

Hempfield School District

Year Ended June 30, 2017



TROUT, EBERSOLE & GROFF_{LLP}

CPAs | BUSINESS ADVISORS

SERVICE | ANSWERS | TRUST

Hempfield School District
Financial Statements with Supplementary Information
Year Ended June 30, 2017

TABLE of CONTENTS

	Page
Independent Auditors' Report	1 - 3
Required Supplementary Information	
Management's Discussion and Analysis	4 - 14
Financial Statements	
Statement of Net Position	15 & 16
Statement of Activities	17 & 18
Balance Sheet - Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22 & 23
Statement of Net Position - Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	26 & 27
Statement of Net Position - Fiduciary Funds	28
Statement of Changes in Net Position - Fiduciary Funds	29
Notes to Financial Statements	30 - 63
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	64
Notes to Required Supplementary Information	65

Hempfield School District
Financial Statements with Supplementary Information
Year Ended June 30, 2017

TABLE of CONTENTS
(Continued)

	Page
Required Supplementary Information (Continued)	
Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Postretirement Health Care Benefits Plan	66
Schedule of Employer Contributions - Other Postemployment Benefits (OPEB) Postretirement Health Care Benefits Plan	67
Notes to Required Supplementary Information	68
Schedule of School District's Proportionate Share of the Net Pension Liability - Public School Employees' Retirement System - Last 10 Fiscal Years	69
Schedule of Employer Contributions - Public School Employees' Retirement System - Last 10 Fiscal Years	70
Notes to Required Supplementary Information	71
Supplementary Information	
Schedule of Expenditures of Federal Awards	72 - 74
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75 & 76
Independent Auditors' Report on Compliance for each Major Program and Report on Internal Control over Compliance as Required by the Uniform Guidance	77 & 78
Schedule of Findings and Questioned Costs	79 & 80
Summary Schedule of Prior Audit Findings	81
Corrective Action Plan	82 & 83

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District**, Pennsylvania (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

SERVICE | ANSWERS | TRUST

LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • Fax 717-569-0141
CAPITAL REGION OFFICE: 5000 Ritter Road, Suite 104, Mechanicsburg, PA 17055 • 717-697-2900 • Fax 717-697-2002

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District** as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As described in Note 22 to the financial statements, **Hempfield School District** reconsidered a component of its internal service fund balance related to investments maintained to manage future increases in contributions to the Public School Employees' Retirement System (PSERS). The School District determined that it is more appropriate to account for those funds within the general fund as committed fund balance as opposed to a component of the internal service fund. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 64 and 65, the other postemployment benefits (OPEB) health care benefits plan information on pages 66 through 68, and the schedule of school district's proportionate share of the net pension liability and the schedule of employer contributions on pages 69 through 71, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Hempfield School District's** basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of **Hempfield School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Hempfield School District's** internal control over financial reporting and compliance.

December 12, 2017
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2017

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, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements as a whole to enhance the understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2017 are as follows:

- Total governmental and business-type assets decreased \$2.6 million to \$185.1 million. Although cash and investment balances increased \$2.8 million, the value of net capital assets declined \$4.9 million primarily as a result of \$6.0 million of depreciation expense with significantly less capital additions than we've seen in prior years. Total governmental and business-type liabilities increased by \$23.3 million due to the recognition of an additional \$27.9 million in net pension liability as required by GASB 68, *Accounting and Financial Reporting for Pensions*. Bonds payable, net of unamortized discount and premium decreased \$5.4 million.
- Total governmental activities revenues totaled \$117.6 million. General revenues accounted for \$95.2 million, or 81% of this total, while program specific charges for services, grants, or contributions represented \$22.4 million or 19%. Revenues increased \$5.7 million from last year. Total tax revenues increased \$2.5 million as well as a \$3.4 million increase in state revenues. The increase in state revenues is caused primarily by a \$1.2 million increase in the PSERS retirement subsidy while other state revenues also increased.
- The School District had \$121.8 million in expenses related to governmental activities; \$22.4 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$80.5 million of taxes, provided for these expenses. Net position decreased by \$4.2 million for governmental activities of which \$6.3 million is due to the recording of the School District's increase in proportionate share of the net pension liability.
- Among major funds, the general fund had \$118.8 million in revenues and \$117.5 million in expenditures and transfers. This resulted in an increase of \$1.3 million in the general fund balance, increasing the general fund's fund balance to \$14.7 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 first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

USING THIS ANNUAL REPORT (Continued)

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds including proprietary and fiduciary fund statements. In the case of **Hempfield School District**, the general fund is the most significant fund.

Reporting the School District as a Whole

Our analysis for the School District as a whole begins on page 6. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and liabilities, as well as deferred outflows and inflows of resources, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 19 and provide detailed information about the most significant funds, not the School District as a whole. The School District's three types of funds, governmental, proprietary, and fiduciary, use different accounting approaches.

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

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

USING THIS ANNUAL REPORT (Continued)

helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are reconciled in the financial statements.

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

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

THE SCHOOL DISTRICT as a WHOLE

Statement of Net Position

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016:

Table 1
Net Position at June 30
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	45.0	42.6	(.4)	(.3)	44.6	42.3
Capital Assets	<u>139.5</u>	<u>144.3</u>	<u>1.0</u>	<u>1.1</u>	<u>140.5</u>	<u>145.4</u>
Total Assets	184.5	186.9	.6	.8	185.1	187.7
Deferred Outflow of Resources	38.5	16.8	.8	.3	39.3	17.1
Liabilities						
Current Liabilities	24.1	23.7	.1	.1	24.2	23.8
Noncurrent Liabilities	<u>295.3</u>	<u>273.0</u>	<u>4.0</u>	<u>3.4</u>	<u>299.3</u>	<u>276.4</u>
Total Liabilities	319.4	296.7	4.1	3.5	323.5	300.2
Deferred Inflows of Resources	1.7	1.0	.0	.0	1.7	1.0
Net Position						
Net Investment in Capital Assets	38.7	38.2	1.0	1.1	39.7	39.3
Unrestricted (Deficit)	<u>(136.8)</u>	<u>(132.2)</u>	<u>(3.8)</u>	<u>(3.5)</u>	<u>(140.6)</u>	<u>(135.7)</u>
Total Net Position	(98.1)	(94.0)	(2.8)	(2.4)	(100.9)	(96.4)

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

THE SCHOOL DISTRICT as a WHOLE (Continued)

Analysis of Table 1:

The School District's combined total net position reflects aggregated total liabilities and deferred inflow balances which exceed combined total asset and deferred outflow balances by \$100.9 million on June 30, 2017. The net pension liability required by GASB 68 and included in the long-term liabilities totals results in negative net position for both fiscal years. Recognizing the School District's proportionate share of the total state liability and the related deferred inflows and outflows adds a net liability to the government wide financial statements in the amount of \$160.8 million for 2017.

Governmental Activities

- Current assets increased \$2.4 million which was primarily due to a \$2.8 million increase in cash and investments.
- Noncurrent assets decreased almost \$4.8 million, from \$144.3 million to \$139.5 million. This decrease reflects both the addition of new assets as well as the disposition of assets no longer in use and the recognition of annual depreciation expense.
- Total liabilities increased \$22.7 million which was largely the combined result of bonds payable decreasing by \$5.5 million and net pension liability increasing \$27.9 million.

Business-Type Activities

- Net position of the business-type activities decreased \$311,000. Included in the decreased net position was depreciation of \$103,000 and net pension liabilities recognized in the amount of \$128,000.

Statement of Activities

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

	Governmental		Business-Type		Total	
	Activities		Activities		2017	2016
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services	1.4	1.2	1.9	2.0	3.3	3.2
Operating Grants	19.7	17.5	1.6	1.2	21.3	18.7
Capital Grants	1.3	1.1	.0	.0	1.3	1.1
General Revenues:						
Property and Other Taxes	80.5	78.0	.0	.0	80.5	78.0
Grants and Entitlements	14.2	13.8	.0	.0	14.2	13.8
Other	<u>.5</u>	<u>.3</u>	<u>.0</u>	<u>.0</u>	<u>.5</u>	<u>.3</u>
Total Revenues	117.6	111.9	3.5	3.2	121.1	115.1

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

THE SCHOOL DISTRICT as a WHOLE (Continued)

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Expenses						
Program Expenses:						
Instruction	82.7	77.5	.0	.0	82.7	77.5
Support Services:						
Instructional Student Support	9.5	8.7	.0	.0	9.5	8.7
Administrative and Financial						
Support Services	11.1	9.6	.0	.0	11.1	9.6
Operation and Maintenance of						
Plant Services	8.4	9.1	.0	.0	8.4	9.1
Pupil Transportation	4.9	5.0	.0	.0	4.9	5.0
Student Activities	1.9	1.9	.0	.0	1.9	1.9
Interest on Long-Term Debt	2.5	2.8	.0	.0	2.5	2.8
Unallocated Depreciation Expense	.8	.8	.0	.0	.8	.8
Food Service and Day Care Operations	<u>.0</u>	<u>.0</u>	<u>3.8</u>	<u>3.7</u>	<u>3.8</u>	<u>3.7</u>
Total Expenses	<u>121.8</u>	<u>115.4</u>	<u>3.8</u>	<u>3.7</u>	<u>125.6</u>	<u>119.1</u>
Decrease in Net Position	(4.2)	(3.5)	(.3)	(.5)	(4.5)	(4.0)

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, 2017

THE SCHOOL DISTRICT as a WHOLE (Continued)

Table 3
Governmental Activities at June 30
(In Millions)

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	82.7	77.5	67.4	63.9
Support Services:				
Instructional Student Support	9.5	8.7	8.3	7.5
Administrative and Financial Support Services	11.1	9.6	9.9	8.8
Operation and Maintenance of Plant Services	8.4	9.1	7.8	8.6
Pupil Transportation	4.9	5.0	2.7	2.9
Student Activities	1.9	1.9	1.3	1.5
Interest on Long-Term Debt	2.5	2.8	1.2	1.6
Unallocated Depreciation Expense	<u>.8</u>	<u>.8</u>	<u>.8</u>	<u>.8</u>
Total Governmental Activities	121.8	115.4	99.4	95.6

Analysis of Tables 2 and 3:

Governmental Activities

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

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

There is heavy reliance on tax revenues to fund the operations of the School District. The community, as a whole, is by far the primary financial support for Hempfield School District.

