsidy	259,917	259,917
Lancaster-Lebanon IU #13	1,092,433	1,092,433
Other State Subsidies	312,697	312,697
Other Local Governments	<u>8,760</u>	<u>8,760</u>
	<b>2,529,127</b>	<b>2,529,127</b>

**NOTE 7 - CHANGES in CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended June 30, 2012, is as follows:

Historical Cost:	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets not Being Depreciated:				
Land	4,687,257	-0-	-0-	4,687,257
Capital Assets Being Depreciated:				
Building and Building Improvements	154,564,797	-0-	(1,897,978)	152,666,819
Furniture and Equipment	22,282,601	815,495	(5,504,448)	17,593,648
Vehicles	<u>472,395</u>	<u>-0-</u>	<u>(1,400)</u>	<u>470,995</u>
<b>Total Cost</b>	<b>177,319,793</b>	<b>815,495</b>	<b>(7,403,826)</b>	<b>170,731,462</b>
Accumulated Depreciation:				
Building and Building Improvements	47,600,336	3,170,964	(1,897,978)	48,873,322
Furniture and Equipment	15,660,346	1,584,996	(5,265,454)	11,979,888
Vehicles	<u>310,174</u>	<u>36,407</u>	<u>(1,260)</u>	<u>345,321</u>
<b>Total Accumulated Depreciation</b>	<b><u>63,570,856</u></b>	<b><u>4,792,367</u></b>	<b><u>(7,164,692)</u></b>	<b><u>61,198,531</u></b>
<b>Net Capital Assets Being Depreciated</b>	<b><u>113,748,937</u></b>	<b><u>(3,976,872)</u></b>	<b><u>(239,134)</u></b>	<b><u>109,532,931</u></b>
<b>Net Capital Assets</b>	<b>118,436,194</b>	<b>(3,976,872)</b>	<b>(239,134)</b>	<b>114,220,188</b>
<b>Construction in Progress</b>	<b>1,385,009</b>	<b>20,697,069</b>	<b>-0-</b>	<b>22,082,078</b>

**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, 2012, is as follows:

<b>Historical Cost:</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2012</b>
Capital Assets Being Depreciated:				
Furniture and Equipment	443,833	60,406	(41,109)	463,130
Vehicles	<u>115,281</u>	<u>-0-</u>	<u>-0-</u>	<u>115,281</u>
<b>Total Cost</b>	<b>559,114</b>	<b>60,406</b>	<b>(41,109)</b>	<b>578,411</b>
Accumulated Depreciation:				
Furniture and Equipment	323,361	28,269	(41,109)	310,521
Vehicles	<u>64,846</u>	<u>14,410</u>	<u>-0-</u>	<u>79,256</u>
<b>Total Accumulated Depreciation</b>	<b><u>388,207</u></b>	<b><u>42,679</u></b>	<b><u>(41,109)</u></b>	<b><u>389,777</u></b>
<b>Net Capital Assets</b>	<b>170,907</b>	<b>17,727</b>	<b>-0-</b>	<b>188,634</b>

Depreciation expenses were charged to governmental functions as follows:

Instruction	3,064,459
Instructional Student Support	451,939
Administrative and Financial Support Services	645,691
Operation and Maintenance of Plant Services	159,132
Unallocated Depreciation Expense	<u>471,146</u>
	<b>4,792,367</b>

**NOTE 8 - ACCRUED SALARIES and BENEFITS**

At June 30, 2012, the School District was liable for \$5,134,746 of payroll, which is payable during July and August 2012, 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, 2012, 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 following benefits on payroll paid prior to or accrued as of June 30, 2012:

Retirement	1,609,668
Social Security	385,127
Other Benefits	<u>169,814</u>
	<b>2,164,609</b>

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 9 - DEFERRED REVENUE**

Deferred revenue consists of the following as of June 30, 2012:

	<b>General Fund</b>	<b>Food Service Fund</b>
Deferred Delinquent Real Estate Taxes	896,552	-0-
Deferred Grant Program Revenue	2,770	-0-
Interim Taxes	29,697	-0-
Deferred Rental Subsidies	155,772	-0-
Other	2,375	-0-
Unused Donated Commodities	-0-	12,266
Prepaid Lunch Sales	-0-	<u>60,505</u>
	<u><b>1,087,166</b></u>	<u><b>72,771</b></u>

**NOTE 10 - LONG-TERM DEBT**

**General Obligation Debt**

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2012, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2012
Series of 2009 Bonds	October 15, 2023	2.50% - 4.125%	11,540,000
Series A of 2009 Bonds	October 15, 2014	2.00% - 5.00%	9,040,000
Series of 2010 Bonds	October 15, 2023	3.00% - 4.00%	8,050,000
Series A of 2010 Notes	April 15, 2030	1.25% - 4.05%	8,055,000
Series of 2011 Notes	October 15, 2023	2.50% - 3.25%	3,195,000
Series A of 2011 Bonds	October 15, 2021	3.00% - 4.00%	8,080,000
Series B of 2011 Bonds	August 1, 2025	Variable	25,285,000
Series of 2012 Bonds	October 15, 2031	3.00% - 5.00%	27,320,000
Series A of 2012	October 15, 2023	0.55% - 4.00%	<u>12,385,000</u>
			<b>112,950,000</b>

