

Hempfield School District

Year Ended June 30, 2016



TROUT, EBERSOLE & GROFF_{LLP}

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Hempfield School District
Financial Statements with Supplementary Information
Year Ended June 30, 2016

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 - 61
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	62
Notes to Required Supplementary Information	63

Hempfield School District
 Financial Statements with Supplementary Information
 Year Ended June 30, 2016

TABLE of CONTENTS
 (Continued)

	Page
Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Postretirement Health Care Benefits Plan	64
Schedule of Employer Contributions - Other Postemployment Benefits (OPEB) Postretirement Health Care Benefits Plan	65
Notes to Required Supplementary Information	66
Schedule of School District's Proportionate Share of the Net Pension Liability - Public School Employees' Retirement System - Last 10 Fiscal Years	67
Schedule of Employer Contributions - Public School Employees' Retirement System - Last 10 Fiscal Years	68
Notes to Required Supplementary Information	69
 Supplementary Information	
Combining Balance Sheet Schedule - Capital Project Fund	70
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Capital Project Fund	71
Combining Schedule of Net Position - Internal Service Funds	72
Combining Schedule of Revenues, Expenses, and Changes in Net Position - Internal Service Funds	73
Schedule of Expenditures of Federal Awards	74 - 76
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>	77 & 78
Independent Auditors' Report on Compliance for each Major Program and Report on Internal Control over Compliance as Required by the Uniform Guidance	79 & 80
Schedule of Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	82

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, 2016, 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District** as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 62 and 63, the other postemployment benefits (OPEB) health care benefits plan information on pages 64 through 66, and the schedule of school district's proportionate share of the net pension liability and the schedule of employer contributions on pages 67 through 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Hempfield School District's** basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 combining and individual fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, 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.

November 16, 2016
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, 2016

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, 2016. 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 2016 are as follows:

- Probably the biggest issues facing school districts in the 2015-2016 school year was the unprecedented Pennsylvania State budget impasse. After nine months of partisan disagreements between legislators, the Governor reluctantly allowed the appropriations bill to become law on March 28, 2016. Still undetermined at year ending June 30, 2016 was the funding of the state liability for PlanCon reimbursements due to school districts. Although reflected in the government wide financial statements as a receivable, the School District did not recognize the \$1.1 million state subsidy reimbursement revenue in its general fund financial statements and deferred these amounts.
- School districts' financial statement presentations continue to be significantly impacted by the implementation of GASB 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* beginning with the year ending June 30, 2015. The primary objective of this statement was to improve accounting and financial reporting by state and local governments for pensions. This standard requires the inclusion of the School District's proportionate share of PSERS net pension liability, pension expense, and pension deferred inflows and outflows of resources on government-wide and proprietary fund financial statements.
- Total assets decreased \$6.7 million to \$187.7 million due to \$4.5 million lower cash and investment balances as well as \$4.4 million decreased value of net capital assets resulting from the disposition of retired assets as well as the recording of annual depreciation expense. Total governmental activities liabilities increased by \$11.6 million due primarily to the recognition of an additional \$16.7 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 \$6.7 million.
- Governmental activities revenues totaled \$115.1 million. General revenues accounted for \$92.1 million, or 80.0% of this total, while program specific charges for services, grants, or contributions represented \$23.0 million or 20.0%. These revenues represent a total increase of \$4.1 million from last year. Total tax revenues increased \$1.3 million as well as a \$1.6 million increase in State revenues, \$1.3 million coming from the increase in the PSERS retirement subsidy.
- The School District had \$115.4 million in expenses related to governmental activities; \$19.8 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$78.0 million of taxes, provided for these expenses. Net position decreased by \$3.5 million for governmental activities overall of which \$3.4 million is due to the recording of the School District's increase in proportionate share of the net pension liability.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

FINANCIAL HIGHLIGHTS (Continued)

- Among major funds, the general fund had \$110.7 million in revenues and \$112.0 million in expenditures and transfers. This resulted in a decrease of nearly \$1.3 million in the general fund balance, decreasing the general fund's fund balance to \$8.7 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.

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

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

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

USING THIS ANNUAL REPORT (Continued)

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 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 2016 compared to 2015:

Table 1
Net Position at June 30
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	42.6	44.4	(.3)	.1	42.3	44.5
Capital Assets	<u>144.3</u>	<u>148.7</u>	<u>1.1</u>	<u>1.2</u>	<u>145.4</u>	<u>149.9</u>
Total Assets	186.9	193.1	.8	1.3	187.7	194.4
Deferred Outflow of Resources	16.8	12.5	.3	.2	17.1	12.7

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Net Position (Continued)

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Liabilities						
Current Liabilities	23.7	23.7	.1	.1	23.8	23.8
Noncurrent Liabilities	<u>273.0</u>	<u>261.7</u>	<u>3.4</u>	<u>3.1</u>	<u>276.4</u>	<u>264.8</u>
Total Liabilities	296.7	285.4	3.5	3.2	300.2	288.6
Deferred Inflows of Resources	1.0	10.7	.0	.2	1.0	10.9
Net Position						
Net Investment in Capital Assets	38.2	35.9	1.1	1.2	39.4	37.1
Unrestricted	<u>(132.2)</u>	<u>(126.4)</u>	<u>(3.5)</u>	<u>(3.1)</u>	<u>(135.8)</u>	<u>(129.5)</u>
Total Net Position	(94.0)	(90.5)	(2.4)	(1.9)	(96.4)	(92.4)

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 \$96.4 million on June 30, 2016. 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 \$154.4 million for 2016.

Governmental Activities

- Current assets decreased \$.1.8 million, which was primarily due to a \$4.5 million decrease in cash and investments and offset by a \$2.7 million increase in state subsidies receivable.
- Noncurrent assets decreased almost \$4.4 million, from \$148.7 million to \$144.3 million. This decrease reflects the disposition of assets no longer in use as well as recognition of annual depreciation expense.
- Total liabilities increased \$11.3 million which was largely the combined result of bonds payable decreasing by \$6.7 million and net pension liability increasing \$16.7 million.