- Property, earned income, and other taxes provided \$80.5 million, or 84.6% of the \$95.2 million general governmental revenues. Program related grants, subsidies and charges for services provided \$22.4 million of funding for program expenses, and \$14.7 million of additional grants, subsidies, interest, and other revenues provided for other expenses after the offset of asset disposals.
- Overall tax revenues increased \$2.5 million. Current property taxes increased \$2.0 million. The millage applied to the assessed valuation increased from 19.653 in 2015-2016 to 20.1246 in 2016-2017, a 2.4% index-based increase.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

THE SCHOOL DISTRICT as a WHOLE (Continued)

Total expenses for governmental activities have increased by \$6.4 million. Wage increases, primarily driven by the collective bargaining agreement, led to \$900,000 of these increased expenses. PSERS retirement costs continue to rise leading to increased expenses of approximately \$2.4 million. The employer rate increased from 25.84% in 2015-2016 to 30.03% in 2016-2017. Although health care costs are still increasing, changes made in plan offerings beginning in January, 2016 have helped to minimize expense growth. Medical cost increases were also approximately \$900,000.

Business-Type Activities

Business-type activities consist of food service operations and the child care venture. The child nutrition programs had revenues, including state and federal support, of \$3.2 million, and expenses of \$3.5 million for the fiscal year 2017, which resulted in a loss of approximately \$305,000 for food service operations. Of this amount, \$103,000 represents depreciation expense and \$128,000 as additional pension expense related to GASB 68. Therefore the adjusted operating loss was approximately \$75,000. It remains a challenge but is still the goal that the food service operations are able to operate in the positive and not need to rely on support from the general fund. Changes in the child care operations during 2016-17 has resulted in significantly less profit than had been realized in previous years. The final profit, excluding transfers, for 2016-17 was approximately \$39,000.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds starts on page 19. The governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$118.9 million and expenditures of \$116.3 million. Other financing sources provided \$.5 million, resulting in an increase to total fund balances of \$3.1 million.

General Fund

The general fund balance, excluding the effects of the prior period adjustment in the approximate amount of \$4.7 million, increased by \$1.3 million to a total of \$14.7 million. Commitments have been made by the board under GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to identify and protect contingent resources to address needs in some critical areas. A total of \$2.0 million has been assigned as follows: \$1.0 million for future capital projects and \$1.0 million for potential purchase of electronic devices for the School District's 1:1 initiative. After the assigned balance, there is approximately \$8.0 million remaining as unassigned fund balance. During 2017, the School District reconsidered a component of its internal service fund balance related to investments maintained to manage future increases in retirement contributions to PSERS and the School District determined that it is more appropriate to account for those funds within the general fund as committed fund balance in the approximate amount of \$4.7 million.

With these transactions recorded, the unassigned fund balance test yields a 6.7% fund balance against the 2016-2017 budgeted expenditures, which is well within the 8% legal restriction. The assigned, committed and unassigned amounts in the fund balance provide some contingency amounts, if needed, to deal with increasing costs and future liabilities. The unassigned fund balance also assists in meeting the following fiscal year's obligations until real estate taxes are collected. Maintaining a healthy fund balance is important for a positive bond rating, as well as potential resources to deal with unanticipated financial challenges as they may occur.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

THE SCHOOL DISTRICT'S FUNDS (Continued)

Debt Service Fund

The debt service fund had a net increase of \$14,000 this year, leaving the ongoing fund balance unchanged at \$4.3 million. As historic low interest rates have continued, the School District has managed debt in a proactive manner to take advantage of refinance opportunities and include a component of variable rate financing in the debt portfolio. This reserve balance is maintained in part as a safety net because of the School District's variable rate debt to mitigate the impact of potential future rate spikes, and also to provide a substantial balance to assist with making the required debt service payments on various bond issues over the next several years. This reserve has been critical in managing the School District's debt load and annual debt service payments. By taking advantage of two refunding opportunities during the school year 2016-17, the School District realized net savings over the life of the bonds of approximately \$884,000.

Capital Project Fund

The School District's capital project fund is comprised of the capital reserve fund and the construction project fund. The capital reserve fund balance increased by about \$1.7 million to \$4.7 million. The School District utilizes capital reserve funds for spending needs related to major repair and small construction projects identified in a five year plan. Capital expenditures were less this year totaling \$1.3 million. Boiler and HVAC upgrades in the amount of \$739,000 were the most significant expenditures incurred in order to extend the useful lives of the assets.

GENERAL FUND BUDGETING HIGHLIGHTS

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

During the course of fiscal year 2017, the School District managed School District expenditures based on its general fund budget. At the end of the fiscal year, the board approved certain budgetary transfers to be made as needed, to comply with statutory requirements to update commitments and assignments of fund balance. Year-end transfers made to other funds had been anticipated within the approved budget for the year.

For the general fund, actual revenues were \$118.9 million, which was approximately \$3.7 million more than the original budget estimates for revenues. Local sourced revenues were \$1.6 million higher than budget. The transportation contracts with other LEA's have provided a greater source of local funding. State revenues received were \$2.0 million higher than budgeted, primarily due to receiving both 2015-16 and 2016-17 subsidy payments from the Commonwealth of Pennsylvania for the District's share of rental and sinking fund reimbursements related to scheduled debt payments. The \$1.1 million 2015-16 reimbursement due to the District was not recorded in the general fund financial statements in the prior year due to the uncertainty surrounding the state's ability to secure funding. This amount was subsequently received and recorded in the 2016-17 fiscal year.

Actual expenditures for the year were \$117.5 million, \$106.7 million of that amount for operational expenses and \$10.9 million for fund transfers and debt service. These amounts were about \$800,000 more than the budgeted expenses.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

CAPITAL ASSETS and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the School District had \$140.5 million invested in land, buildings, equipment, vehicles, and construction in progress with \$139.5 million in governmental activities. Table 4 shows the fiscal year 2017 balance compared to 2016.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Land	4.7	4.7	.0	.0	4.7	4.7
Building and Building Improvements	122.3	125.5	.0	.0	122.3	125.5
Furniture, Equipment, and Vehicles	12.2	13.7	1.0	1.1	13.2	14.8
Construction in Progress	<u>.3</u>	<u>.4</u>	<u>.0</u>	<u>.0</u>	<u>.3</u>	<u>.4</u>
Total Capital Assets	139.5	144.3	1.0	1.1	140.5	145.4

Property and equipment additions were \$1.3 million for the year 2016-2017. There are no major building projects on the horizon, the focus now is on upgrades to existing systems to extend the useful lives of district buildings. Annual depreciation expense of \$6.0 million was recorded.

Debt Administration

In 2017, the School District took advantage of two opportunities to refund and reissue bonds. The 2016A General Obligation Bonds were issued to refund the Series 2011, the Series A of 2011 and a portion of Series of 2012 General Obligation Bonds. This transaction resulted in a net savings to the School District of more than \$500,000 to be recognized over the next fifteen years. Series of 2017 General Obligation Bonds were issued to refund the Series of 2013 General Obligation Bonds resulting in an additional \$350,000 savings to the District. Moody's Investors Service, Inc. has assigned the School District a rating of AA2 which indicates the obligations are rated to be of high quality and subject to low credit risk.

At June 30, 2017, the School District had \$97.9 million in bonds outstanding, with \$5.7 million in principal due within one year. Table 5 summarizes bonds outstanding:

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

CAPITAL ASSETS and DEBT ADMINISTRATION (Continued)

Table 5
Outstanding Debt at Year End
(In Millions)

	Governmental Activities	
	2017	2016
General Obligation Bonds:		
2011 Note Refinancing	0.0	3.2
2011A Bond Restructuring	0.0	3.2
2012 Bond Financing	24.7	27.3
2012A Note Refinancing	8.5	9.6
2013 Bond	.5	8.8
2014 Bond	4.8	5.4
2014A Bond	2.7	2.9
2015 Bond Variable Rate Refinancing	22.1	25.5
2015A Bond Refinancing	8.1	8.1
2016 Bond Refinancing	8.4	8.4
2016A Bond Refinancing	9.2	0.0
2017 Bond Refinancing	<u>8.9</u>	<u>0.0</u>
	97.9	102.4

FOR THE FUTURE

Hempfield School District continues to be strong financially. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations, and prudently manages its financial assets. At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could impact its future financial health.

The School District enrollment has stayed level for the 2016-17 school year. Long-range projections suggest only slight increases in student enrollments; the trends will be monitored to proactively prepare for any changes. Although the total numbers of students has remained flat, we continue to see higher numbers of special education students (16.6% of total enrollment as of December 1, 2016). The costs to provide special education services to a greater number of School District students is escalating, but the subsidy funding from the Commonwealth has not kept pace with the rising expenses.

Act 1 of 2006 puts a ceiling on the amount of real estate taxes a school district can levy. Act 1 index for 2017-18 was 2.4%; however the District passed its 2017-18 budget to include an increase of just 1.0%. The millage rate for 2017-18 is 20.3258, a 1% increase over the 20.1246 millage rate in 2016-17.

Across the state of Pennsylvania, there is still uncertainty surrounding the future of real estate taxes as there is a desire to enact legislation for Property Tax Reform. Because the District is heavily reliant on local funding, 71% of the revenue budget coming from local sources, there is continued concern about the loss of the District's ability to levy taxes and keep collections at the local level. At this time, there is no proposal at the State level that is being considered, but this is an area that we will continue to watch closely.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2017

FOR THE FUTURE (Continued)

The cost of mandated employee retirement benefits through the Pennsylvania Public School Employees' Retirement System (PSERS) continues to burden school districts. PSERS is a defined benefit pension plan funded by employer and employee contributions. The employer contribution rate has grown annually since the 2008-2009 rate of 4.76% increasing to the rate of 32.57% for the 2017-18 fiscal year. State legislators, concerned with the financial burden placed upon taxpayers, worked for several years reviewing many options for pension reform. In June of 2017, Governor Tom Wolf signed into law a pension bill that will change the retirement plan for future public school employees hired in 2019 and after. Although this will be a positive change long-term to lower the expense to districts, it will take many years for any relief to be recognized. PSERS rates are estimated to continue increasing to a projected 36.40% employer expense in the 2021-2022 school year.

Lancaster County property tax reassessment is underway with the new property tax values and restated millage rates set to be in place for July 1, 2018. Districts are currently waiting for the final results from the County. The potential exists for the District's total taxable assessed property value to be eroded by tax assessment appeals, resulting with a notable loss of real estate tax revenue during the reassessment process.