On September 15, 2004, the School District issued Series A of 2004 General Obligation Bonds of \$17,290,000 to provide funds for renovations, and/or additions to Centerville Middle School and various School District athletic fields, for other capital projects of the School District, to capitalize a portion of the interest on the bonds, and to pay the costs and expenses of issuing the debt. The bond issue was defeased during the year ended June 30, 2012 through the issuance of the Series A of 2012 General Obligation Bonds.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 10 - LONG-TERM DEBT (Continued)**

**General Obligation Debt (Continued)**

On June 1, 2007, the School District issued Series A of 2007 General Obligation Notes of \$9,500,000. The purpose of the notes was to provide funds for: (1) completion of Centerville Middle School (2) the School District wide energy performance contract, and (3) the completion of various projects related to the athletic and parking facilities. The interest rate for the Series A of 2007 is a variable rate which is calculated based on the weekly rate of the Bonds plus .50%, but in no event shall the rate exceed 15.50%. The Notes were currently refunded during the year ended June 30, 2012, with the issuance of the Series B of 2011 General Obligation Bonds.

On June 15, 2009, the School District issued Series of 2009 General Obligation Bonds of \$21,130,000. The proceeds were used to (1) refund the Series of 1998 General Obligation Bonds, (2) refund the Series A of 2001 General Obligation Bonds, (3) refund a portion of the Series B of 2003 General Obligation Bonds, and (4) pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2012, was \$11,540,000 due in various amounts through October 15, 2023. Principal due within one year is \$4,800,000.

On September 15, 2009, the School District issued Series A of 2009 General Obligation Bonds of \$9,050,000 at a premium of \$1,063,080. The proceeds were used to refund the Series A 2003 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2012, was \$9,040,000 due in various amounts through October 15, 2014. Principal due within one year is \$5,000.

On May 10, 2010, the School District issued Series of 2010 General Obligation Bonds of \$8,060,000. The proceeds were used to refund the Series of 2005 General Obligation Bonds and pay the cost and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2012, was \$8,050,000 due in various amounts through October 15, 2023. Principal due within one year is \$5,000.

On December 6, 2010, the School District issued the Series A of 2010 General Obligation Notes of \$8,555,000. The proceeds were used to currently refund the Series of 2006 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2012, was \$8,055,000 due in various amounts through April 15, 2030. Principal due within one year is \$5,000.

On December 1, 2010, the School District issued the Series B of 2010 General Obligation Notes of \$4,000,000. The purpose of the Notes was to provide funding for the planning, design, and early construction costs associated with three building projects of the School District and to pay the costs and expenses of issuing the Notes. The interest rate for the Notes is a variable rate which is calculated on the weekly rate of the Emmaus General Authority variable rate bonds plus a gross up rate further described in the indenture and shall not exceed 25.00%. The Notes were currently refunded during the year ended June 30, 2012, with the issuance of the Series B of 2011 General Obligation Bonds.

On June 13, 2011, the School District issued the Series of 2011 General Obligation Notes of \$3,445,000. The proceeds were used to currently refund a portion of the Series AA of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2012, was \$3,195,000 due in various installments from October 15, 2011 through October 15, 2023. Principal due within one year is \$5,000.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 10 - LONG-TERM DEBT (Continued)**

**General Obligation Debt (Continued)**

On June 13, 2011, the School District issued the Series A of 2011 General Obligation Bonds of \$8,190,000 at a premium of \$646,520. The proceeds were used to currently refund the remainder of the Series AA of 2004 General Obligation Bonds, to advance refund the Series A of 2006 General Obligation Notes, and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2012, was \$8,080,000 due in various installments from October 15, 2011 through October 15, 2021. Principal due within one year is \$5,000.

On December 14, 2011, the School District issued the Series B of 2011 General Obligation Bonds of \$25,285,000. Bond proceeds in the amount of \$9,100,000 and \$4,000,000 were used to currently refund the Series A of 2007 General Obligation Notes and the Series B of 2010 General Obligation Notes. In addition, Bond proceeds were used to pay the costs and expenses of issuing the Notes, construct renovations and additions to Landisville Elementary School, and cover the cost of other ongoing and proposed capital projects for the School District. The principal amount outstanding at June 30, 2012, was \$25,285,000 due in various amounts from August 1, 2013 through August 1, 2025. Interest payments are due monthly. The interest rate for the Bonds is a variable rate which is calculated weekly based on 70% of the one-month LIBOR plus 0.68% and payable on the first business day of the month. The variable interest rate will be remarketed as of December 31, 2014, as further outlined in the indenture. The interest rate shall not exceed 12%. The rate was 0.85% as of June 30, 2012. The School District projects a 4% remarketing rate and used that rate effective January 1, 2014, to calculate future debt service obligations. The purpose of the refunding was to achieve interest savings through a more favorable variable rate structure. Projected savings based on rates at the time of issuance were \$855,000. The present value of the School District's savings amounts to \$725,000 over the term of the Bonds. There is no principal due within one year.

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 as well as other capital projects and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2012, was \$27,320,000 due in various amounts from October 2024 through October 15, 2031 and semi-annual interest payments as outlined in the indenture commencing on October 15, 2012. There is no principal due within one year.