Business-Type Activities

- Net position of the business-type activities decreased \$524,000. In an attempt to attract more students at the high school level, changes were made in 2016 to opt out of the National School Lunch Program. The School District did not realize the anticipated results and will therefore go back on the program in 2016-2017. Included in the decreased net position was depreciation of \$110,000 and net pension liabilities recognized in the amount of \$56,000.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Activities

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	1.2	.6	2.0	1.9	3.2	2.5
Operating Grants	17.5	15.9	1.2	1.4	18.7	17.3
Capital Grants	1.1	1.7	.0	.0	1.1	1.7
General Revenues:						
Property and Other Taxes	78.0	76.7	.0	.0	78.0	76.7
Grants and Entitlements	13.8	13.5	.0	.0	13.8	13.5
Other	<u>.3</u>	<u>(.7)</u>	<u>.0</u>	<u>(.1)</u>	<u>.3</u>	<u>(.8)</u>
Total Revenues	<u>111.9</u>	<u>107.7</u>	<u>3.2</u>	<u>3.2</u>	<u>115.1</u>	<u>110.9</u>
Expenses						
Program Expenses:						
Instruction	77.5	73.9	.0	.0	77.5	73.9
Support Services:						
Instructional Student Support	8.7	7.9	.0	.0	8.7	7.9
Administrative and Financial						
Support Services	9.6	9.9	.0	.0	9.6	9.9
Operation and Maintenance of						
Plant Services	9.1	8.8	.0	.0	9.1	8.8
Pupil Transportation	5.0	5.2	.0	.0	5.0	5.2
Student Activities	1.9	1.8	.0	.0	1.9	1.8
Interest on Long-Term Debt	2.8	3.0	.0	.0	2.8	3.0
Unallocated Depreciation Expense	.8	.6	.0	.0	.8	.6
Food Service and Day Care Operations	<u>.0</u>	<u>.0</u>	<u>3.7</u>	<u>3.5</u>	<u>3.7</u>	<u>3.5</u>
Total Expenses	<u>115.4</u>	<u>111.1</u>	<u>3.7</u>	<u>3.5</u>	<u>119.1</u>	<u>114.6</u>
Decrease in Net Position	(3.5)	(3.4)	(.5)	(.3)	(4.0)	(3.7)

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, 2016

THE SCHOOL DISTRICT as a WHOLE (Continued)

Statement of Activities (Continued)

Table 3
Governmental Activities at June 30
(In Millions)

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	77.5	73.9	63.9	61.3
Support Services:				
Instructional Student Support	8.7	7.9	7.5	6.9
Administrative and Financial Support Services	9.6	9.9	8.8	9.2
Operation and Maintenance of Plant Services	9.1	8.8	8.6	8.2
Pupil Transportation	5.0	5.2	2.9	3.9
Student Activities	1.9	1.8	1.5	1.4
Interest on Long-Term Debt	2.8	3.0	1.6	1.4
Unallocated Depreciation Expense	<u>.8</u>	<u>.6</u>	<u>.8</u>	<u>.6</u>
Total Governmental Activities	115.4	111.1	95.6	92.9

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 Columbia School District.
- Operating grants and contributions included state subsidies for special education, transportation, and employee benefits, as well as federal and state grants for specific programs.
- Capital grants included state subsidies which fund a portion of the debt service principal and interest expenses.

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

- Property, earned income, and other taxes provided \$78.0 million, or 84.7% of the \$92.1 million general governmental revenues. Program related grants, subsidies and charges for services provided \$19.8 million of funding for program expenses, and \$14.1 million of additional grants, subsidies, interest, and other revenues provided for other expenses after the offset of asset disposals.
- Overall tax revenues increased \$1.3 million. Current property taxes increased \$.5 million. The millage applied to the assessed valuation increased from 19.459 in 2014-2015 to 19.653 in 2015-2016, a 1.0% index-based increase.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

THE SCHOOL DISTRICT as a WHOLE (Continued)

Governmental Activities (Continued)

Total expenses for governmental activities have increased by \$4.3 million. Wage increases, primarily driven by the collective bargaining agreement, led to \$1.1 million of these increased expenses. PSERS retirement costs continue to rise leading to increased expenses of approximately \$2.5 million. The employer rate increased from 21.4% in 2014-2015 to 25.84% in 2015-2016. Although health care costs are still increasing, the School District offered a high deductible option beginning January, 2016 to attempt to slow the growth trend. Medical cost increases were less than half million as compared to the prior year.

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 \$2.8 million, and expenses of \$3.4 million for the fiscal year 2016, which resulted in a loss of approximately \$524,000 for food service operations. Of this amount, \$110,000 represents depreciation expense and \$56,000 as additional pension expense related to GASB 68. Therefore the adjusted operating loss was approximately \$358,000. These operations continue to operate in the negative because of increasingly strict nutrition standards, and related decreased sales. For school year 2015-2016, the high school elected to opt out of the National School Lunch Program (NSLP) in an effort to increase sales at the high school by providing food choices that currently are not able to be served under the Healthy Hunger-Free Kids Act. Although better results were anticipated, the resulting loss in 2015-2016 was significant enough that the School District has opted to go back on the NSLP for 2016-2017. The child care operation continues to add positive value, as it generated a \$91,000 profit on revenues of \$389,000.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds starts on page 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$110.7 million and expenditures of \$115.4 million. Other financing sources provided \$1.2 million, resulting in a decrease to total fund balances of \$3.5 million.

General Fund

The general fund balance decreased \$1.3 million, to a total of \$8.7 million. This decrease was anticipated in the budget process. 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 \$6.5 million remaining as unassigned fund balance.

With these transactions recorded, the unassigned fund balance test yields a 5.8% fund balance against the original 2015-2016 budgeted expenditures, which is well within the 8% legal restriction. The assigned and unassigned amounts in the fund balance provide some contingency amounts, if needed, to deal with increasing costs and future liabilities. The unassigned fund balance also assists in meeting the following fiscal year's obligations until real estate taxes are collected. Maintaining a healthy fund balance is important for a positive bond rating, as well as potential resources to deal with unanticipated financial challenges as they may occur.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

THE SCHOOL DISTRICT'S FUNDS (Continued)

Debt Service Fund

The debt service fund had a net decrease of \$581,000 this year, leaving the ongoing fund balance 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, allowing the School District to complete the recent elementary school projects without additional millage impact on School District taxpayers due to the construction. Other areas of the budget continue to create pressure on tax millage, but ongoing debt service is a very positive aspect of the long-term financial outlook. By taking advantage of financing opportunities, the School District was able to decrease interest expense by \$345,000. By taking advantage of a refunding opportunity in 2016, the School District realized net savings over the life of the bonds of approximately \$1.0 million.

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 decreased by about \$1.6 million to \$3.0 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 in the amount of \$2.4 million were incurred related to work on the stadium track and field improvements as well as infrastructure upgrades to accommodate the implementation of the 1:1 initiative. The construction fund balance was depleted and will be closed as the work at the Landisville Education Center has been completed.