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

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Hempfield School District

STATEMENT of NET POSITION

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 14,368,132	\$ 3,382	\$ 14,371,514
Investments	22,412,395	28,463	22,440,858
Taxes Receivable, net	2,634,139	-0-	2,634,139
Internal Balances	542,822	(542,822)	-0-
Due from Other Governments	4,661,335	36,301	4,697,636
Other Current Assets	332,048	18,187	350,235
Inventories	<u>48,787</u>	<u>21,765</u>	<u>70,552</u>
Total Current Assets	44,999,658	(434,724)	44,564,934
Noncurrent Assets			
Non-Depreciable	5,002,841	-0-	5,002,841
Depreciable, net	<u>134,466,106</u>	<u>1,015,788</u>	<u>135,481,894</u>
Total Noncurrent Assets	<u>139,468,947</u>	<u>1,015,788</u>	<u>140,484,735</u>
TOTAL ASSETS	<u>184,468,605</u>	<u>581,064</u>	<u>185,049,669</u>
DEFERRED OUTFLOWS of RESOURCES			
Deferred Outflows - Pension	<u>38,523,773</u>	<u>786,199</u>	<u>39,309,972</u>
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>\$ 38,523,773</u>	<u>\$ 786,199</u>	<u>\$ 39,309,972</u>

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION

(Continued)

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 4,090,370	\$ 1,387	\$ 4,091,757
Current Portion of Long-Term Debt	5,695,000	-0-	5,695,000
Accrued Salaries and Benefits	11,827,156	-0-	11,827,156
Compensated Absences, Due Within One Year	868,712	17,231	885,943
Accrued Interest on Long-Term Debt	596,300	-0-	596,300
Payroll Deductions and Withholdings	584,267	-0-	584,267
Unearned Revenues	382,111	77,204	459,315
Other Current Liabilities	90,014	-0-	90,014
Total Current Liabilities	24,133,930	95,822	24,229,752
Noncurrent Liabilities			
Net Pension Liability	194,464,500	3,968,663	198,433,163
Bonds Payable, net of Unamortized Discount and Premium	94,958,179	-0-	94,958,179
Accrued Retirement Bonuses	1,023,355	3,645	1,027,000
Long-Term Portion of Compensated Absences	1,986,504	39,862	2,026,366
Net Other Postemployment Benefit (OPEB) Liability	2,817,019	-0-	2,817,019
Total Noncurrent Liabilities	295,249,557	4,012,170	299,261,727
TOTAL LIABILITIES	319,383,487	4,107,992	323,491,479
DEFERRED INFLOWS of RESOURCES			
Gain on Bond Refunding, net of Accumulated Amortization	94,821	-0-	94,821
Deferred Inflows - Pension	1,622,048	33,103	1,655,151
TOTAL DEFERRED INFLOWS of RESOURCES	1,716,869	33,103	1,749,972
NET POSITION			
Net Investment in Capital Assets	38,720,947	1,015,788	39,736,735
Unrestricted (Deficit)	(136,828,925)	(3,789,620)	(140,618,545)
TOTAL NET POSITION	\$ (98,107,978)	\$ (2,773,832)	\$ (100,881,810)

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 82,737,407	\$ 137,919	\$ 15,174,619	\$ -0-	\$ (67,424,869)	\$ -0-	\$ (67,424,869)
Instructional Student Support	9,535,751	-0-	1,246,156	-0-	(8,289,595)	-0-	(8,289,595)
Administrative and Financial Support Services	11,064,474	59,912	1,116,621	-0-	(9,887,941)	-0-	(9,887,941)
Operation and Maintenance of Plant Services	8,437,055	164,287	460,490	-0-	(7,812,278)	-0-	(7,812,278)
Pupil Transportation	4,896,063	743,708	1,500,321	-0-	(2,652,034)	-0-	(2,652,034)
Student Activities	1,836,931	313,621	176,632	-0-	(1,346,678)	-0-	(1,346,678)
Community Services	7,100	-0-	-0-	-0-	(7,100)	-0-	(7,100)
Interest on Long-Term Debt	2,517,212	-0-	-0-	1,287,160	(1,230,052)	-0-	(1,230,052)
Depreciation - Unallocated *	753,853	-0-	-0-	-0-	(753,853)	-0-	(753,853)
Total Governmental Activities	121,785,846	1,419,447	19,674,839	1,287,160	(99,404,400)	-0-	(99,404,400)
Business-Type Activities:							
Food Service	3,462,193	1,484,713	1,671,091	-0-	-0-	(306,389)	(306,389)
Child Care	390,764	429,538	-0-	-0-	-0-	38,774	38,774
Total Business-Type Activities	3,852,957	1,914,251	1,671,091	-0-	-0-	(267,615)	(267,615)
Total Government	<u>\$ 125,638,803</u>	<u>\$ 3,333,698</u>	<u>\$ 21,345,930</u>	<u>\$ 1,287,160</u>	\$ (99,404,400)	\$ (267,615)	\$ (99,672,015)

* Excludes depreciation charged directly to various functions.

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
General Revenues:							
Taxes:							
	Property Taxes, Levied for General Purposes, net				\$ 71,675,234	\$ -0-	\$ 71,675,234
	Public Utility Realty and Earned Income Taxes Levied for General Purposes, net				8,777,888	-0-	8,777,888
	Unrestricted Grants and Subsidies				14,219,184	-0-	14,219,184
	Unrestricted Investment Earnings				205,707	972	206,679
	Miscellaneous Income				341,288	21	341,309
	Loss on Fixed Asset Dispositions				(15,243)	-0-	(15,243)
	Transfers In (Out)				44,098	(44,098)	-0-
	Total General Revenues and Transfers				95,248,156	(43,105)	95,205,051
	CHANGES in NET POSITION				(4,156,244)	(310,720)	(4,466,964)
NET POSITION							
	Beginning				(93,951,734)	(2,463,112)	(96,414,846)
	Ending				\$ (98,107,978)	\$ (2,773,832)	\$ (100,881,810)

See notes to financial statements.

Hempfield School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
ASSETS				
Cash and Cash Equivalents	\$ 11,937,734	\$ -0-	\$ 1,920,118	\$ 13,857,852
Investments	14,732,367	4,337,247	299,431	19,369,045
Taxes Receivable, net	2,634,139	-0-	-0-	2,634,139
Due from Other Funds	550,713	-0-	2,801,831	3,352,544
Due from Other Governments	4,661,335	-0-	-0-	4,661,335
Other Receivables	88,253	-0-	-0-	88,253
Inventories	48,787	-0-	-0-	48,787
Prepaid Expenses	173,476	-0-	-0-	173,476
TOTAL ASSETS	<u>34,826,804</u>	<u>4,337,247</u>	<u>5,021,380</u>	<u>44,185,431</u>
LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
LIABILITIES				
Accounts Payable	3,001,324	-0-	289,046	3,290,370
Due to Other Funds	3,701,831	-0-	3,300	3,705,131
Accrued Salaries and Benefits	11,827,156	-0-	-0-	11,827,156
Payroll Deductions and Withholdings	584,267	-0-	-0-	584,267
Unearned Revenues	382,111	-0-	-0-	382,111
Other Liabilities	90,014	-0-	-0-	90,014
TOTAL LIABILITIES	19,586,703	-0-	292,346	19,879,049
DEFERRED INFLOWS of RESOURCES				
Delinquent Real Estate Taxes	550,191	-0-	-0-	550,191
FUND BALANCES				
Nonspendable	222,263	-0-	-0-	222,263
Committed	4,669,556	-0-	-0-	4,669,556
Assigned	2,000,000	4,337,247	4,729,034	11,066,281
Unassigned	7,798,091	-0-	-0-	7,798,091
TOTAL FUND BALANCES	<u>14,689,910</u>	<u>4,337,247</u>	<u>4,729,034</u>	<u>23,756,191</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	<u>\$ 34,826,804</u>	<u>\$ 4,337,247</u>	<u>\$ 5,021,380</u>	<u>\$ 44,185,431</u>

See notes to financial statements.

Hempfield School District
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
 to the STATEMENT of NET POSITION
 June 30, 2017

Total fund balances - governmental funds \$ 23,756,191

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$219,046,288 and the accumulated depreciation is \$79,577,341. 139,468,947

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 3,719,358

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. 550,191

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

Net Pension Liability	(194,464,500)
Bonds Payable	(97,915,000)
Accrued Interest on Long-Term Debt	(596,300)
Bond Discount, net of Amortization	84,521
Bond Premium, net of Amortization	(2,822,700)
Net Other Postemployment Benefit (OPEB) Liability	(2,817,019)
Accrued Retirement Bonuses	(1,023,355)
Compensated Absences	(2,855,216)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds. Deferred inflows of resources consist of:

Pension Related	(1,622,048)
Gain on Bond Refinancing, net of Accumulated Amortization	(94,821)

Deferred outflows of resources - pension are not due and collectable in the current period and, therefore, are not reported in the funds. 38,523,773

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (98,107,978)

See notes to financial statements.

Hempfield School District

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

Year Ended June 30, 2017

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 71,876,191	\$ -0-	\$ -0-	\$ 71,876,191
Other Taxes	8,737,888	-0-	-0-	8,737,888
Investment Earnings	164,735	23,988	16,986	205,709
Other Revenue	3,436,584	-0-	-0-	3,436,584
Total Local Sources	84,215,398	23,988	16,986	84,256,372
State Sources	32,760,972	-0-	-0-	32,760,972
Federal Sources	1,885,217	-0-	-0-	1,885,217
Total Revenues	118,861,587	23,988	16,986	118,902,561
EXPENDITURES				
Instructional Services	73,638,250	-0-	-0-	73,638,250
Support Services	31,134,553	-0-	-0-	31,134,553
Noninstructional Services	1,879,848	-0-	-0-	1,879,848
Capital Outlay	-0-	-0-	1,108,445	1,108,445
Debt Service	-0-	8,229,692	-0-	8,229,692
Bond Issuance Costs	-0-	311,794	-0-	311,794
Total Expenditures	106,652,651	8,541,486	1,108,445	116,302,582
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	12,208,936	(8,517,498)	(1,091,459)	2,599,979
OTHER FINANCING SOURCES (USES)				
Advance Refunding Bond Proceeds	-0-	11,690,000	-0-	11,690,000
Current Refunding Bond Proceeds	-0-	6,390,000	-0-	6,390,000
Payments to Refunded Bond				
Escrow Agent	-0-	(18,080,905)	-0-	(18,080,905)
Premium on Refunding Bonds	-0-	454,680	-0-	454,680
Discount of Refunding of Bonds	-0-	(37,067)	-0-	(37,067)
Refund of Prior Years' Expenses	-0-	-0-	3,970	3,970
Transfers In (Out)	(10,871,382)	8,115,133	2,800,347	44,098
Proceeds from Sale of Fixed Assets	1,054	-0-	-0-	1,054
Net Other Financing Sources (Uses)	(10,870,328)	8,531,841	2,804,317	465,830
NET CHANGES in FUND BALANCES	1,338,608	14,343	1,712,858	3,065,809
FUND BALANCES				
Beginning, as Originally Stated	8,712,434	4,322,904	3,016,176	16,051,514
Prior Period Adjustment (Note 22)	4,638,868	-0-	-0-	4,638,868
Beginning, as Restated	13,351,302	4,322,904	3,016,176	20,690,382
Ending	\$ 14,689,910	\$ 4,337,247	\$ 4,729,034	\$ 23,756,191

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, 2017

Total net changes in fund balances - governmental funds \$ 3,065,809

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	(16,297)	
Depreciation Expense	(6,048,929)	
Capital Outlays	<u>1,228,704</u>	(4,836,522)

Because some property taxes and state 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 tax and state subsidy revenue decreased by this amount this year. (1,305,831)

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. (17,304,239)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 22,560,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ 40,010

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, 2017

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.