On May 8, 2012, the School District issued the Series A of 2012 General Obligation Bonds of \$12,385,000 at a premium of \$798,922. The proceeds were used to currently refund the Series A of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2012 was \$12,385,000 due in various installments from October 15, 2013 through October 15, 2023. The purpose of the refunding was to achieve interest expense savings in the amount of \$1,117,835. The present value of the School District's savings amounts to \$963,376 over the term of the Bonds. There is no principal due within one year.



**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 10 - LONG-TERM DEBT (Continued)**

**General Obligation Debt (Continued)**

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
General Obligation Debt	79,515,000	64,990,000	31,555,000	112,950,000
Bond Discount ***	(107,508)	-0-	(86,468)	(21,040)
Bond Premium	1,542,720	3,755,114	274,483	5,023,351
Loss on Bond Refinancing ***	<u>(439,486)</u>	<u>(131,699)</u>	<u>(91,880)</u>	<u>(479,305)</u>
***	<b>80,510,726</b>	<b>68,613,415</b>	<b>31,651,135</b>	<b>117,473,006</b>
Accrued Retirement Bonuses	1,578,464	-0-	35,261	1,543,203
Other Postretirement Benefits	1,056,579	958,848	761,843	1,253,584
Estimated Liability for Compensated Absences	<u>3,201,557</u>	<u>-0-</u>	<u>134,439</u>	<u>3,067,118</u>
***	<b>86,347,326</b>	<b>69,572,263</b>	<b>32,582,678</b>	<b>123,336,911</b>

\*\*\* Loss on bond refinancing has not been presented separately in prior years. \$208,894 of bond issuance costs and \$230,593 of bond discount related to advance refunded or defeased bond issues has been reclassified as of July 1, 2011.

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

	Interest	Principal	Total
2013	3,526,868	4,825,000	8,351,868
2014	3,461,167	5,585,000	9,046,167
2015	3,775,200	6,380,000	10,155,200
2016	3,800,694	6,410,000	10,210,694
2017	3,533,430	5,270,000	8,803,430
2018 - 2022	14,747,226	29,595,000	44,342,226
2023 - 2027	9,197,688	27,145,000	36,342,688
2028 - 2032	<u>3,632,740</u>	<u>27,740,000</u>	<u>31,372,740</u>
	<b>45,675,013</b>	<b>112,950,000</b>	<b>158,625,013</b>

**NOTE 11 - DEFEASED DEBT OUTSTANDING**

In prior years and during the year ended June 30, 2012, the School District has defeased various bond issues by creating separate irrevocable trust funds. 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 fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, does not appear as a liability on the statement of net assets. As of June 30, 2012, the total amount of defeased debt outstanding but removed from the statement of net assets amounted to \$12,885,000.

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 12 - 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, 2012:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Accumulated Sick Leave	2,336,580	53,062
Accumulated Vacation Leave	422,940	9,424
Accumulated Personal Days	190,663	6,305
Employer Social Security and Medicare on Leave Amounts Above	<u>46,941</u>	<u>1,203</u>
	<b>2,997,124</b>	<b>69,994</b>

**NOTE 13 - ACCRUED RETIREMENT BONUSES**

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus to be transferred into a TSA account. The accrual for estimated retirement benefits was \$1,543,203 at June 30, 2012. Of this liability, \$4,860 was attributed to business-type activities and \$1,538,343 was attributed to the governmental activities.

**NOTE 14 - FUND BALANCE CLASSIFICATIONS**

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At June 30, 2012, the School District has the following restricted balance:

<b>Capital Project Fund:</b>	
Restricted for future Capital Projects	22,947,687
<b>Debt Service Fund:</b>	
Restricted for Debt Service	1,593

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. At June 30, 2012, the School District has included the following as committed fund balances:

<b>General Fund:</b>	
Committed for Prior Year Early Retirement Incentives	410,000
Committed to Offset Future Postemployment Benefit Expenditures	<u>1,500,000</u>
	<b>1,910,000</b>

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 14 - FUND BALANCE CLASSIFICATIONS (Continued)**

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, 2012, the School District has the following as assigned fund balances:

<b>Debt Service Fund:</b>	
Assigned for Debt Service Payment	4,864,358
<b>Capital Project Fund:</b>	
Assigned for Capital Outlays	4,031,338
<b>General Fund:</b>	
Anticipated 2013/14 General Fund Budget Deficit	1,500,000
Relief for Upcoming PSERS Rate Increases	1,000,000
Future Capital Projects	<u>500,000</u>
	<b>3,000,000</b>

**NOTE 15 - RISK MANAGEMENT**

**Hospitalization**

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit #13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process, and pay the claims. The School District was limited in liability to \$138,000 per individual and \$14,847,694 in total for hospitalization claims for the year ended June 30, 2012.

A liability for claims incurred prior to June 30, 2012, and subsequently paid is recorded in the amount of \$825,000 in accounts payable in the internal service fund. For the year ended June 30, 2011, the liability for claims incurred prior to June 30, 2011, and subsequently paid was \$679,148.

Changes in the School District's claims liability amount in fiscal years 2012 and 2011 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2010 - 2011	824,622	10,436,578	10,582,052	679,148
2011 - 2012	679,148	10,531,866	10,386,014	825,000

**Workers' Compensation**

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 15 - RISK MANAGEMENT (Continued)**

**Workers' Compensation (Continued)**

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, 2012, 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, 2012, and the two previous fiscal years, no settlements exceeded insurance coverage.