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 2016, 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 \$110.7 million, which was approximately \$600,000 more than the original budget estimates for revenues. Although local sourced revenues, primarily positive variances related to local tax collections from real estate and delinquent tax revenues, were \$1.6 million higher than budget, the budgetary issues surrounding the state funding on its obligations to reimburse school districts their share of sinking fund payments were not resolved until after year end. The Commonwealth of Pennsylvania has subsequently secured financing to reimburse school districts their share of 2015-2016 debt payments and should be issuing these subsidy payments to school districts before the end of 2016. Because of the delayed timing, the School District did not recognize this outstanding receivable balance of \$1.1 million in the general fund financial statement. This amount however is included in the government-wide financial statement. This revenue will be recognized in the general fund in 2016-2017 when it is received.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

GENERAL FUND BUDGETING HIGHLIGHTS (Continued)

Actual expenditures for the year were \$112.0 million, \$103.1 million of that amount for operational expenses and \$8.9 million for fund transfers and debt service. These amounts were about \$400,000 more than the budgeted expenses.

CAPITAL ASSETS and DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the School District had \$145.4 million invested in land, buildings, equipment, vehicles, and construction in progress with \$144.3 million in governmental activities. Table 4 shows the fiscal year 2016 balance compared to 2015.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	4.7	4.7	.0	.0	4.7	4.7
Building and Building Improvements	125.5	132.2	.0	.0	125.5	132.2
Furniture, Equipment, and Vehicles	13.7	11.6	1.1	1.2	14.8	12.8
Construction in Progress	<u>.4</u>	<u>.2</u>	<u>.0</u>	<u>.0</u>	<u>.4</u>	<u>.2</u>
Total Capital Assets	144.3	148.7	1.1	1.2	145.4	149.9

Property and equipment additions were \$2.2 million for the year 2015-2016, the largest addition being \$1.3 million spent on the stadium track and field improvements. A total of \$2.8 million of cost of equipment and building improvement items were removed from the fixed asset inventory, primarily due to the disposition of remaining costs at the Rohrerstown Education Center following the demolition of the remaining building in 2015-2016. Annual depreciation expense of \$6.4 million was recorded.

Debt Administration

In 2016, the School District took advantage of an opportunity to refund and reissue bonds. The 2016 General Obligation Bonds were issued to refund the Series A 2010 General Obligation Bonds. This transaction resulted in a net savings to the School District of almost \$1.0 million to be recognized over the next fifteen years. 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, 2016, the School District had \$102.4 million in bonds outstanding, with \$5.5 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, 2016

CAPITAL ASSETS and DEBT ADMINISTRATION (Continued)

Debt Administration (Continued)

Table 5
Outstanding Debt at Year End
(In Millions)

	Governmental Activities	
	2016	2015
General Obligation Bonds:		
2010A Note Restructuring	.0	8.0
2011 Note Refinancing	3.2	3.2
2011A Bond Restructuring	3.2	8.0
2012 Bond Financing	27.3	27.3
2012A Note Refinancing	9.6	10.6
2013 Bond	8.8	8.8
2014 Bond	5.4	6.1
2014A Bond	2.9	3.0
2015 Bond Variable Rate Refinancing	25.5	25.5
2015A Bond Refinancing	8.1	8.1
2016 Bond Refinancing	8.4	.0
	102.4	108.6

FOR THE FUTURE

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

In many ways, the 2015-2016 year was indicative of the challenges faced by public school districts in the current environment. Without tax increases, most revenue categories are not growing, yet many expenses continue to increase, and in some cases - such as the PSERS benefit - increase at alarming rates. There is a continuing challenge to balance an annual budget within the constraints of a struggling economy and the threat of further cost escalations in the immediate future. School districts must keep an eye on the future and plan prudently while working within the current political and economic reality. It is a difficult balance to achieve.

Budgetary constraints under Act 1 must also be balanced with increasing demands of a more diverse student population, both ethnically and economically. There is a much greater need for additional services to our English language learners, more stringent standards under federal and state guidelines for both academic and fiscal requirements under ESSA and UGG, and ever-increasing standards for special education services to both IEP and gifted students. All of these education and instruction-based needs must be balanced with the significant salary and benefit costs necessary to support a staff of highly-qualified professional teachers and support staff.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2016

FOR THE FUTURE (Continued)

While creative solutions such as wage freezes and elimination of positions through attrition helped to accomplish reductions in costs in prior years, contractual obligations continue to challenge the ability to meet educational needs while finding ways to achieve at a high level with fewer positions remaining across the School District. To accomplish the goals, there is a continued emphasis on innovation, delivering instruction in cost-effective ways, and seeking revenue generation via initiatives such as offering other school districts the opportunity to buy slots in our highly effective alternative education program.

Funding of Public Education

Public school districts face many challenges to funding streams, as assessment appeals reduce tax base, interest rates, although creeping slowly, continue to remain low offering minimal revenue stream, and state legislators continue to debate shifting funds from public to private institutions while continuing to discuss potentially eliminating property taxes. The School District continues to emphasize quality educational programs, academic progress for all students, and striking a balance between the costs of meeting those educational needs of students with the increasing tax burden on local taxpayers.

Bond Debt and Debt Service

The School District currently carries about \$102.4 million in debt through various bond issues. Most of this debt is carried in fixed rate bonds, but the addition of variable rate interest bonds to the portfolio has enabled the School District to take advantage of historically low interest rates. Subsequent to year end, the School District refinanced Series 2011 Notes, Series A 2011 and Series 2012 General Obligation Bonds to issue Series A 2016 Bonds. This transaction settled in July, 2016 and realized net savings of more than half million. Although there are no immediate additional borrowing plans, the School District Administration and Board members continue to discuss capital plans for future renovation projects. The School District will continue to take advantage of other refinancing opportunities in the near future as refunding possibilities present.

Future Budgets

It has been common over the years to say that we are facing challenging budget situations. School districts have been forced to consider cost cutting initiatives to be able to cover escalating costs with little or no change in federal or state funding. The future budgets for Pennsylvania school districts will be impacted in some form by the results of last year's budget crisis, and indications are that school districts will once again face a rocky budget season with unknown funding levels from the state until much later in our budget cycles.

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, Business Manager at **Hempfield School District**, 200 Church Street, Landisville, PA 17538.