\$ (91,742)

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.

(22,779)

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.

(384,341)

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

(6,260,448)

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

383,839

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES

\$ (4,156,244)

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2017

	Enterprise Funds			
	Major Fund Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 3,382	\$ -0-	\$ 3,382	\$ 510,280
Investments	28,463	-0-	28,463	3,043,350
Due from Other Funds	-0-	-0-	-0-	900,000
Other Receivables	54,488	-0-	54,488	65,728
Inventories	21,765	-0-	21,765	-0-
Total Current Assets	108,098	-0-	108,098	4,519,358
Noncurrent Assets				
Furniture and Equipment, net of Accumulated Depreciation	<u>1,015,788</u>	<u>-0-</u>	<u>1,015,788</u>	<u>-0-</u>
TOTAL ASSETS	1,123,886	-0-	1,123,886	4,519,358
DEFERRED OUTFLOWS of RESOURCES - PENSION	<u>786,199</u>	<u>-0-</u>	<u>786,199</u>	<u>-0-</u>
TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES	<u>1,910,085</u>	<u>-0-</u>	<u>1,910,085</u>	<u>4,519,358</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	1,387	-0-	1,387	800,000
Due to Other Funds	537,498	5,324	542,822	-0-
Compensated Absences, Due Within One Year	17,231	-0-	17,231	-0-
Unearned Revenues	77,204	-0-	77,204	-0-
Total Current Liabilities	633,320	5,324	638,644	800,000
Noncurrent Liabilities				
Accrued Retirement Bonus	3,645	-0-	3,645	-0-
Net Pension Liability	3,968,663	-0-	3,968,663	-0-
Long-Term Portion of Compensated Absences	39,862	-0-	39,862	-0-
Total Noncurrent Liabilities	4,012,170	-0-	4,012,170	-0-
TOTAL LIABILITIES	4,645,490	5,324	4,650,814	800,000
DEFERRED INFLOWS of RESOURCES - PENSION	<u>33,103</u>	<u>-0-</u>	<u>33,103</u>	<u>-0-</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES	<u>4,678,593</u>	<u>5,324</u>	<u>4,683,917</u>	<u>800,000</u>
NET POSITION				
Net Investment in Capital Assets	1,015,788	-0-	1,015,788	-0-
Unrestricted (Deficit)	<u>(3,784,296)</u>	<u>(5,324)</u>	<u>(3,789,620)</u>	<u>3,719,358</u>
TOTAL NET POSITION	<u>\$ (2,768,508)</u>	<u>\$ (5,324)</u>	<u>\$ (2,773,832)</u>	<u>\$ 3,719,358</u>

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	Enterprise Funds			
	Major Fund			
	Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES				
Food Service Revenue	\$ 1,362,913	\$ -0-	\$ 1,362,913	\$ -0-
Charges for Services	112,837	429,538	542,375	12,969,319
Miscellaneous	8,969	-0-	8,969	-0-
Total Operating Revenues	1,484,719	429,538	1,914,257	12,969,319
OPERATING EXPENSES				
Salaries	1,131,041	-0-	1,131,041	-0-
Employee Benefits	829,129	-0-	829,129	12,605,401
Purchased Professional and Technical Services	105,051	-0-	105,051	-0-
Other Purchased Services	800	390,764	391,564	-0-
Supplies	1,287,895	-0-	1,287,895	-0-
Depreciation	102,988	-0-	102,988	-0-
Other Operating Expenses	5,274	-0-	5,274	-0-
Total Operating Expenses	3,462,178	390,764	3,852,942	12,605,401
OPERATING INCOME (LOSS)	(1,977,459)	38,774	(1,938,685)	363,918
NONOPERATING REVENUES				
Investment Earnings	972	-0-	972	19,921
State Sources	284,539	-0-	284,539	-0-
Federal Sources	1,386,552	-0-	1,386,552	-0-
Net Nonoperating Revenues	1,672,063	-0-	1,672,063	19,921
Income (Loss) Before Transfers	(305,396)	38,774	(266,622)	383,839
TRANSFERS IN (OUT)	-0-	(44,098)	(44,098)	-0-
CHANGES in NET POSITION	(305,396)	(5,324)	(310,720)	383,839
NET POSITION				
Beginning, as Originally Stated	(2,463,112)	-0-	(2,463,112)	7,974,387
Prior Period Adjustment (Note 22)	-0-	-0-	-0-	(4,638,868)
Beginning, as Restated	(2,463,112)	-0-	(2,463,112)	3,335,519
Ending	\$ (2,768,508)	\$ (5,324)	\$ (2,773,832)	\$ 3,719,358

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2017

	Enterprise Funds			
	Major Fund			
	Food Service	Nonmajor	Total Enterprise	Internal
	Fund	Fund	Funds	Service Funds
CASH FLOWS from OPERATING ACTIVITIES				
Cash Received from Users	\$ 1,490,786	\$ 429,538	\$ 1,920,324	\$ 11,716,097
Cash Payments to Employees for Services	(1,093,111)	-0-	(1,093,111)	-0-
Cash Payments for Employee Benefits	(701,366)	-0-	(701,366)	(12,300,564)
Cash Payments to Suppliers for Goods and Services	(1,191,431)	(385,440)	(1,576,871)	-0-
Cash Payments for Other Operating Expenses	(5,274)	-0-	(5,274)	(1,864)
	(1,500,396)	44,098	(1,456,298)	(586,331)
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES				
Cash Payments for Purchase of Capital Assets	(9,197)	-0-	(9,197)	-0-
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES				
State Sources	282,202	-0-	282,202	-0-
Federal Sources	1,149,872	-0-	1,149,872	-0-
Interfund Transfers	-0-	(44,098)	(44,098)	-0-
	1,432,074	(44,098)	1,387,976	-0-
CASH FLOWS from INVESTING ACTIVITIES				
Investment Earnings	972	-0-	972	40,109
(Additions) Decreases to Investment Pools	78,729	-0-	78,729	(34,626)
	79,701	-0-	79,701	5,483
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	2,182	-0-	2,182	(580,848)
CASH and CASH EQUIVALENTS				
Beginning of Year	1,200	-0-	1,200	1,091,128
End of Year	\$ 3,382	\$ -0-	\$ 3,382	\$ 510,280

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2017

	Enterprise Funds			
	Major Fund			
	Food Service	Nonmajor	Total Enterprise	Internal
	Fund	Fund	Funds	Service Funds
RECONCILIATION of OPERATING INCOME				
(LOSS) to NET CASH PROVIDED by				
OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (1,977,459)	\$ 38,774	\$ (1,938,685)	\$ 363,918
ADJUSTMENTS to RECONCILE OPERATING				
INCOME (LOSS) to NET CASH PROVIDED (USED)				
by OPERATING ACTIVITIES				
Depreciation	102,988	-0-	102,988	-0-
Donated Commodities Used	202,737	-0-	202,737	-0-
Pension - Changes Other than Periodic Pension Cost	127,763	-0-	127,763	-0-
(Increase) Decrease in Receivables	2,407	-0-	2,407	(872,341)
Increase in Inventory	(1,296)	-0-	(1,296)	-0-
Increase (Decrease) in Accounts Payable	875	5,324	6,199	(77,908)
Increase in Accrued Salaries and Benefits	37,929	-0-	37,929	-0-
Increase in Unearned Revenue	3,660	-0-	3,660	-0-
	477,063	5,324	482,387	(950,249)
Total Adjustments				
Net Cash Provided (Used) by				
Operating Activities	\$ (1,500,396)	\$ 44,098	\$ (1,456,298)	\$ (586,331)

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

NONCASH and RELATED FINANCING ACTIVITIES

Receipt of USDA Donated Commodities	202,737	-0-	202,737	-0-
-------------------------------------	---------	-----	---------	-----

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2017

	Scholarship Fund	Activity Fund
ASSETS		
Cash and Cash Equivalents	\$ 97,886	\$ 186,478
Investments	<u>1,003</u>	<u>-0-</u>
TOTAL ASSETS	<u>98,889</u>	<u>186,478</u>
LIABILITIES		
Accounts Payable	-0-	6,571
Due to Other Funds		4,591
Other Current Liabilities	<u>-0-</u>	<u>175,316</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>186,478</u>
NET POSITION		
Restricted for Scholarships	<u>\$ 98,889</u>	<u>\$ -0-</u>

See notes to financial statements.

Hempfield School District
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUNDS
 Year Ended June 30, 2017

	Scholarship Fund
ADDITIONS	
Gifts and Contributions	\$ 10,278
Investment Earnings	<u>692</u>
Total Additions	10,970
DEDUCTIONS	
Scholarships Awarded	<u>12,030</u>
CHANGES in NET POSITION	(1,060)
NET POSITION	
Beginning	<u>99,949</u>
Ending	<u>\$ 98,889</u>

See notes to financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of **Hempfield School District** conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

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

The School District is financially accountable for:

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

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

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2017, was approximately \$916,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District has entered into an operating lease with the LCCTC and the Authority as more fully disclosed in Note 20 and paid approximately \$152,000 for debt service to the Authority. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2017. 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, 2017, was approximately \$2,970,000. Complete financial information for the LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 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, 2017, was \$126,392. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

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

The School District participates with 14 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to \$175,000. The pool reimburses monies to the School District for individual claims above \$175,000 up to \$300,000. The pool has commercial insurance for claims greater than \$300,000. The School District contribution to the pool for the year ended June 30, 2017, was approximately \$681,000 for excess loss insurance coverage.