**NOTE 16 - DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

**Funding Policy**

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

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)**

**Funding Policy (Continued)**

The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. For fiscal year ended June 30, 2012, the rate of employer contribution was 8.65% of covered payroll. The 8.65% rate is comprised of a pension contribution rate of 8.00% for pension benefits and .65% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. **Hempfield School District's** contributions to PSERS for the years ended June 30, 2012, 2011, and 2010, were \$4,100,177, \$2,776,926, and \$2,264,930, respectively. Those amounts are equal to the required contribution for each year.

**NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

**Description**

The School District follows the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$1,253,584 in total liabilities resulting from the adoption.

The School District maintains a single employer defined benefit plan to provide postretirement healthcare and life insurance benefits to School District employees who, in most cases, have retired with at least 5 years of PSERS service or attained age 62 or older with at least 1 year of PSERS service. Such benefits are available to retirees and retiree dependents until the retired employee reaches age 65, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

**Funding Policy**

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

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual Required Contribution	976,167
Interest on OPEB Obligation	47,546
Adjustment to Annual Required Contribution	<u>(64,865)</u>
Annual OPEB Cost	<b>958,848</b>
Contributions Made (Estimate ***)	<u>(761,843)</u>
Estimated Increase in Net OPEB Obligation	<b>197,005</b>
Net OPEB Obligation - Beginning of Year	<u>1,056,579</u>
Net OPEB Obligation - End of Year	<b>1,253,584</b>

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/2010	\$795,482	45%	\$1,002,493
6/30/2011	\$965,975	93% ***	\$1,056,579
6/30/2012	\$958,848	79%	\$1,253,584

\*\*\* For the year ended June 30, 2011, the School District has implemented the estimation method of the actuary to determine the annually contributed amount. The difference between the School District's previous internal estimation method and the actuarial estimate of \$380,707 is reflected in the contribution made estimated of the year ended June 30, 2011.

**Funding Status and Funding Progress**

As of June 1, 2010, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$8,015,221, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,015,221. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$42,866,047, and the ratio of the UAAL to the covered payroll equaled 18.70%.

As of June 1, 2008, the prior actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$6,160,558, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,610,558. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$39,070,549, and the ratio of the UAAL to the covered payroll equaled 15.77%.

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

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

**Actuarial Methods and Assumptions**

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

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Actuarial Methods and Assumptions (Continued)**

In the actuarial valuation dated June 1, 2010, the entry age normal cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) legally held exclusively for paying the postretirement medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 7.5% in the first year gradually decreasing by 0.5% per year to a rate of 5.5% in 2014. The rates continue to gradually decrease thereafter to 4.2% in 2099 based on the Society of Actuaries Long-Run Medical Cost Trend Model.

**NOTE 18 - DAYCARE OPERATIONS**

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

**NOTE 19 - CONTINGENCIES and COMMITMENTS**

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.

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

**Transportation Contract**

The School District has entered into an agreement for the transportation of school pupils with First Student. The Agreement is for the period of July 1, 2009 through June 30, 2014. The contractor provides all equipment and labor necessary. The estimated cost for the first contract year is \$3,125,000 with projected annual increases of 3.00% per annum.

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 19 - CONTINGENCIES and COMMITMENTS (Continued)**

**Capital Projects**

The School District has recently completed a feasibility study and is undertaking the following three capital projects based on the results of the study:

**East Petersburg Elementary School**

The School District is in the process of building a new elementary school to replace the existing building. As of June 30, 2012, the School District has incurred expenditures of \$2,920,000 related to this project and has committed itself to construction contract balances as follows:

Architect/Engineer	50,300
General Trades	7,497,400
Plumbing	1,027,000
HVAC	2,491,800
Electrical	<u>1,557,500</u>
	<b>12,624,000</b>

In addition, the School District projects additional expenditures of \$1,882,000 for information technology, furniture, fixtures, and equipment, as well as a construction cost contingency. The completion of the project is expected before the beginning of the 2013-14 school year.

**Farmdale Elementary School**

The School District is in the process of building a new elementary school to replace the existing building. As of June 30, 2012, the School District has incurred expenditures of \$3,660,000 related to this project and has committed itself to construction contract balances as follows:

Architect/Engineer	50,300
General Trades	7,167,400
Plumbing	989,000
HVAC	2,458,100
Electrical	<u>1,517,500</u>
	<b>12,182,300</b>

In addition, the School District projects additional expenditures of \$1,339,000 for information technology, furniture, fixtures, and equipment, as well as a construction cost contingency. The completion of the project is expected before the beginning of the 2013-14 school year.



**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 19 - CONTINGENCIES and COMMITMENTS (Continued)**

**Capital Projects (Continued)**

**Landisville Intermediate Center**

The School District is in the process of building a new intermediate school to replace the existing building. As of June 30, 2012, the School District has incurred expenditures of \$15,424,000 and has committed itself to construction contract balances as follows:

Architect/Engineer	21,300
General Trades	567,100
Plumbing	36,600
HVAC	116,000
Electrical	<u>195,000</u>
	<b>936,000</b>

In addition, the School District projects additional expenditures of \$1,110,000 for information technology, furniture, fixtures, and equipment, demolition of the old building, as well as a construction cost contingency. Subsequent to June 30, 2012, the building was placed in service in time for the 2012-13 school year.

To date, the School District has financed the construction costs with the issuance of general obligation debt. In order to complete the three projects, the School Districts intends to use the construction fund balance of \$22,947,687 and plans one additional general obligation debt issue of up to \$9,000,000 in the beginning of 2013.