Hempfield School District

STATEMENT of NET POSITION

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 12,182,503	\$ 1,200	\$ 12,183,703
Investments	21,715,947	107,192	21,823,139
Taxes Receivable, net	2,507,005	-0-	2,507,005
Internal Balances	501,022	(501,022)	-0-
Due from Other Governments	5,362,595	-0-	5,362,595
Other Current Assets	310,324	20,615	330,939
Inventories	82,390	21,333	103,723
Total Current Assets	42,661,786	(350,682)	42,311,104
Noncurrent Assets			
Land	4,687,257	-0-	4,687,257
Building and Building Improvements, net of Accumulated Depreciation	125,525,839	-0-	125,525,839
Furniture and Equipment, net of Accumulated Depreciation	13,533,165	1,109,578	14,642,743
Vehicles, net of Accumulated Depreciation	138,381	-0-	138,381
Construction in Progress	420,827	-0-	420,827
Total Noncurrent Assets	144,305,469	1,109,578	145,415,047
TOTAL ASSETS	<u>186,967,255</u>	<u>758,896</u>	<u>187,726,151</u>
DEFERRED OUTFLOWS of RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	24,551	-0-	24,551
Deferred Outflows - Pension	16,805,424	342,967	17,148,391
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 16,829,975</u>	<u>\$ 342,967</u>	<u>\$ 17,172,942</u>

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION

(Continued)

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 4,506,611	\$ 512	\$ 4,507,123
Current Portion of Long-Term Debt	5,515,000	-0-	5,515,000
Accrued Salaries and Benefits	11,513,022	-0-	11,513,022
Compensated Absences, Due Within One Year	777,488	16,595	794,083
Accrued Interest on Long-Term Debt	636,310	-0-	636,310
Payroll Deductions and Withholdings	567,095	-0-	567,095
Unearned Revenues	100,248	74,408	174,656
Other Current Liabilities	92,887	-0-	92,887
Total Current Liabilities	23,708,661	91,515	23,800,176
Noncurrent Liabilities			
Net Pension Liability	167,079,114	3,409,778	170,488,892
Bonds Payable, net of Unamortized Discount and Premium	100,513,313	-0-	100,513,313
Accrued Retirement Bonuses	1,000,576	2,295	1,002,871
Long-Term Portion of Compensated Absences	1,985,986	40,394	2,026,380
Net Other Postemployment Benefit (OPEB) Liability	2,432,678	-0-	2,432,678
Total Noncurrent Liabilities	273,011,667	3,452,467	276,464,134
TOTAL LIABILITIES	296,720,328	3,543,982	300,264,310
DEFERRED INFLOWS of RESOURCES			
Deferred Inflows - Pension	1,028,636	20,993	1,049,629
NET POSITION			
Net Investment in Capital Assets	38,277,156	1,109,578	39,386,734
Unrestricted (Deficit)	(132,228,890)	(3,572,690)	(135,801,580)
TOTAL NET POSITION	\$ (93,951,734)	\$ (2,463,112)	\$ (96,414,846)

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2016

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	\$ 77,551,973	\$ 171,308	\$ 13,471,553	\$ -0-	\$ (63,909,112)	\$ -0-	\$ (63,909,112)
Instructional Student Support	8,738,248	-0-	1,189,891	-0-	(7,548,357)	-0-	(7,548,357)
Administrative and Financial Support Services	9,579,452	73,715	753,616	-0-	(8,752,121)	-0-	(8,752,121)
Operation and Maintenance of Plant Services	9,115,729	143,056	396,091	-0-	(8,576,582)	-0-	(8,576,582)
Pupil Transportation	4,954,796	519,304	1,533,475	-0-	(2,902,017)	-0-	(2,902,017)
Student Activities	1,946,753	242,199	158,492	-0-	(1,546,062)	-0-	(1,546,062)
Community Services	7,970	-0-	-0-	-0-	(7,970)	-0-	(7,970)
Interest on Long-Term Debt	2,765,955	-0-	-0-	1,144,874	(1,621,081)	-0-	(1,621,081)
Depreciation - Unallocated *	775,220	-0-	-0-	-0-	(775,220)	-0-	(775,220)
Total Governmental Activities	115,436,096	1,149,582	17,503,118	1,144,874	(95,638,522)	-0-	(95,638,522)
Business-Type Activities:							
Food Service	3,372,777	1,613,352	1,199,624	-0-	-0-	(559,801)	(559,801)
Child Care	297,687	388,860	-0-	-0-	-0-	91,173	91,173
Total Business-Type Activities	3,670,464	2,002,212	1,199,624	-0-	-0-	(468,628)	(468,628)
Total Government	\$ 119,106,560	\$ 3,151,794	\$ 18,702,742	\$ 1,144,874	\$ (95,638,522)	\$ (468,628)	\$ (96,107,150)

* Excludes depreciation charged directly to various functions.

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2016

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					\$ 69,663,756	\$ -0-	\$ 69,663,756
Public Utility Realty and Earned Income Taxes							
Levied for General Purposes, net					8,337,912	-0-	8,337,912
Unrestricted Grants and Subsidies					13,812,561	-0-	13,812,561
Unrestricted Investment Earnings					120,928	411	121,339
Miscellaneous Income					491,386	62	491,448
Special Item - Loss on Fixed Asset Dispositions					(330,708)	(9,730)	(340,438)
Transfers In (Out)					46,282	(46,282)	-0-
Total General Revenues and Transfers					92,142,117	(55,539)	92,086,578
CHANGES in NET POSITION					(3,496,405)	(524,167)	(4,020,572)
NET POSITION							
Beginning					(90,455,329)	(1,938,945)	(92,394,274)
Ending					\$ (93,951,734)	\$ (2,463,112)	\$ (96,414,846)

See notes to financial statements.

Hempfield School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	<u>Major Funds</u>			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
ASSETS				
Cash and Cash Equivalents	\$ 8,409,569	\$ -0-	\$ 2,681,806	\$ 11,091,375
Investments	8,444,030	4,920,859	204,206	13,569,095
Taxes Receivable, net	2,507,005	-0-	-0-	2,507,005
Due from Other Funds	1,601,022	-0-	624,561	2,225,583
Due from Other Governments	5,362,595	-0-	-0-	5,362,595
Other Receivables	76,618	2,045	-0-	78,663
Inventories	82,390	-0-	-0-	82,390
Prepaid Expenses	117,346	-0-	-0-	117,346
TOTAL ASSETS	<u>26,600,575</u>	<u>4,922,904</u>	<u>3,510,573</u>	<u>35,034,052</u>
LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
LIABILITIES				
Accounts Payable	3,125,264	-0-	494,397	3,619,661
Due to Other Funds	624,561	600,000	-0-	1,224,561
Accrued Salaries and Benefits	11,513,022	-0-	-0-	11,513,022
Payroll Deductions and Withholdings	567,095	-0-	-0-	567,095
Unearned Revenues	100,248	-0-	-0-	100,248
Other Liabilities	101,929	-0-	-0-	101,929
TOTAL LIABILITIES	<u>16,032,119</u>	<u>600,000</u>	<u>494,397</u>	<u>17,126,516</u>
DEFERRED INFLOWS of RESOURCES				
Delinquent Real Estate Taxes	711,148	-0-	-0-	711,148
State Subsidies	1,144,874	-0-	-0-	1,144,874
TOTAL DEFERRED INFLOWS of RESOURCES	<u>1,856,022</u>	<u>-0-</u>	<u>-0-</u>	<u>1,856,022</u>
FUND BALANCES				
Nonspendable	199,736	-0-	-0-	199,736
Restricted	-0-	-0-	-0-	-0-
Committed	-0-	-0-	-0-	-0-
Assigned	2,000,000	4,322,904	3,016,176	9,339,080
Unassigned	6,512,698	-0-	-0-	6,512,698
TOTAL FUND BALANCES	<u>8,712,434</u>	<u>4,322,904</u>	<u>3,016,176</u>	<u>16,051,514</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	<u>\$ 26,600,575</u>	<u>\$ 4,922,904</u>	<u>\$ 3,510,573</u>	<u>\$ 35,034,052</u>

See notes to financial statements.