Basis of Presentation - Fund Accounting

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

Basis of Presentation - Financial Statements

Government-Wide Financial Statements

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

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

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

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)

comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

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

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.

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)

The School District reports the following nonmajor proprietary fund:

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

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

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

Basis of Accounting

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

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

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

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, 2017, which are not intended to finance fiscal 2017 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

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

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

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Taxes Receivable and Deferred Inflows of Tax Revenues

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

Inventories

Inventories in the cafeteria fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2017. Any unused commodities donated by the federal government at June 30, 2017, were reported as unearned revenue since title does not pass to the School District until the commodities are used. The general fund inventory is comprised of supplies to be used in future years.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

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

Long-Term Obligations

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

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

Compensated Absences and Retirement Bonuses

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017, and has recognized them as expenditures in the governmental funds.

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

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, 2017, the School District had no encumbrances.

Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

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

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Finance Committee and the Business Administrator. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

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

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

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

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, retirement bonus accrual, expense allocations, pension related items, and other postemployment benefits. 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. There were no extraordinary or special items during the fiscal year 2017.

Accounting Standards Adopted in 2017

During the current year, the School District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2017 (Continued)

During the current year, the School District adopted GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by specifying that a component unit should be included in the reporting entity using the blending method if the component unit is organized as a not-for-profit corporation, the primary government is the sole corporate member, and the component unit is included in the financial reporting entity pursuant to the provisions of paragraphs 21 through 37 of GASB Statement No. 14. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Pending Changes in Accounting Principles

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

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

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt using only existing resources. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

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

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

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

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

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

Certain other high-quality bank and corporate instruments.

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

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, 2017, \$14,245,782 of the School District's bank balance of \$14,745,782 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>14,245,782</u>
	14,245,782

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	14,245,782
Insured Amount	<u>500,000</u>
Bank Balance	14,745,782
Outstanding Checks	<u>(91,334)</u>
Carrying Amount - Bank Balances	14,654,448
Petty Cash	<u>1,430</u>
Total Cash and Cash Equivalents per Financial Statements	14,655,878

Investments

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

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

Investments (Continued)

Investments' fair value measurements are as follows at June 30, 2017:

Investments	Recorded Value	Fair Value Measurement Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments Recorded at Fair Value					
Money Market Mutual Funds	565	565	-0-	-0-	
Investments Recorded at Amortized Cost					
PLIGIT Class	8,590,894				<=397 days
PLIGIT I Class	1,887,074				<=397 days
PLIGIT Plus	3,058				<=397 days
PSDLAF/Max Series	2,460,270				<=397 days
PSDLAF Full Flex Pool	9,500,000	-0-	-0-	-0-	150 days
Total Investments per the Financial Statements	22,441,861				

The School District has the following recurring fair value measurements as of June 30, 2017:

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

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Restrictions on Qualified Investment Pool Withdrawals

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

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

Interest Rate Risk

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

Credit Risk

The School District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the School District investments are rated as:

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

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer.

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, 2017, was 20.1246 mills as levied by the Board of School Directors.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 3 - REAL ESTATE TAXES (Continued)

The schedule for real estate taxes levied for the fiscal year ended June 30, 2017, follows:

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

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements. The balances at June 30, 2017, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	1,000,760	450,569	550,191
Realty Transfer Taxes	227,864	227,864	-0-
Earned Income Taxes	<u>1,405,515</u>	<u>1,405,515</u>	<u>-0-</u>
	2,634,139	2,083,948	550,191

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2017, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	550,713	3,701,831
Food Service Fund	-0-	537,498
Hospitalization Fund	900,000	-0-
Child Care Fund	-0-	5,324
Activity Fund	-0-	4,591
Capital Projects Fund	<u>2,801,831</u>	<u>3,300</u>
	4,252,544	4,252,544

A transfer is pending from the food service fund to the general fund to reimburse for salaries and benefits of food service employees paid for by the general fund.

A transfer is pending from the general fund to the capital project fund to set aside resources for future capital expenditures.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 5 - INTERFUND ACCOUNTS (Continued)

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

A transfer is pending from the general fund to the hospitalization fund for claims payments made by the hospitalization fund.

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

Interfund transfers for the year ended June 30, 2017, are as follows:

Fund	Transfers In	Transfers Out
General Fund	44,098	10,915,480
Capital Projects Fund	2,800,347	-0-
Child Care Fund	36,288	80,386
Debt Service Fund	<u>8,115,133</u>	<u>-0-</u>
	10,995,866	10,995,866

Transfers are made between the child care fund and the general fund equal to each month's net operating income or loss of the child care fund. Transfers in the amount of \$8,115,133 are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers from the general fund to the capital project fund, in the amount of \$2,800,347 were made to provide resources for future capital expenditures.

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2017, the following amounts are due from other governmental units:

Due From	General Fund and Governmental Activities
Federal Grants	57,751
State Retirement Subsidy	2,819,200
State FICA Subsidy	707,122
State Transportation Subsidy	63,570
State Rental Subsidy	11,915
Lancaster-Lebanon IU #13	146,812
Other Local Governments	<u>854,965</u>
	4,661,335
	Food Service Fund and Business-Type Activities
Due From	
Federal Subsidy	33,943
State Subsidy	<u>2,358</u>
	36,301

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2017, is as follows:

Historical Cost:	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets not Being Depreciated:				
Land	4,687,257	-0-	-0-	4,687,257
Construction in Progress	<u>420,827</u>	<u>315,584</u>	<u>(420,827)</u>	<u>315,584</u>
Total Cost	5,108,084	315,584	(420,827)	5,002,841
Capital Assets Being Depreciated:				
Building and Building Improvements	184,866,028	990,317	-0-	185,856,345
Furniture and Equipment	27,604,121	337,056	(310,808)	27,630,369
Vehicles	<u>573,289</u>	<u>6,574</u>	<u>(23,130)</u>	<u>556,733</u>
Total Cost	213,043,438	1,333,947	(333,938)	214,043,447
Accumulated Depreciation:				
Building and Building Improvements	59,340,189	4,253,092	-0-	63,593,281
Furniture and Equipment	14,070,956	1,771,272	(296,824)	15,545,404
Vehicles	<u>434,908</u>	<u>24,565</u>	<u>(20,817)</u>	<u>438,656</u>
Total Accumulated Depreciation	<u>73,846,053</u>	<u>6,048,929</u>	<u>(317,641)</u>	<u>79,577,341</u>
Net Capital Assets Being Depreciated	<u>139,197,385</u>	<u>(4,714,982)</u>	<u>(16,297)</u>	<u>134,466,106</u>
Net Capital Assets	144,305,469	(4,399,398)	(437,124)	139,468,947

Capital asset activity for business-type activities for the year ended June 30, 2017, is as follows:

Historical Cost:	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Being Depreciated:				
Furniture and Equipment	1,623,368	9,197	-0-	1,632,565
Vehicles	<u>115,281</u>	<u>-0-</u>	<u>(50,905)</u>	<u>64,376</u>
Total Cost	1,738,649	9,197	(50,905)	1,696,941
Accumulated Depreciation:				
Furniture and Equipment	513,789	102,988	-0-	616,777
Vehicles	<u>115,281</u>	<u>-0-</u>	<u>(50,905)</u>	<u>64,376</u>
Total Accumulated Depreciation	<u>629,070</u>	<u>102,988</u>	<u>(50,905)</u>	<u>681,153</u>
Net Capital Assets	1,109,579	(93,791)	-0-	1,015,788

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Depreciation expenses were charged to governmental functions as follows:

Instruction	4,322,047
Instructional Student Support	508,476
Administrative and Financial Support Services	335,682
Operation and Maintenance of Plant Services	128,871
Unallocated Depreciation Expense	<u>753,853</u>
	6,048,929

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2017, the School District was liable for \$5,432,664 of payroll, which is payable during July and August 2017, 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, 2017, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses. The School District was also liable for the benefits on payroll paid prior to or accrued as of June 30, 2017.

Accrued salaries and benefits as of June 30, 2017, are as follows:

Accrued Salaries	5,432,664
Accrued Benefits:	
Retirement	5,639,638
Social Security	406,830
Other Benefits	<u>348,024</u>
	11,827,156

NOTE 9 - UNEARNED REVENUES

Unearned revenues consist of the following as of June 30, 2017:

	General Fund	Food Service Fund
Unearned Grant Program Revenue	171,959	-0-
Summer School	33,003	-0-
Other	177,149	-0-
Unused Donated Commodities	-0-	3,314
Prepaid Lunch Sales	<u>-0-</u>	<u>73,890</u>
	382,111	77,204

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2017, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2017
Series of 2011 Notes	October 15, 2023	2.50% - 3.25%	-0-
Series A of 2011 Bonds	October 15, 2021	3.00% - 4.00%	-0-
Series of 2012 Bonds	October 15, 2032	3.00% - 5.00%	24,745,000
Series A of 2012 Bonds	October 15, 2023	2.00% - 4.00%	8,505,000
Series of 2013 Bonds	April 15, 2025	0.65% - 4.00%	495,000
Series of 2014 Bonds	October 15, 2019	1.00% - 2.70%	4,805,000
Series A of 2014 Bonds	October 15, 2023	0.40% - 4.00%	2,700,000
Series of 2015 Bonds	August 1, 2025	Variable	22,060,000
Series A of 2015 Bonds	September 15, 2023	0.50% - 4.00%	8,130,000
Series of 2016 Bonds	February 15, 2030	0.70% - 3.00%	8,395,000
Series A of 2016 Bonds	April 15, 2032	0.85% - 3.00%	9,180,000
Series of 2017 Bonds	April 15, 2032	1.05% - 3.125%	<u>8,900,000</u>
			97,915,000

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 Notes were currently refunded during the year ended June 30, 2017, through the issuance of the Series A of 2016 General Obligation Bonds.

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 Notes were currently refunded during the year ended June 30, 2017, through the issuance of the Series A of 2016 General Obligation Bonds.

On May 8, 2012, the School District issued the Series of 2012 General Obligation Bonds in the amount of \$27,320,000 at a premium of \$2,956,192. The Bonds were issued to provide funding for the construction of Landisville Elementary School, Farmdale Elementary School, and East Petersburg Elementary school and the costs and expenses of issuing the Bonds. During the year ended June 30, 2017, \$2,575,000 of the bonds were advance refunded through the issuance of the Series A of 2016 General Obligation Bonds. The remaining principal amount outstanding at June 30, 2017, was \$24,745,000 due in various amounts from October 2024 through October 15, 2031. There is no principal due within one year. See Note 11 for more information regarding the advance refunding.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On May 8, 2012, the School District issued the Series A of 2012 General Obligation Bonds of \$12,385,000 at a premium of \$798,922. The proceeds were used to currently refund the Series A of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2017, was \$8,505,000 due in various installments through October 15, 2023. Principal due within one year is \$1,105,000.