**NOTE 20 - OPERATING LEASE**

On September 22, 2011, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2011 in the maximum aggregate principal amount of \$43,000,000 to provide funds for renovations and additions to Brownstown, Mount Joy, and Willow Wood campuses of the Lancaster County Career and Technology Center (LCCTC), for the purchase and renovation of property for a practical nursing program at the LCCTC, for various other ongoing and proposed capital projects of the LCCTC, and for the payment and cost of issuing the Bonds. The Lancaster County Career and Technical Center and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC Organization Agreement. Although the resolution provided for an amount not to exceed \$43,000,000, it is currently anticipated that the aggregate amount borrowed will be between \$21,000,000 and \$30,000,000. The Bonds are issued in three different series over three years. The amount of each series shall not exceed \$10,000,000 without the member schools' approval. The Bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000.

**Hempfield School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 20 - OPERATING LEASE (Continued)**

On June 29, 2012, the LCCTCA issued the first of three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2012, in the total amount of \$9,995,000. The School District's lease rental obligation for future minimum rental payments related to the issued debt and its potential exposure if the full principal amount of \$43,000,000 were to be issued are as follows:

Fiscal Year Ended June 30,	Currently Issued Bonds \$9,995,000 Future Minimum Rental Payments	Maximum Bonds Outstanding \$43,000,000 Maximum Potential for Future Minimum Rental Payments
2013	153,172	392,000
2014	62,980	470,400
2015	62,689	454,966
2016	62,926	444,485
2017	63,128	437,505
2018 - 2022	314,325	2,092,913
2023 - 2027	315,396	1,948,220
2028 - 2032	314,346	1,800,395
2033 - 2037	<u>315,150</u>	<u>1,448,250</u>
	<b>1,664,112</b>	<b>9,489,134</b>

**NOTE 21 - EARLY RETIREMENT INCENTIVE and VOLUNTARY WORKFORCE REDUCTION PROGRAM**

**Early Retirement Incentive**

During the year ended June 30, 2011 the School District has offered an early retirement incentive (ERI) to its employees. Employees that elected to retire under this arrangement (July of 2011 for support staff or September 2011 for professional staff) were offered a reduced rate for continued medical coverage. Normally, retiring employees that meet certain criteria can elect continued coverage under the School District's health Plan until age 65, but are responsible to pay the full actuarially calculated cost for the elected coverage. Under the ERI, employees would only be required to pay 50% of the cost for single coverage for up to five years subject to additional limitations. The following table summarizes the estimated continued participation in the School District's health Plan by personnel electing the ERI and the annual estimated cost to the School District as a result of the ERI.

Fiscal Year Ended	Number of ERI Participants	Estimated Annual Cost
June 30, 2013	23	104,600
June 30, 2014	20	102,200
June 30, 2015	13	86,100
June 30, 2016	9	75,700
June 30, 2017	8	<u>41,400</u>
		<b>410,000</b>

**Hempfield School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 21 - EARLY RETIREMENT INCENTIVE and VOLUNTARY WORKFORCE REDUCTION PROGRAM (Continued)**

**Early Retirement Incentive (Continued)**

The Hempfield School Board has committed general fund balance in the amount of the expected future costs of \$410,000 as of June 30, 2012. The cost effect of this ERI is also reflected in the liability for postemployment health care benefits further described in Note 17. The School District based its cost estimate on the following inputs: (1) actuarially determined current monthly rate for single coverage of \$684, (2) participation until 65 with no assumed mortality, and (3) annual growth rate of health care cost of 23% which includes a provision to account for the hidden subsidy of higher health care cost associated with retirees. The estimate has not been discounted to present value.

**Voluntary Workforce Reduction Program**

During March 2012, in a continued effort to manage budget challenges and reorganize various elements of staffing, the School District offered a Voluntary Workforce Reduction Program (VWRP) to support, administrative, and professional staff that met certain eligibility criteria linked primarily to years of service. Employees electing the VWRP agreed to resign or retire by the end of the 2011-12 school year or September 30, 2012, as applicable, and received an incentive payment of \$500 for each year of full-time service at the time of resignation. A total of 19 employees participated in the VWRP. The School District incurred expenses of \$206,900 during the year ended June 30, 2012, for VWRP incentive payments.