Hempfield School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET to the STATEMENT of NET POSITION June 30, 2016

Total fund balances - governmental funds \$ 16,051,514

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$218,151,522, and the accumulated depreciation is \$73,846,053. 144,305,469

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. 7,974,387

Property taxes receivable and certain state subsidies 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. 1,856,022

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	(167,079,114)
Bonds Payable	(102,395,000)
Accrued Interest on Long-Term Debt	(636,310)
Bond Discount, net of Amortization	52,430
Bond Premium, net of Amortization	(3,685,743)
Net Other Postemployment Benefit (OPEB) Liability	(2,432,678)
Accrued Retirement Bonuses	(1,000,576)
Compensated Absences	(2,763,474)

Deferred inflows of resources - pension are not due and payable in the current period and, therefore, are not reported in the funds. (1,028,636)

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

Pension Related	16,805,424
Loss on Bond Refinancing, net of Accumulated Amortization	24,551

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (93,951,734)

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 69,723,452	\$ -0-	\$ -0-	\$ 69,723,452
Other Taxes	8,297,912	-0-	-0-	8,297,912
Investment Earnings	97,002	12,579	11,347	120,928
Other Revenue	<u>2,591,817</u>	<u>-0-</u>	<u>-0-</u>	<u>2,591,817</u>
Total Local Sources	80,710,183	12,579	11,347	80,734,109
State Sources	28,198,752	-0-	-0-	28,198,752
Federal Sources	<u>1,823,743</u>	<u>-0-</u>	<u>-0-</u>	<u>1,823,743</u>
Total Revenues	110,732,678	12,579	11,347	110,756,604
EXPENDITURES				
Instructional Services	70,890,190	-0-	-0-	70,890,190
Support Services	30,284,374	-0-	-0-	30,284,374
Noninstructional Services	1,903,772	-0-	-0-	1,903,772
Capital Outlay	-0-	-0-	2,349,481	2,349,481
Debt Service	-0-	9,839,142	-0-	9,839,142
Bond Issuance Costs	<u>-0-</u>	<u>145,747</u>	<u>-0-</u>	<u>145,747</u>
Total Expenditures	103,078,336	9,984,889	2,349,481	115,412,706
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES				
	7,654,342	(9,972,310)	(2,338,134)	(4,656,102)
OTHER FINANCING SOURCES (USES)				
Advance Refunding Bond Proceeds	-0-	8,400,000	-0-	8,400,000
Payments to Refunded Bond				
Escrow Agent	-0-	(8,040,000)	-0-	(8,040,000)
Discount on Refunding Bonds	-0-	(52,429)	-0-	(52,429)
Refund of Prior Years' Expenses	73,964	-0-	268,328	342,292
Transfers In (Out)	<u>(8,992,331)</u>	<u>9,083,712</u>	<u>454,901</u>	<u>546,282</u>
Net Other Financing Sources (Uses)	(8,918,367)	9,391,283	723,229	1,196,145
NET CHANGES in FUND BALANCES				
	(1,264,025)	(581,027)	(1,614,905)	(3,459,957)
FUND BALANCES				
Beginning	<u>9,976,459</u>	<u>4,903,931</u>	<u>4,631,081</u>	<u>19,511,471</u>
Ending	<u>\$ 8,712,434</u>	<u>\$ 4,322,904</u>	<u>\$ 3,016,176</u>	<u>\$ 16,051,514</u>

See notes to financial statements.

Hempfield School District
 RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of
 REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES
 to the STATEMENT of ACTIVITIES
 Year Ended June 30, 2016

Total net changes in fund balances - governmental funds \$ (3,459,957)

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	(330,708)	
Depreciation Expense	(6,412,922)	
Capital Outlays	<u>2,346,943</u>	(4,396,687)

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 increased by this amount this year. 1,125,178

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. (7,929,847)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 14,660,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ 35,463

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, 2016

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.

\$ 32,819

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.

125,542

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.

(354,886)

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.

(2,752,192)

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.

(581,838)

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES **\$ (3,496,405)**

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2016

	Enterprise Funds			
	Major Fund Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,200	\$ -0-	\$ 1,200	\$ 1,091,128
Investments	107,192	-0-	107,192	8,146,852
Other Receivables	20,615	-0-	20,615	114,315
Inventories	21,333	-0-	21,333	-0-
Total Current Assets	150,340	-0-	150,340	9,352,295
Noncurrent Assets				
Furniture and Equipment, net of Accumulated Depreciation	<u>1,109,578</u>	-0-	<u>1,109,578</u>	<u>-0-</u>
TOTAL ASSETS	1,259,918	-0-	1,259,918	9,352,295
DEFERRED OUTFLOWS of RESOURCES - PENSION	<u>342,967</u>	-0-	<u>342,967</u>	<u>-0-</u>
TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES	<u>1,602,885</u>	<u>-0-</u>	<u>1,602,885</u>	<u>9,352,295</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	512	-0-	512	877,908
Due to Other Funds	501,022	-0-	501,022	500,000
Compensated Absences, Due Within One Year	16,595	-0-	16,595	-0-
Unearned Revenues	74,408	-0-	74,408	-0-
Total Current Liabilities	592,537	-0-	592,537	1,377,908
Noncurrent Liabilities				
Accrued Retirement Bonus	2,295	-0-	2,295	-0-
Net Pension Liability	3,409,778	-0-	3,409,778	-0-
Long-Term Portion of Compensated Absences	40,394	-0-	40,394	-0-
Total Noncurrent Liabilities	3,452,467	-0-	3,452,467	-0-
TOTAL LIABILITIES	4,045,004	-0-	4,045,004	1,377,908
DEFERRED INFLOWS of RESOURCES - PENSION	<u>20,993</u>	-0-	<u>20,993</u>	<u>-0-</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES	<u>4,065,997</u>	<u>-0-</u>	<u>4,065,997</u>	<u>1,377,908</u>
NET POSITION				
Net Investment in Capital Assets	1,109,578	-0-	1,109,578	-0-
Unrestricted (Deficit)	(3,572,690)	-0-	(3,572,690)	7,974,387
TOTAL NET POSITION	<u>\$ (2,463,112)</u>	<u>\$ -0-</u>	<u>\$ (2,463,112)</u>	<u>\$ 7,974,387</u>