On February 15, 2013, the School District issued the Series of 2013 General Obligation Bonds of \$8,800,000 at a premium of \$681,502. The proceeds were used to provide funding for the construction of East Petersburg Elementary School and Farmdale Elementary School as well as other capital projects and the costs and expenses of issuing the Bonds. During the year ended June 30, 2017, \$8,285,000 of the note was advance refunded through the issuance of Series of 2017 General Obligation Bonds. See Note 11 for more information regarding the advance refunding. The remaining principal amount outstanding at June 30, 2017, was \$495,000 due in various installments through April 15, 2025. Principal due within one year is \$5,000.

On February 11, 2014, the School District issued the Series of 2014 General Obligation Bonds of \$6,325,000 at a premium of \$98,677. The proceeds were used to refund the Series 2009 General Obligation Bonds as well as the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2017 was \$4,805,000 due in various installments through October 15, 2023. Principal due within one year is \$640,000.

On February 11, 2014, the School District issued the Series A of 2014 General Obligation Bonds of \$3,000,000 at a premium of \$3,145. The proceeds were used to provide funding for the construction of Landisville Education Center as well as other capital projects and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2017, was \$2,700,000 due in various installments from October 15, 2015 through October 15, 2031. Principal due within one year is \$155,000.

On January 13, 2015, the School District issued the Series of 2015 General Obligation Bonds of \$25,505,000. The proceeds were used to refund the Series B of 2011 General Obligation Bonds, which had special mandatory tender date, and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2017, was \$22,060,000 due in various installments from August 1, 2016 through August 1, 2025. Principal due within one year is \$3,770,000. The interest rate for the Bonds is a variable rate which is calculated as the sum of (1) the product of the 30-Day LIBOR Index multiplied by an applicable factor of 0.67% plus (2) the applicable spread (ranging from 0.30% - 0.55%). The interest rate is not to exceed 10% through August 1, 2019 at which time the School District will need to renegotiate the terms of the Bonds. The blended variable interest rate in effect at June 30, 2017 is 1.18%.

On February 17, 2015, the School District issued the Series A of 2015 General Obligation Bonds of \$8,135,000 at a premium of \$184,302. The proceeds were used to advance refund the Series of 2010 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2017, was \$8,130,000 due in various installments from September 15, 2016 through September 15, 2023. Principal due within one year is \$5,000.

On February 10, 2016, the School District issued the Series of 2016 General Obligation Bonds of \$8,400,000 at a discount of \$52,430. The proceeds were used to refund the Series A of 2010 General Obligation Bonds and to pay the costs and expenses of issuing the Bonds. The principal amount outstanding June 30, 2017, was \$8,395,000 due in various installments from February 15, 2017 through February 15, 2030. Principal due within one year is \$5,000.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On July 25, 2016, the School District issues the Series A of 2016 General Obligation Bonds of \$9,180,000 at a premium of \$454,680. The proceeds were used to refund the Series of 2011 General Obligation Bonds, the Series A of 2011 General Obligation Bonds, and the advanced refunding of a portion of the School District's Series of 2012 General Obligation bonds, and to pay the costs and expenses of issuing the Bonds. The principal is due in various installments from October 15, 2017 through October 15, 2031. Principal due within one year is \$5,000. The purpose of the refunding was to achieve interest savings of \$542,963. The present value of the School District's savings over the term of the Bond amounts to \$528,234.

On February 21, 2017, the School District issued the Series of 2017 General Obligation Bonds of \$8,900,000 at a discount of \$37,067. The proceeds were used for the advance refunding of the Series of 2013 General Obligation Bonds, and to pay the costs and expenses of issuing the Bonds. The principal outstanding at June 30, 2017 was \$8,900,000 due in various installments from April 15, 2018 through April 15, 2032. Principal due within one year is \$5,000. The purpose of the refunding was to achieve interest savings. The present value of the School District's savings over the term of the Bond amounts to \$356,242.

Interest cost incurred during the year ended June 30, 2017, was \$2,517,212, all of which was charged to expense.

Long-term obligation activity can be summarized as follows:

	Balance July 01, 2016	Additions	Reductions	Balance June 30, 2017
Governmental Activities				
General Obligation Debt	102,395,000	18,080,000	22,560,000	97,915,000
Bond Discount	(52,430)	(37,066)	(4,975)	(84,521)
Bond Premium	<u>3,685,743</u>	<u>454,680</u>	<u>1,317,723</u>	<u>2,822,700</u>
	106,028,313	18,497,614	23,872,748	100,653,179
Accrued Retirement Bonuses	1,000,576	22,779	-0-	1,023,355
Estimated Liability for				
Compensated Absences	<u>2,763,474</u>	<u>91,742</u>	<u>-0-</u>	<u>2,855,216</u>
Total Governmental Activities	109,792,363	18,612,135	23,872,748	104,531,750
Business-Type Activities				
Accrued Retirement Bonuses	2,295	1,350	-0-	3,645
Estimated Liability for				
Compensated Absences	<u>56,989</u>	<u>104</u>	<u>-0-</u>	<u>57,093</u>
Total Business-Type Activities	59,284	1,454	-0-	60,738
Total Government	109,851,647	18,613,589	23,872,748	104,592,488

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

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

	Interest	Principal	Total
2018	2,826,033	5,695,000	8,521,033
2019	2,752,859	5,655,000	8,407,859
2020	2,631,896	6,225,000	8,856,896
2021	2,483,154	6,495,000	8,978,154
2022	2,319,414	6,775,000	9,094,414
2023-2027	9,407,640	32,015,000	41,422,640
2028-2032	<u>1,248,796</u>	<u>35,055,000</u>	<u>36,303,796</u>
	23,669,792	97,915,000	121,584,792

NOTE 11 - DEBT DEFEASANCE

The School District has defeased portions of the Series of 2012 and Series of 2013 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 earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial purposes, the debt is considered defeased and removed as a liability from the School District's long-term debt obligation. As of June 30, 2017, the amount of defeased debt outstanding but removed from the School District's long-term liability totaled \$10,860,000.

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, 2017:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	2,166,504	45,130
Accumulated Vacation Leave	526,255	11,113
Accumulated Personal Days	113,515	-0-
Employer Social Security and Medicare on Leave Amounts Above	<u>48,942</u>	<u>850</u>
	2,855,216	57,093

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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 Tax Sheltered Annuity account. The accrual for estimated retirement benefits was \$1,027,000 at June 30, 2017. Of this liability, \$3,645 was attributed to business-type activities and \$1,023,355 was attributed to the governmental activities.

NOTE 14 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents the component of fund balance that is not in spendable form (such as inventory and prepaid items) or is required to be legally or contractually maintained intact. At June 30, 2017, the School District has the following nonspendable fund balance:

General Fund:	
Inventories	48,787
Prepaid Expenses	<u>173,476</u>
	222,263

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision making authority. As of June 30, 2017, the School District has included the following as committed fund balances:

General Fund:	
Committed to Offset Future PSERS Contribution Rate Increases	4,669,556

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, 2017, the School District has the following as assigned fund balances:

Debt Service Fund:	
Assigned for Debt Service Payment	4,337,247
 Capital Reserve Fund:	
Assigned for Capital Outlays	4,729,034
 General Fund:	
Capital Projects	1,000,000
One to One Initiative	<u>1,000,000</u>
	2,000,000

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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 \$175,000 per individual and \$15,535,250 in total for hospitalization claims for the year ended June 30, 2017.

A liability for claims incurred prior to June 30, 2017, and subsequently paid is recorded in the amount of \$800,000 in accounts payable in the internal service fund. For the year ended June 30, 2016, the liability for claims incurred prior to June 30, 2016, and subsequently paid was \$877,908.

Changes in the School District's claims liability amount in fiscal years 2017 and 2016 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2015-2016	896,283	12,707,201	12,725,576	877,908
2016-2017	877,908	12,252,178	12,330,086	800,000

Workers' Compensation

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

It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2017, 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, 2017, and the two previous fiscal years, no settlements exceeded insurance coverage.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

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

Contributions

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

Member Contributions

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

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

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$15,569,002 for the year ended June 30, 2017.

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

At June 30, 2017, the School District reported a liability of \$198,433,163 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School District's proportion was .4004 percent, which was an increase of .0068 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$21,957,214. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	-0-	1,655,151
Changes in Assumptions	7,163,009	-0-
Net Difference between Projected and Actual Investment Earnings	10,999,909	-0-
Changes in Proportion	5,009,044	-0-
Difference between Employer Contributions and Proportionate Share of Total Contributions	569,008	-0-
Contributions Subsequent to the Measurement Date	<u>15,569,002</u>	<u>-0-</u>
	39,309,972	1,655,151

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

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

\$15,569,002 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	4,952,115
2019	4,952,115
2020	7,351,528
2021	<u>4,830,061</u>
	22,085,819

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward PSERS's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016, are as follows:

The investment rate of return was adjusted from 7.50% to 7.25%.

The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016, valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Joint Operating Committee at its June 10, 2016, Board meeting, and were effective beginning with the June 30, 2016, actuarial valuation.

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute Return	10.0%	3.3%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real Estate	12.0%	4.0%
Alternative Investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	<u>(14.0%)</u>	0.5%
	100.0%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount 7.25%	1% Increase 8.25%
School District's Proportionate Share of the Net Pension Liability	242,728,000	198,433,163	161,199,000

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the School District reported a payable of \$4,024,386 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2017. These amounts relate to the second quarter of 2017, and are payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania. In addition, the School District also reported a payable of \$435,581 for the employee contributions withheld during June 2017, which are payable to PSERS by July 7, 2017.

Pension Reform

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

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

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

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 Postemployment Benefits Other Than Pensions*. The School District maintains a single employer defined benefit plan to provide postretirement health care and life insurance benefits to School District employees who, in most cases, have retired with at least five years of PSERS service or attained age 62 or older with at least one 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.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

Annual Required Contribution (ARC)	838,171
Interest on Net OPEB Obligation	109,471
Adjustment to Annual Required Contribution	<u>(149,346)</u>
Annual OPEB Cost	798,296
Contributions Made (Estimate)	<u>(413,955)</u>
Estimated Increase in Net OPEB Obligation	384,341
Net OPEB Obligation - Beginning of Year	<u>2,432,678</u>
Net OPEB Obligation - End of Year	2,817,019

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
June 30, 2015	896,371	63%	2,077,792
June 30, 2016	890,976	60%	2,432,678
June 30, 2017	798,296	52%	2,817,019

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$7,174,237, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,174,237. The covered payroll (annual payroll of active employees covered by the plan) equaled \$46,928,908, and the ratio of the UAAL to the covered payroll equaled 15.29%.