# Hempfield School District

## SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - GENERAL FUND Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
REVENUES	Original	Final	Budgetary Basis	Final Budget - Favorable
Local Sources:				
Real Estate Taxes	\$ 63,433,449	\$ 63,433,449	\$ 63,272,345	\$ (161,104)
Other Taxes	6,515,000	6,515,000	7,279,058	764,058
Investment Earnings	100,000	100,000	144,233	44,233
Other Revenue	2,253,524	2,253,524	2,749,201	495,677
Total Local Sources	72,301,973	72,301,973	73,444,837	1,142,864
State Sources	23,229,874	23,229,874	23,839,272	609,398
Federal Sources	935,000	935,000	1,076,182	141,182
<b>Total Revenues</b>	<b>96,466,847</b>	<b>96,466,847</b>	<b>98,360,291</b>	<b>1,893,444</b>
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	44,714,044	44,314,077	44,313,765	312
Special Programs	11,080,555	11,227,304	11,227,169	135
Vocational Programs	1,424,418	1,402,953	1,402,952	1
Other Instructional Programs	513,989	543,167	543,152	15
Adult Education Programs	-0-	6,512	6,510	2
Support Services:				
Pupil Personnel	3,501,358	3,439,267	3,439,214	53
Instructional Staff	1,668,355	1,643,614	1,643,566	48
Administrative	4,955,658	4,630,704	4,630,610	94
Pupil Health	898,395	937,990	937,964	26
Business	1,089,928	1,055,628	1,055,614	14
Operation of Plant and Maintenance	8,082,637	7,242,671	7,242,583	88
Student Transportation	4,953,590	4,801,459	4,801,444	15
Central and Other Business	2,590,350	2,494,808	2,494,784	24
Noninstructional	1,260,118	1,231,584	1,231,583	1
<b>Total Expenditures</b>	<b>86,733,395</b>	<b>84,971,738</b>	<b>84,970,910</b>	<b>828</b>
<b>EXCESS of REVENUES over EXPENDITURES</b>	<b>9,733,452</b>	<b>11,495,109</b>	<b>13,389,381</b>	<b>1,894,272</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Service, Current	(9,539,166)	(8,174,377)	(8,174,371)	6
Other Fund Transfers	(175,000)	(2,813,696)	(3,284,622)	(470,926)
Other Financing Uses	(17,000)	(1,500)	(1,500)	-0-
Refund of Prior Years' Revenues	-0-	(23,530)	(23,530)	-0-
Proceeds from Sale of Fixed Assets	2,000	2,000	3,938	1,938
Budgetary Reserve	(1,000,000)	(1,479,720)	-0-	1,479,720
<b>Net Other Financing Uses</b>	<b>(10,729,166)</b>	<b>(12,490,823)</b>	<b>(11,480,085)</b>	<b>1,010,738</b>
<b>NET CHANGES in FUND BALANCES</b>	<b>(995,714)</b>	<b>(995,714)</b>	<b>1,909,296</b>	<b>2,905,010</b>
<b>FUND BALANCES</b>				
Beginning			8,439,902	
Ending			<u><u>\$ 10,349,198</u></u>	

See 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. There is no budget for the capital reserve fund.

# Hempfield School District

## COMBINING BALANCE SHEET SCHEDULE - CAPITAL PROJECT FUNDS

June 30, 2012

	Capital Reserve Fund	Construction Fund	Total Capital Project Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,924,892	\$ 26,679,691	\$ 28,604,583
Investments	62,308	-0-	62,308
Due from Other Funds	2,070,085	10,813	2,080,898
<b>TOTAL ASSETS</b>	<b><u>4,057,285</u></b>	<b><u>26,690,504</u></b>	<b><u>30,747,789</u></b>
<b>LIABILITIES and FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	25,947	3,742,817	3,768,764
<b>FUND BALANCES</b>			
Restricted	-0-	22,947,687	22,947,687
Assigned	4,031,338	-0-	4,031,338
<b>TOTAL FUND BALANCES</b>	<b><u>4,031,338</u></b>	<b><u>22,947,687</u></b>	<b><u>26,979,025</u></b>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<b><u>\$ 4,057,285</u></b>	<b><u>\$ 26,690,504</u></b>	<b><u>\$ 30,747,789</u></b>

See auditors' report.

## Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
CAPITAL PROJECT FUNDS  
Year Ended June 30, 2012

	Capital Reserve Fund	Construction Fund	Total Capital Project Fund
<b>REVENUES</b>			
Local Sources:			
Investment Earnings	\$ 4,196	\$ 24,811	\$ 29,007
<b>EXPENDITURES</b>			
Capital Outlay	<u>194,493</u>	<u>20,771,315</u>	<u>20,965,808</u>
<b>DEFICIENCY of REVENUES over EXPENDITURES</b>	(190,297)	(20,746,504)	(20,936,801)
<b>OTHER FINANCING SOURCES</b>			
Transfers In	<u>2,021,480</u>	<u>42,014,434</u>	<u>44,035,914</u>
<b>NET CHANGES in FUND BALANCES</b>	1,831,183	21,267,930	23,099,113
<b>FUND BALANCES</b>			
Beginning	<u>2,200,155</u>	<u>1,679,757</u>	<u>3,879,912</u>
Ending	<u>\$ 4,031,338</u>	<u>\$ 22,947,687</u>	<u>\$ 26,979,025</u>

See auditors' report.

**Hempfield School District**  
 COMBINING SCHEDULE of NET ASSETS -  
 INTERNAL SERVICE FUNDS  
 June 30, 2012

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service Funds
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash					
Equivalents	\$ 829,008	\$ -0-	\$ -0-	\$ -0-	\$ 829,008
Investments	2,324,935	3,086,437	245,771	220,414	5,877,557
Due from Other Funds	-0-	1,000,000	-0-	-0-	1,000,000
Other Receivables	57,137	4,449	-0-	-0-	61,586
	<u>57,137</u>	<u>4,449</u>	<u>-0-</u>	<u>-0-</u>	<u>61,586</u>
<b>TOTAL ASSETS</b>	<b><u>3,211,080</u></b>	<b><u>4,090,886</u></b>	<b><u>245,771</u></b>	<b><u>220,414</u></b>	<b><u>7,768,151</u></b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts Payable	<u>825,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>825,000</u>
<b>NET ASSETS</b>					
Restricted	<b><u>\$ 2,386,080</u></b>	<b><u>\$ 4,090,886</u></b>	<b><u>\$ 245,771</u></b>	<b><u>\$ 220,414</u></b>	<b><u>\$ 6,943,151</u></b>

See auditors' report.