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
 PROPRIETARY FUNDS
 Year Ended June 30, 2016

	Enterprise Funds			
	Major Fund		Total Enterprise Funds	Internal Service Funds
	Food Service Fund	Nonmajor Fund		
OPERATING REVENUES				
Food Service Revenue	\$ 1,519,023	\$ -0-	\$ 1,519,023	\$ -0-
Charges for Services	91,496	388,860	480,356	12,597,384
Miscellaneous	<u>2,893</u>	<u>-0-</u>	<u>2,893</u>	<u>-0-</u>
Total Operating Revenues	1,613,412	388,860	2,002,272	12,597,384
OPERATING EXPENSES				
Salaries	1,146,658	-0-	1,146,658	-0-
Employee Benefits	741,393	-0-	741,393	12,707,201
Purchased Professional and Technical Services	66,533	-0-	66,533	-0-
Other Purchased Services	776	297,687	298,463	-0-
Supplies	1,306,064	-0-	1,306,064	-0-
Depreciation	109,618	-0-	109,618	-0-
Other Operating Expenses	<u>1,733</u>	<u>-0-</u>	<u>1,733</u>	<u>-0-</u>
Total Operating Expenses	3,372,775	297,687	3,670,462	12,707,201
OPERATING INCOME (LOSS)	(1,759,363)	91,173	(1,668,190)	(109,817)
NONOPERATING REVENUES				
Investment Earnings	411	-0-	411	27,979
Loss on Disposition of Fixed Assets	(9,730)	-0-	(9,730)	-0-
State Sources	241,141	-0-	241,141	-0-
Federal Sources	<u>958,483</u>	<u>-0-</u>	<u>958,483</u>	<u>-0-</u>
Net Nonoperating Revenues	1,190,305	-0-	1,190,305	27,979
Income (Loss) Before Transfers	(569,058)	91,173	(477,885)	(81,838)
TRANSFERS IN (OUT)	44,891	(91,173)	(46,282)	(500,000)
CHANGES in NET POSITION	(524,167)	-0-	(524,167)	(581,838)
NET POSITION				
Beginning	<u>(1,938,945)</u>	<u>-0-</u>	<u>(1,938,945)</u>	<u>8,556,225</u>
Ending	<u>\$ (2,463,112)</u>	<u>\$ -0-</u>	<u>\$ (2,463,112)</u>	<u>\$ 7,974,387</u>

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2016

	Enterprise Funds			
	<u>Major Fund</u>			
	Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES				
Cash Received from Users	\$ 1,604,435	\$ 388,860	\$ 1,993,295	\$ 12,597,384
Cash Payments to Employees for Services	(891,228)	-0-	(891,228)	-0-
Cash Payments for Employee Benefits	(685,224)	-0-	(685,224)	(12,806,052)
Cash Payments to Suppliers for Goods and Services	(1,220,314)	(297,687)	(1,518,001)	-0-
Cash Payments for Other Operating Expenses	(1,733)	-0-	(1,733)	(1,435)
Net Cash Provided (Used) by Operating Activities	(1,194,064)	91,173	(1,102,891)	(210,103)
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES				
Cash Payments for Purchase of Capital Assets	(44,891)	-0-	(44,891)	-0-
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES				
State Sources	241,120	-0-	241,120	-0-
Federal Sources	806,697	-0-	806,697	-0-
Interfund Transfers	44,891	(91,173)	(46,282)	-0-
Net Cash Provided (Used) by Noncapital Financing Activities	1,092,708	(91,173)	1,001,535	-0-
CASH FLOWS from INVESTING ACTIVITIES				
Investment Earnings	411	-0-	411	7,050
Additions to Investment Pools	139,361	-0-	139,361	(14,085)
Net Cash Provided (Used) by Investing Activities	139,772	-0-	139,772	(7,035)
DECREASE in CASH and CASH EQUIVALENTS	(6,475)	-0-	(6,475)	(217,138)
CASH and CASH EQUIVALENTS				
Beginning of Year	7,675	-0-	7,675	1,308,266
End of Year	\$ 1,200	\$ -0-	\$ 1,200	\$ 1,091,128

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2016

	<u>Enterprise Funds</u>			
	<u>Major Fund</u>			
	Food Service Fund	Nonmajor Fund	Total Enterprise Funds	Internal Service Funds
RECONCILIATION of OPERATING INCOME				
(LOSS) to NET CASH PROVIDED by				
OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (1,759,363)	\$ 91,173	\$ (1,668,190)	\$ (109,817)
ADJUSTMENTS to RECONCILE OPERATING				
INCOME (LOSS) to NET CASH PROVIDED				
by OPERATING ACTIVITIES				
Depreciation	109,618	-0-	109,618	-0-
Donated Commodities Used	151,786	-0-	151,786	-0-
Pension - Changes Other than Periodic Pension Cost	56,169	-0-	56,169	-0-
Increase in Receivables	(13,535)	-0-	(13,535)	(81,911)
Decrease in Inventory	14,390	-0-	14,390	-0-
Decrease in Accounts Payable	(13,117)	-0-	(13,117)	(18,375)
Increase in Accrued Salaries and Benefits	255,430	-0-	255,430	-0-
Increase in Unearned Revenue	4,558	-0-	4,558	-0-
Total Adjustments	<u>565,299</u>	<u>-0-</u>	<u>565,299</u>	<u>(100,286)</u>
Net Cash Provided (Used) by				
Operating Activities	<u>\$ (1,194,064)</u>	<u>\$ 91,173</u>	<u>\$ (1,102,891)</u>	<u>\$ (210,103)</u>
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION				
NONCASH FLOWS from NONCAPITAL and				
RELATED FINANCING ACTIVITIES				
Receipt of USDA Donated Commodities	134,760	-0-	134,760	-0-

See notes to financial statements.

Hempfield School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2016

	Scholarship Fund	Activity Fund
ASSETS		
Cash and Cash Equivalents	\$ 98,951	\$ 178,583
Investments	998	-0-
Other Receivables	<u>-0-</u>	<u>240</u>
TOTAL ASSETS	<u>99,949</u>	<u>178,823</u>
LIABILITIES		
Accounts Payable	-0-	6,985
Other Current Liabilities	<u>-0-</u>	<u>171,838</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>178,823</u>
NET POSITION		
Restricted for Scholarships	<u>\$ 99,949</u>	<u>\$ -0-</u>

See notes to financial statements.

Hempfield School District
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUNDS
 Year Ended June 30, 2016

	Scholarship Fund
ADDITIONS	
Gifts and Contributions	\$ 9,921
Investment Earnings	<u>402</u>
Total Additions	10,323
DEDUCTIONS	
Scholarships Awarded	<u>12,451</u>
CHANGES in NET POSITION	(2,128)
NET POSITION	
Beginning	<u>102,077</u>
Ending	<u>\$ 99,949</u>

See notes to financial statements.