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

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

In the actuarial valuation dated July 1, 2016, 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 6.5% in the first year gradually decreasing by 0.5% per year to a rate of 5.5% in 2018 through 2020. The rates continue to gradually decrease thereafter to 3.8% in 2075 based on the Society of Actuaries Long-Run Medical Cost Trend Model.

In the actuarial valuation dated July 1, 2016, the assumption for the percentage of salary increases and the percentage of withdrawal and retirement age has remained the same compared to the prior actuarial valuation dated June 1, 2014.

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 Bright Horizons Family Solutions Inc., formerly Hildebrandt Learning Centers, LLC, to staff and manage the operations of the Center which has a capacity of approximately 50 child care spaces. The School District receives any profits generated by the Center, but also has to make up for any losses. These operations are accounted for in the child care fund, a nonmajor proprietary fund.

NOTE 19 - CONTINGENCIES and COMMITMENTS

General

The School District is involved in various claims, including real estate tax assessment appeals, and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

Grant Revenue

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

Capital Project - Quad Turf Replacement

The School District is in the process of replacing the school's quad turf fields. As of June 30, 2017, the School District has incurred expenditures of \$127,554 for this project. The School District has committed itself to remaining costs to complete of approximately \$1,266,000. The School District anticipates financing the construction costs using the capital projects fund balance.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 19 - CONTINGENCIES and COMMITMENTS (Continued)

Transportation Contract

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

Collective Bargaining Agreement

The School District has entered into a collective bargaining agreement with the Hempfield Education Association. The Agreement in effect is for the period of July 1, 2015 through June 30, 2019. The agreement stipulates the overall working conditions as well as the provisions for wages and employee benefits for the School District's professional staff for the term of the contracts.

NOTE 20 - OPERATING LEASES

On January 11, 2017, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2016 to undertake the refunding of all or a portion of the 2012 Bonds, the 2013 Bonds, and the 2014 Bonds in accordance with the provisions of the Authorities Act. The Lancaster County Career and Technology Center (LCCTC) and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values set forth in the LCCTC Organization Agreement. The bonds will be issued in one or more series over a several year period.

On February 1, 2017, the LCCTCA issued the first of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2017, for the advance refunding of the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2013, in the total amount of \$9,380,000.

The School District's lease rental obligations include interest and will fluctuate from time to time during the term of the lease, based on the market values in the School District and the actual interest rates. The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

Fiscal Year Ended June 30,	Future Minimum Rental Payments
2018	161,938
2019	161,889
2020	162,060
2021	162,075
2022	161,879
Thereafter	<u>2,428,172</u>
	3,238,013

Total lease rental expenses for issued debt reflected in the accompanying financial statements is \$151,670 during the year ended June 30, 2017.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 20 - OPERATING LEASES (Continued)

The School District leases certain equipment under non-cancellable operating leases expiring September 2019 and September 2020. The School District paid a security deposit in the amount of \$85,680 and \$20,453, respectively, upon the execution of the leases. If there is no event of default, the security deposit may be applied toward the total amounts due. The future minimum lease payments under the operating leases at June 30, 2017, are as follows:

2018	272,436
2019	249,936
2020	<u>40,906</u>
	563,278

Total rental expenses for non-cancellable operating leases reflected in the accompanying financial statements is \$259,482 during the year ended June 30, 2017.

NOTE 21 - TAX ABATEMENTS

The School District has enacted a Local Economic Revitalization Tax Assistance (LERTA) program to encourage building improvements, new construction, and redevelopment in certain deteriorated areas of the School District. The program is authorized by a School District resolution in accordance with the Local Economic Revitalization Tax Assistance Act. Property tax abatements are limited to that portion of additional property tax assessment attributable to the actual cost of new construction or improvements in accordance with an exemption schedule. The tax abatements are obtained through application by the property owner, who must provide proof that the improvements have been made. Exemption is revoked and forfeited for failure by the property owner to pay any nonexempt real estate taxes by the last day of the time period to pay such taxes in the penalty period. As of and for the year ended June 30, 2017, there were no tax abatements resulting from this program.

NOTE 22 - PRIOR PERIOD ADJUSTMENT

Hempfield School District reconsidered a component of its internal service fund balance related to investments maintained to manage future increases in contributions to the Public School Employees' Retirement System (PSERS). As of June 30, 2016, the School District reported an internal service fund balance of \$7,974,387 which included investment balances of \$4,638,868 that were intended to offset future PSERS increases and soften the impact on real estate tax increases anticipated from those increasing retirement plan costs. The School District determined that it is more appropriate to account for those funds within the general fund as committed fund balance as opposed to a component of the internal service fund.

Consequently, the School District increased the general fund balance by \$4,638,868 and decreased the internal service fund balance by \$4,638,868 as of July 1, 2016. For the year ended June 30, 2017, the School District recorded investment income of \$30,688 in the general fund which would have previously been included in the results of operations of the internal service fund.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 23 - SUBSEQUENT EVENT

The School District's Board passed a resolution to execute a forward interest swap agreement intended to hedge interest rate risk on the future issuance of bonds to refund the outstanding 2012 and 2012 A bonds. The School District will enter the swap agreement with a bank counterparty. The swap has a beginning notional amount of \$29,850,000 and is structured to correspond to the amortization of the above bonds. The swap will have a mandatory early termination on the effective date of April 15, 2020, when both bond issues are eligible to be currently refunded at the option of the School District.

The terms of the swap are such that the School District is the payer of a fixed rate, yet to be determined, and the bank counterparty is the payer of a variable interest rate of 80% of 3 month USD - LIBOR. As the effective date of the swap and the mandatory termination date are each April 15, 2020, there will be no exchange of payments other than a termination payment either being made by the School District or the bank counterparty. At the swap termination date, the School District may need to make a termination payment to the bank counterparty if interest rates at that time remain below the swap rate. If interest rates are above the swap rate, the School District would receive a termination payment from the bank counterparty.

Hempfield School District

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

BUDGET and ACTUAL - GENERAL FUND

Year Ended June 30, 2017

REVENUES	Budgeted Amounts		Actual	Variance with Final
	Original	Final	Budgetary Basis	Budget - Favorable (Unfavorable)
Local Sources:				
Real Estate Taxes	\$ 72,367,828	\$ 72,367,828	\$ 71,876,191	\$ (491,637)
Other Taxes	8,115,000	8,115,000	8,737,888	622,888
Investment Earnings	100,000	100,000	164,735	64,735
Other Revenue	2,002,500	2,002,500	3,436,584	1,434,084
Total Local Sources	82,585,328	82,585,328	84,215,398	1,630,070
State Sources	30,753,823	30,753,823	32,760,972	2,007,149
Federal Sources	1,827,000	1,827,000	1,885,217	58,217
Total Revenues	115,166,151	115,166,151	118,861,587	3,695,436
EXPENDITURES				
Instructional Services:				
Regular Programs	55,408,841	55,408,841	54,320,977	1,087,864
Special Programs	16,048,540	16,048,540	17,483,517	(1,434,977)
Vocational Programs	1,360,000	1,360,000	1,067,457	292,543
Other Instructional Programs	680,562	680,562	766,299	(85,737)
Support Services:				
Pupil Personnel	4,478,702	4,478,702	4,429,031	49,671
Instructional Staff	2,488,710	2,488,710	2,628,709	(139,999)
Administrative	5,173,890	5,173,890	5,104,411	69,479
Pupil Health	1,252,752	1,252,752	1,262,743	(9,991)
Business	1,496,313	1,496,313	1,526,546	(30,233)
Operation of Plant and Maintenance	8,276,753	8,276,753	8,207,662	69,091
Student Transportation	4,295,961	4,295,961	4,895,452	(599,491)
Central and Other Business	2,739,529	2,739,529	3,079,999	(340,470)
Noninstructional Services	1,890,090	1,890,090	1,879,848	10,242
Total Expenditures	105,590,643	105,590,643	106,652,651	(1,062,008)
EXCESS of REVENUES				
over EXPENDITURES	9,575,508	9,575,508	12,208,936	2,633,428
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(10,016,159)	(10,016,159)	(10,871,382)	(855,223)
Proceeds from Sale of Fixed Assets	-0-	-0-	1,054	1,054
Budgetary Reserve	(1,000,000)	(1,000,000)	-0-	1,000,000
Net Other Financing Uses	(11,016,159)	(11,016,159)	(10,870,328)	145,831
NET CHANGES in FUND BALANCES	\$ (1,440,651)	\$ (1,440,651)	1,338,608	\$ 2,779,259
FUND BALANCES				
Beginning, as Originally Stated			8,712,434	
Prior Period Adjustment (Note 22)			4,638,868	
Beginning, as Restated			13,351,302	
Ending			\$ 14,689,910	

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

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

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

See independent auditors' report.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
June 1, 2012	-0-	7,323,913	7,323,913	0.00%	44,070,561	16.62%
June 1, 2014	-0-	7,463,606	7,463,606	0.00%	46,096,274	16.19%
July 1, 2016	-0-	7,174,237	7,174,237	0.00%	46,928,908	15.29%

See independent auditors' report.

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed
June 30, 2015	896,371	63.00%
June 30, 2016	890,976	60.00%
June 30, 2017	798,296	52.00%

See independent auditors' report.

Hempfield School District

NOTES to REQUIRED SUPPLEMENTARY INFORMATION

The information presented on the required supplementary schedules on pages 66 and 67 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	July 1, 2016	June 1, 2014	June 1, 2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar Method	Level Dollar Method	Level Dollar Method
Amortization Period	30 Years	30 Years	30 Years
Discount Rate	4.5%	4.5%	4.5%
Mortality	Same as Rates in the PSERS' Actuarial Valuation	Same as Rates in the PSERS' Actuarial Valuation	Same as Rates in the PSERS' Actuarial Valuation
Retirement	Retirement Rate Based on PSERS' Plan Experience	Retirement Rate Based on PSERS' Plan Experience	Retirement Rate Based on PSERS' Plan Experience
Coverage Election			
Administrators	100%	100%	100%
HEA Professional Staff	70%	70%	70%
Support Staff	35%	35%	35%
Percent Married with Election of Spousal Coverage by Plan	40%	40%	40%
Per Capita Claims Cost:			
Female (Age 45 - 65+; 64 for 2016)	\$8,387 - \$11,394	\$8,710 - \$15,147	\$8,147 - \$14,167
Male (Age 45 - 65+; 64 for 2016)	\$5,807 - \$12,224	\$6,031 - \$16,256	\$5,641 - \$15,205
Demographic Information:			
Active Participants	759	802	826
Retired Participants	<u>87</u>	<u>91</u>	<u>87</u>
Total Participants	846	893	913
Health Care Cost Trend Rate	6.5% decreasing to 5.5% in 2018 - 2020 and to 3.8% in 2075	6.5% decreasing to 5.5% in 2016 and to 4.2% in 2089	7.5% decreasing to 5.5% in 2016 and to 4.2% in 2089

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

See independent auditors' report.