**Hempfield School District**  
 COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET ASSETS -  
 INTERNAL SERVICE FUNDS  
 Year Ended June 30, 2012

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service Funds
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 11,320,651	\$ -0-	\$ -0-	\$ -0-	\$ 11,320,651
<b>OPERATING EXPENSES</b>					
Employee Benefits	<u>11,267,654</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,267,654</u>
<b>OPERATING GAIN</b>	<b>52,997</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>52,997</b>
<b>NONOPERATING REVENUES</b>					
Investment Earnings	<u>8,183</u>	<u>5,153</u>	<u>162</u>	<u>145</u>	<u>13,643</u>
<b>INCOME BEFORE TRANSFERS</b>	<b>61,180</b>	<b>5,153</b>	<b>162</b>	<b>145</b>	<b>66,640</b>
<b>TRANSFERS IN</b>	<u>-0-</u>	<u>1,000,000</u>	<u>-0-</u>	<u>-0-</u>	<u>1,000,000</u>
<b>CHANGES in NET ASSETS</b>	<b>61,180</b>	<b>1,005,153</b>	<b>162</b>	<b>145</b>	<b>1,066,640</b>
<b>NET ASSETS</b>					
Beginning	<u>2,324,900</u>	<u>3,085,733</u>	<u>245,609</u>	<u>220,269</u>	<u>5,876,511</u>
<b>Ending</b>	<u><b>\$ 2,386,080</b></u>	<u><b>\$ 4,090,886</b></u>	<u><b>\$ 245,771</b></u>	<u><b>\$ 220,414</b></u>	<u><b>\$ 6,943,151</b></u>

See auditors' report.

## Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET ASSETS -  
 PROPRIETARY FUNDS - NONMAJOR ENTERPRISE FUNDS  
 Year Ended June 30, 2012

	Catering Fund	Child Care Fund	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 68,839	\$ 233,724	\$ 302,563
Miscellaneous	<u>12</u>	<u>-0-</u>	<u>12</u>
<b>Total Operating Revenues</b>	<b>68,851</b>	<b>233,724</b>	<b>302,575</b>
<b>OPERATING EXPENSES</b>			
Salaries	38,103	-0-	38,103
Employee Benefits	17,862	-0-	17,862
Other Purchased Services	-0-	179,650	179,650
Supplies	30,713	-0-	30,713
Other Operating Expenses	<u>1,961</u>	<u>-0-</u>	<u>1,961</u>
<b>Total Operating Expenses</b>	<b><u>88,639</u></b>	<b><u>179,650</u></b>	<b><u>268,289</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b>(19,788)</b>	<b>54,074</b>	<b>34,286</b>
<b>NONOPERATING REVENUE</b>			
State Sources	<u>2,432</u>	<u>-0-</u>	<u>2,432</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(17,356)</b>	<b>54,074</b>	<b>36,718</b>
<b>TRANSFERS IN (OUT)</b>	<b><u>17,356</u></b>	<b><u>(54,074)</u></b>	<b><u>(36,718)</u></b>
<b>CHANGES in NET ASSETS</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>NET ASSETS</b>			
Beginning	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Ending</b>	<b><u><u>\$ -0-</u></u></b>	<b><u><u>\$ -0-</u></u></b>	<b><u><u>\$ -0-</u></u></b>

See auditors' report.

**Hempfield School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 Year Ended June 30, 2012

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
<b>U.S. Department of Agriculture</b>									
<b>Passed Through the Pennsylvania Department of Education:</b>									
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/11 - 06/30/12	N/A	\$ -0-	\$ 143,143	\$ 145,349	\$ 2,206
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/10 - 06/30/11	N/A	7,354	7,354	-0-	-0-
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/11 - 06/30/12	N/A	-0-	767,090	776,455	9,365
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/10 - 06/30/11	N/A	<u>32,485</u>	<u>32,485</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>39,839</b>	<b>950,072</b>	<b>921,804</b>	<b>11,571</b>
<b>Passed Through the Pennsylvania Department of Agriculture:</b>									
National School Lunch Program (Notes 2 and 3)	I/F	10.555	N/A	07/01/11 - 06/30/12	N/A	<u>(11,539) A)</u>	<u>131,035 B)</u>	<u>130,308 C)</u>	<u>(12,266) D)</u>
<b>Total U.S. Department of Agriculture</b>						<b>28,300</b>	<b>1,081,107</b>	<b>1,052,112</b>	<b>(695)</b>
<b>U.S. Department of Education</b>									
<b>Passed Through the Pennsylvania Department of Education:</b>									
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	013-120189	08/02/11 - 09/30/12	580,626	-0-	552,493	580,626	28,133
Title I Grants to Local Educational Agencies (Notes 2 and 4)	I/F	84.010	013-110189	08/02/10 - 09/30/11	623,794	\$ 74,196	\$ 90,599	\$ 6,000	\$ (10,403)

See auditors' report.