Hempfield School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

The School District is financially accountable for:

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

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

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2016, was approximately \$853,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District has entered into an operating lease with the LCCTC and the Authority as more fully disclosed in Note 19 and paid approximately \$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, 2016. 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, 2016, was approximately \$2,640,000. 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, 2016, was \$125,735. 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 \$30,000. The School District contribution to the pool for the year ended June 30, 2016, was approximately \$745,000 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, 2016, which are not intended to finance fiscal 2016 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, 2016. Any unused commodities donated by the federal government at June 30, 2016, 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.

Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$1,500

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation (Continued)

or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

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

Long-Term Obligations

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

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

Compensated Absences and Retirement Bonuses

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

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, 2016, 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, 2016, 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 items during the fiscal year 2016. The School District recognized a special item in connection with losses on fixed asset dispositions.

Accounting Standards Adopted in 2016

During the current year, the School District adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. As a result of implementation of this standard in 2016, the School District has revised the disclosures regarding investments.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2016 (Continued)

During the current year, the School District adopted GASB Statement 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*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments 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.

During the current year, the School District adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. 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. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. 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 issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. 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. 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 provisions of this statement are effective for the School District's 2017 financial statements.

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 2018 financial statements.

In December 2015, GASB issued 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 provisions of this statement are effective for the School District's 2017 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 2016, GASB issued 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 provisions of this statement are effective for the School District's 2017 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 March 2016, GASB issued 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 provisions of this statement are effective for the School District's June 30, 2017 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.

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, 2016, \$12,135,187 of the School District's bank balance of \$15,134,832 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>12,135,187</u>
	12,135,187

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	12,135,187
Insured Amount	<u>2,999,645</u>
Bank Balance	15,134,832
Outstanding Checks	<u>(208,452)</u>
Carrying Amount - Bank Balances	14,926,380
Certificates of Deposits Included with Investments	(2,466,573)
Petty Cash	<u>1,430</u>
Total Cash and Cash Equivalents per Financial Statements	12,461,237

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 2a-7-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' fair value measurements are as follows at June 30, 2016:

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	6,559	6,559	-0-	-0-	
PSDLAF Collateralized Flex CD Pool	6,500,000	6,500,000	-0-	-0-	30-180 days
Investments Recorded at Amortized Cost					
PLIGIT Class	10,628,313				<=397 days
PLIGIT I Class	2,075,975				<=397 days
PLIGIT Plus	3,041				<=397 days
PSDLAF/Max Series	143,676				<=397 days
Cash and Cash Equivalents Categorized as Investments					
PSDLAF CD Purchase Program	245,000				365 days
PLIGIT CD Purchase Program	<u>2,221,573</u>				31-60 days
Total Investments per the Financial Statements	21,824,137				

The School District has the following recurring fair value measurements as of June 30, 2016:

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.

PSDLAF Collateralized Flex CD Pool - Valued at cost. The School District values investments in external short-term fixed income investment pools at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments is 1 year or less. Investments in this pool have weekly liquidity and pay interest monthly.

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.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

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. Investments in the PSDLAF's Collateralized Flex CD Pool are unaudited.

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, 2016, 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.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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, 2016 was 19.6530 mills as levied by the Board of School Directors.

The schedule for real estate taxes levied for the fiscal year ended June 30, 2016, 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, 2016, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	1,150,737	439,589	711,148
Realty Transfer Taxes	99,886	99,886	-0-
Earned Income Taxes	<u>1,256,382</u>	<u>1,256,382</u>	<u>-0-</u>
	2,507,005	1,795,857	711,148

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2016, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	1,601,022	624,561
Food Service Fund	-0-	501,022
Debt Service	-0-	600,000
Retirement Reserve	-0-	500,000
Capital Reserve Fund	608,146	-0-
Capital Project Fund	<u>16,415</u>	<u>-0-</u>
	2,225,583	2,225,583

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.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 5 - INTERFUND ACCOUNTS (Continued)

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

A transfer is pending from the debt service fund to the general fund for increases in debt service payments.

A transfer is pending from the retirement reserve fund to the general fund as part of a long-term plan to offset the impact of PSERS rate increases on the general fund.

Interfund transfers for the year ended June 30, 2016, are as follows:

Fund	Transfers In	Transfers Out
General Fund	1,191,173	10,183,504
Capital Reserve Fund	468,865	30,379
Capital Project Fund	16,415	-0-
Child Care Fund	17,853	109,026
Food Service Fund	44,891	-0-
Retirement Reserve Fund	-0-	500,000
Debt Service Fund	<u>9,683,712</u>	<u>600,000</u>
	11,422,909	11,422,909

Transfers are made between the child care fund to the general fund equal to each month's net operating income or loss of the child care fund. Transfers were made from the general fund and the capital reserve fund to the food service fund for the purchase of capital assets. Transfers in the amount of \$9,683,712 are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers from the general fund to the capital reserve fund and capital project fund, in the amount of \$454,901 were made to provide resources for future capital expenditures. Transfers in the amount of \$600,000 were made from the debt service fund to the general fund for an increase in debt service payments. Transfers from the retirement reserve fund were made to the general fund in the amount of \$500,000 as part of a long-term plan to offset the impact of PSERS rate increases to the general fund budget.

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2016, the following amounts are due from other governmental units:

Due From	General Fund and Governmental Activities
Federal Grants	117,354
State Retirement Subsidy	2,695,113
State FICA Subsidy	530,459
State Rental Subsidy	1,144,874
Lancaster-Lebanon IU #13	84,121
Other Local Governments	<u>790,674</u>
	5,362,595

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, 2016, is as follows:

Historical Cost:	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets not Being Depreciated:				
Land	4,687,257	-0-	-0-	4,687,257
Capital Assets Being Depreciated:				
Building and Building Improvements	184,912,029	1,263,300	(1,309,301)	184,866,028
Furniture and Equipment	28,206,160	845,262	(1,447,301)	27,604,121
Vehicles	<u>522,751</u>	<u>50,538</u>	<u>-0-</u>	<u>573,289</u>
Total Cost	213,640,940	2,159,100	(2,756,602)	213,043,438
Accumulated Depreciation:				
Building and Building Improvements	56,081,209	4,276,671	(1,017,691)	59,340,189
Furniture and Equipment	13,373,255	2,105,914	(1,408,203)	14,070,956
Vehicles	<u>404,571</u>	<u>30,337</u>	<u>-0-</u>	<u>434,908</u>
Total Accumulated Depreciation	69,859,035	6,412,922	(2,425,894)	73,846,053
Net Capital Assets Being Depreciated	143,781,905	(4,253,822)	(330,708)	139,197,385
Net Capital Assets	148,469,162	(4,253,822)	(330,708)	143,884,642
Construction in Progress	232,984	420,827	(232,984)	420,827