Hempfield School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM -
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered- Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3876%	153,414,859	49,455,772	310.21%	57.24%
2015	0.3936%	170,488,892	49,496,483	344.45%	54.36%
2016	0.4004%	198,433,163	50,626,103	391.96%	50.14%

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

See independent auditors' report.

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

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Defined Benefit Pension Plan:					
2008	2,582,341	2,582,341	-0-	40,098,457	6.44%
2009	1,777,815	1,777,815	-0-	44,445,378	4.00%
2010	1,895,339	1,895,339	-0-	47,383,473	4.00%
2011	2,461,814	2,461,814	-0-	49,236,277	5.00%
2012	3,792,071	3,792,071	-0-	47,400,890	8.00%
2013	5,624,264	5,624,264	-0-	48,906,642	11.50%
2014	7,912,924	7,912,924	-0-	49,455,772	16.00%
2015	10,146,779	10,146,779	-0-	49,496,483	20.50%
2016	13,097,515	13,097,515	-0-	50,626,103	25.87%
2017	15,569,002	15,569,002	-0-	51,858,123	30.02%

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

Changes of Benefit Terms:

None.

Changes of Assumptions:

Changes in assumptions used in the measurement of the total pension liability beginning June 30, 2016, are as follows:

The investment rate of return was adjusted from 7.50% to 7.25%.

The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 Year Ended June 30, 2017

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2016	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Passed Through to Subrecipients
Child Nutrition Cluster												
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	\$ -0-	\$ 224,162	\$ 231,691	\$ 7,529	\$ -0-
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	-0-	925,711	952,125	26,414	-0-
U.S. Department of Agriculture	Pennsylvania Department of Agriculture	Food Donation (Note 2)	I	10.555	N/A	07/01/16-06/30/17	N/A	<u>(4,178) A)</u>	<u>201,873 B)</u>	<u>202,737 C)</u>	<u>(3,314) D)</u>	<u>-0-</u>
Total 10.555								<u>(4,178)</u>	<u>1,127,584</u>	<u>1,154,862</u>	<u>23,100</u>	<u>-0-</u>
Total Child Nutrition Cluster								<u>(4,178)</u>	<u>1,351,746</u>	<u>1,386,553</u>	<u>30,629</u>	<u>-0-</u>
General Services Administration	Pennsylvania Department of General Services	Donation of Federal Surplus Personal Property	I	39.003	N/A	07/01/16-06/30/17	2,951	-0-	2,951	2,951	-0-	-0-
Special Education Cluster												
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Grants to States	I	84.027	062-170013	07/01/16-09/30/17	1,339,661	-0-	1,339,661	1,339,661	-0-	-0-
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-160013	07/01/16-06/30/17	8,523	<u>-0-</u>	<u>8,523</u>	<u>8,523</u>	<u>-0-</u>	<u>-0-</u>
Total Special Education Cluster								\$ -0-	\$ 1,348,184	\$ 1,348,184	\$ -0-	\$ -0-

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2017

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2016	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-170189	07/12/16-09/30/17	668,747	\$ -0-	\$ 627,535	\$ 668,747	\$ 41,212	\$ -0-
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-160189	08/04/15-09/30/16	609,714	43,681	43,681	-0-	-0-	-0-
			Total	84.010				43,681	671,216	668,747	41,212	-0-
U.S. Department of Education	Pennsylvania Department of Education	English Language Acquisition Grants	I	84.365	010-170189	07/12/16-09/30/17	85,610	-0-	62,781	67,242	4,461	-0-
U.S. Department of Education	Pennsylvania Department of Education	English Language Acquisition Grants	I	84.365	010-160189	08/04/15-09/30/16	77,172	(1,176)	11,025	12,201	-0-	-0-
			Total	84.365				(1,176)	73,806	79,443	4,461	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-170189	07/12/16-09/30/17	187,053	-0-	174,975	187,053	12,078	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-160189	08/04/15-09/30/16	190,505	34,160	40,708	6,548	-0-	-0-
			Total	84.367				34,160	215,683	193,601	12,078	-0-
U.S. Department of Education	Pennsylvania Department of Education	Striving Readers	I	84.371	143-160189	10/01/16-09/30/17	648,761	-0-	486,571	314,611	(171,960)	-0-
U.S. Department of Education	Pennsylvania Department of Education	Striving Readers	I	84.371	143-150189	10/01/15-09/30/16	1,070,987	39,512	433,169	393,657	-0-	-0-
			Total	84.371				39,512	919,740	708,268	(171,960)	-0-
TOTAL EXPENDITURES of FEDERAL AWARDS								\$ 111,999	\$ 4,583,326	\$ 4,387,747	\$ (83,580)	\$ -0-

Legend
 I = Indirect funding
 CFDA = Catalog of Federal Domestic Assistance
 See independent auditors' report.

Hempfield School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2017

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

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

NOTE 3 - DE MINIMIS INDIRECT COST RATE

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

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2017 was \$207,143, which was received through the Lancaster-Lebanon Intermediate Unit #13.

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT on INTERNAL CONTROL OVER FINANCIAL REPORTING and on COMPLIANCE
and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in ACCORDANCE with
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise **Hempfield School District's** basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Hempfield School District's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2017-001.

Hempfield School District's Response to Finding

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

Purpose of this Report

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

December 12, 2017
Lancaster, Pennsylvania

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

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for each MAJOR PROGRAM
and on INTERNAL CONTROL over COMPLIANCE as REQUIRED by the UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited **Hempfield School District's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on **Hempfield School District's** major federal program for the year ended June 30, 2017. **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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for **Hempfield School District's** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Hempfield School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, **Hempfield School District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

December 12, 2017
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2017

A. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **Hempfield School District**.
2. No material weaknesses and one significant deficiency relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. An immaterial instance of noncompliance that warrants the attention of those charged with governance of **Hempfield School District** was disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award program for **Hempfield School District** expresses an unmodified 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 programs tested as a major federal program are: Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Grants - CFDA #84.173.
8. The threshold for distinguishing type A and B programs was \$750,000.
9. **Hempfield School District** was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Significant Deficiency and Compliance Finding

#2017-001 - Internal Control over Financial Reporting

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

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

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2017

Significant Deficiency and Compliance Finding (Continued)

#2017-001 - Internal Control over Financial Reporting (Continued)

Cause and Effect: The School District personnel responsible for purchasing and contracting did not sufficiently analyze and enforce the laws and regulations pertaining to quote and bid requirements. As a result of the condition described above, the School District engaged vendors for projects without obtaining required quotes and/or bids.

Identification of Repeat Finding: No

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

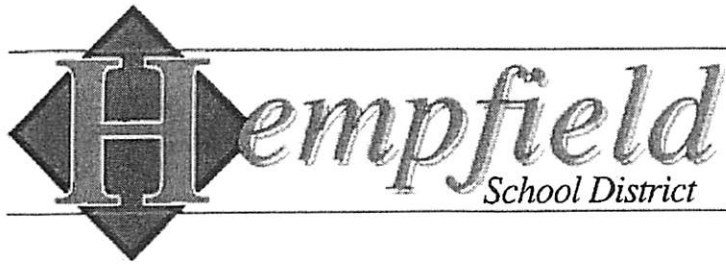
Management Response: School District administration recognizes the weakness in purchasing processes and is working to put in place additional internal controls and provide training that will ensure better compliance with Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements. To better identify purchases subject to the bid and quote requirements, the Director of Finance will work with the facilities team to review capital and repair plans within the district and will review documentation prior to presentation to the board for vote on contracts. Additional documentation procedures will be introduced to better support compliance with bid and quote requirements and to capture appropriate levels of review and approval throughout the process with regards to compliance. Adherence to these procedures will be verified during the accounts payable process. Improved ethical purchasing decisions that produce the best economic results while promoting achievement of the organization's educational objectives must always be the desired outcome of district processes. Management recognizes the need for compliance to ensure fiscal accountability for the school district.

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

None

Hempfield School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

There were no findings from the prior year.



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

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

Corrective Action Plan

December 12, 2017

Hempfield School District respectfully submits the following corrective action plan for the year ending June 30, 2017.

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

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

Audit Period: July 1, 2016 through June 30, 2017.

The finding from the Schedule of Findings and Questioned Costs for the year ended June 30, 2017 is discussed below. The finding is numbered consistently with the number assigned in the schedule:

Finding – Financial Statement Audit

Significant Deficiency and Compliance Finding

#2017-001 Internal Control over Procurement

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

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

Cause and Effect: The School District personnel responsible for purchasing and contracting did not sufficiently analyze and enforce the laws and regulations pertaining to quote and bid requirements. As a result of the condition described above, the School District engaged vendors for projects without obtaining required quotes and/or bids.

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

- 82 -

Management Response:

School District administration recognizes the weaknesses in purchasing processes and is working to put in place additional internal controls and provide training that will ensure better compliance with Pennsylvania statutory requirements surrounding procurement, especially in the area of purchases subject to quote and bid requirements. To better identify purchases subject to the bid and quote requirements, the Director of Finance will work with the facilities team to review capital and repair plans within the district and will review documentation prior to presentation to the board for vote on contracts. Additional documentation procedures will be introduced to better support compliance with bid and quote requirements and to capture appropriate levels of review and approval throughout the process with regards to compliance. Adherence to these procedures will be verified during the accounts payable process. Improved ethical purchasing decisions that produce the best economic results while promoting achievement of the organization's educational objectives must always be the desired outcome of district processes. Management recognizes the need for compliance to ensure fiscal accountability for the school district.

If the United States Department of Education has questions regarding this plan, please call Dr. Christopher Adams at 717-898-5564.

Sincerely,



Christopher S. Adams, Ed.D.
Superintendent
Hempfield School District