**Hempfield School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2012

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
<b>U.S. Department of Education (Continued)</b>									
<b>Passed Through the Pennsylvania Department of Education: (Continued)</b>									
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	077-100189	06/09/09 - 09/30/10	1,800	\$ 867	\$ 1,200	\$ 333	\$ -0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-100587	06/11/11 - 09/30/11	7,500	-0-	7,500	7,500	-0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-100189	07/01/09 - 03/31/11	17,372	2,316	2,316	-0-	-0-
English Language Acquisition Grants	I/F	84.365	010-120189	08/02/11 - 09/30/12	93,196	-0-	46,673	55,278	8,605
Improving Teacher Quality State Grants	I/F	84.367	020-120189	08/02/11 - 09/30/12	199,454	-0-	171,676	179,054	7,378
Improving Teacher Quality State Grants (Note 4)	I/F	84.367	020-110189	08/02/10 - 09/30/11	237,682	(783)	-0-	-0-	(783)
Education Jobs Fund	I/F	84.410	140-120189	07/01/11 - 06/30/12	13,224	-0-	-0-	13,224	13,224
Striving Readers	I/F	84.371C	KTO-12-0000	04/05/12 - 09/30/13	999,841	-0-	-0-	7,292	7,292
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>76,596</b>	<b>872,457</b>	<b>849,307</b>	<b>53,446</b>
<b>Passed Through Intermediate Unit #1:</b>									
Special Education - Grants to States (Note 2)	I/F	84.027	062-10032	08/01/10 - 06/30/11	20,144	\$ 20,144	\$ 20,144	\$ -0-	\$ -0-

See auditors' report.

**Hempfield School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2012

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2011	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
<b>U.S. Department of Education (Continued)</b>									
<b>Passed Through the Lancaster-Lebanon Intermediate Unit #13:</b>									
Special Education - Grants to States (Note 2)	I/F	84.027	062-120013	07/1/11 - 09/30/12	1,315,203	\$ -0-	\$ 249,836	\$ 1,315,203	\$ 1,065,367
Special Education - Preschool Grants (Note 2)	I/F	84.173	131-110013	07/01/11 - 06/30/12	8,635	-0-	-0-	8,635	8,635
ARRA - Special Education - Grants to States, Recovery Act (Note 2)	I/F	84.391	128-100013	02/17/09 - 09/30/11	1,602,165	<u>114,991</u>	<u>160,343</u>	<u>45,352</u>	<u>-0-</u>
<b>Total Passed Through the Lancaster-Lebanon Intermediate Unit #13</b>						<u><b>114,991</b></u>	<u><b>410,179</b></u>	<u><b>1,369,190</b></u>	<u><b>1,074,002</b></u>
<b>Total U.S. Department of Education</b>						<u><b>211,731</b></u>	<u><b>1,302,780</b></u>	<u><b>2,218,497</b></u>	<u><b>1,127,448</b></u>
<b>TOTAL EXPENDITURES of FEDERAL AWARDS</b>						<u><b>\$ 240,031</b></u>	<u><b>\$ 2,383,887</b></u>	<u><b>\$ 3,270,609</b></u>	<u><b>\$ 1,126,753</b></u>

Legend

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

See auditors' report.

**Hempfield School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2012

**NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 2 - CLUSTER IDENTIFICATION**

Project Title	Federal CFDA Number	Cluster
School Breakfast Program	10.553	Child Nutrition Cluster
National School Lunch Program	10.555	Child Nutrition Cluster
Title I Grants to Local Educational Agencies	84.010	Title I, Part A Cluster
Special Education - Grants to States	84.027	Special Education Cluster (IDEA)
Special Education - Preschool Grants	84.173	Special Education Cluster (IDEA)
ARRA - Special Education - Grants to States, Recovery Act	84.391	Special Education Cluster (IDEA)

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

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

**NOTE 4 - RETURNED MONEY**

For the grants on the preceding schedule which designate that this Note applies, the amounts listed as accruals in the last column on the schedule represent funds which were returned to the grantor agency.

**NOTE 5 - 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, 2012, was \$643,728, of which \$246,493 is listed on the PDE confirmation as program #044-007189 and \$397,235 was received through the Lancaster-Lebanon Intermediate Unit #13.

See auditors' report.

**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 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, 2012, which collectively comprise **Hempfield School District's** basic financial statements and have issued our report thereon dated October 31, 2012. 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.

**Internal Control Over Financial Reporting**

Management of **Hempfield School District** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **Hempfield School District's** internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Hempfield School District's** internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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## Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board Officers and Members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 31, 2012  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT on COMPLIANCE with REQUIREMENTS that COULD HAVE a DIRECT and MATERIAL EFFECT on each MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE in ACCORDANCE with OMB CIRCULAR A-133**

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

**Compliance**

We have audited **Hempfield School District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on **Hempfield School District's** major federal program for the year ended June 30, 2012. **Hempfield School District's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of **Hempfield School District's** management. Our responsibility is to express an opinion on **Hempfield School District's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Hempfield School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Hempfield School District's** compliance with those requirements.

In our opinion, **Hempfield School District** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## Internal Control Over Compliance

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

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board Officers and Members, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 31, 2012  
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**Hempfield School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year Ended June 30, 2012

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of **Hempfield School District**.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of **Hempfield School District** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for **Hempfield School District** expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for **Hempfield School District** are reported in part C of this schedule.
7. The program tested as a major program is: School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Hempfield School District** was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

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

None

**Hempfield School District**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year Ended June 30, 2012

There are no prior audit findings.