Capital asset activity for business-type activities for the year ended June 30, 2016, is as follows:

Historical Cost:	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets Being Depreciated:				
Furniture and Equipment	1,732,852	44,891	(154,375)	1,623,368
Vehicles	<u>115,281</u>	<u>-0-</u>	<u>-0-</u>	<u>115,281</u>
Total Cost	1,848,133	44,891	(154,375)	1,738,649
Accumulated Depreciation:				
Furniture and Equipment	548,817	109,618	(144,645)	513,790
Vehicles	<u>115,281</u>	<u>-0-</u>	<u>-0-</u>	<u>115,281</u>
Total Accumulated Depreciation	664,098	109,618	(144,645)	629,071
Net Capital Assets	1,184,035	(64,727)	(9,730)	1,109,578

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	4,545,584
Instructional Student Support	534,774
Administrative and Financial Support Services	418,054
Operation and Maintenance of Plant Services	139,290
Unallocated Depreciation Expense	<u>775,220</u>
	6,412,922

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2016, the School District was liable for \$5,782,915 of payroll, which is payable during July and August 2016, 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, 2016, 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, 2016.

Accrued salaries and benefits as of June 30, 2016, are as follows:

Accrued Salaries	5,782,915
Accrued Benefits:	
Retirement	5,285,914
Social Security	420,587
Other Benefits	<u>23,606</u>
	11,513,022

NOTE 9 - UNEARNED REVENUES

Unearned revenues consist of the following as of June 30, 2016:

	General Fund	Food Service Fund
Unearned Grant Program Revenue	7,707	-0-
Summer School	40,990	-0-
Other	51,551	-0-
Unused Donated Commodities	-0-	4,178
Prepaid Lunch Sales	<u>-0-</u>	<u>70,230</u>
	100,248	74,408

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, 2016, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2016
Series A of 2010 Notes	April 15, 2030	2.70% - 4.05%	-0-
Series of 2011 Notes	October 15, 2023	2.50% - 3.25%	3,175,000
Series A of 2011 Bonds	October 15, 2021	3.00% - 4.00%	3,215,000
Series of 2012 Bonds	October 15, 2032	3.00% - 5.00%	27,320,000
Series A of 2012 Bonds	October 15, 2023	2.00% - 4.00%	9,575,000
Series of 2013 Bonds	April 15, 2025	0.65% - 4.00%	8,785,000
Series of 2014 Bonds	October 15, 2019	1.00% - 2.70%	5,435,000
Series A of 2014 Bonds	October 15, 2023	0.40% - 4.00%	2,850,000
Series of 2015 Bonds	August 1, 2025	Variable	25,505,000
Series A of 2015 Bonds	September 15, 2023	0.50% - 4.00%	8,135,000
Series of 2016 Bonds	February 15, 2030	0.70% - 3.00%	<u>8,400,000</u>
			102,395,000

On December 6, 2010, the School District issued the Series A of 2010 General Obligation Notes of \$8,555,000. The proceeds were used to currently refund the Series of 2006 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The Notes were refinanced during the year ended June 30, 2016, through the issuance of the Series of 2016 General Obligation Bonds.

On June 13, 2011, the School District issued the Series of 2011 General Obligation Notes of \$3,445,000. The proceeds were used to currently refund a portion of the Series AA of 2004 General Obligation Bonds and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2016, was \$3,175,000 due in various amounts through October 15, 2023. Principal due within one year is \$5,000.

On June 13, 2011, the School District issued the Series A of 2011 General Obligation Bonds of \$8,190,000 at a premium of \$646,520. The proceeds were used to currently refund the remainder of the Series AA of 2004 General Obligation Bonds, to advance refund the Series A of 2006 General Obligation Notes, and to pay the costs and expenses of issuing the Notes. The principal amount outstanding at June 30, 2016, was \$3,215,000 due in various installments through October 15, 2021. Principal due within one year is \$200,000.

On May 8, 2012, the School District issued the Series of 2012 General Obligation Bonds in the amount of \$27,320,000 at a premium of \$2,956,192. The Bonds were issued to provide funding for the construction of Landisville Elementary School, Farmdale Elementary School, and East Petersburg Elementary school and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2016, was \$27,320,000 due in various amounts from October 2024 through October 15, 2031. There is no principal due within one year.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

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, 2016, was \$9,575,000 due in various installments through October 15, 2023. Principal due within one year is \$1,070,000.

On February 15, 2013, the School District issued the Series of 2013 General Obligation Bonds of \$8,800,000 at a premium of \$681,502. The proceeds were used to provide funding for the construction of East Petersburg Elementary School and Farmdale Elementary School as well as other capital projects and the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2016, was \$8,785,000 due in various installments through April 15, 2032. Principal due within one year is \$5,000.

On February 11, 2014, the School District issued the Series of 2014 General Obligation Bonds of \$6,325,000 at a premium of \$98,677. The proceeds were used to refund the Series 2009 General Obligation Bonds as well as the costs and expenses of issuing the Bonds. The principal amount outstanding at June 30, 2016 was \$5,435,000 due in various installments through October 15, 2023. Principal due within one year is \$630,000.

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, 2016, was \$2,850,000 due in various installments from October 15, 2015 through October 15, 2031. Principal due within one year is \$150,000.

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, 2016, was \$25,505,000 due in various installments from August 1, 2016 through August 1, 2025. Principal due within one year is \$3,445,000. 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 and which time the School District will need to renegotiate the terms of the Bonds. The blended variable interest rate in effect at June 30, 2015 is 0.8626%.

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, 2016, was \$8,135,000 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, 2016, was \$8,400,000 due in various installments from February 15, 2017 through February 15, 2030. Principal due within one year is \$5,000. The purpose of the refunding was to achieve interest savings of \$978,710. The present value of the School District's savings over the term of the Bond amounts to \$858,257.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Balance July 01, 2015	Additions	Reductions	Balance June 30, 2016
Governmental Activities				
General Obligation Debt	108,655,000	8,400,000	14,660,000	102,395,000
Bond Discount	(17,005)	(36,771)	(1,346)	(52,430)
Bond Premium	<u>4,115,093</u>	<u>-0-</u>	<u>429,350</u>	<u>3,685,743</u>
	112,753,088	8,363,229	15,088,004	106,028,313
Accrued Retirement Bonuses	1,126,118	-0-	125,542	1,000,576
Estimated Liability for				
Compensated Absences	<u>2,796,293</u>	<u>-0-</u>	<u>32,819</u>	<u>2,763,474</u>
Total Governmental Activities	116,675,499	8,363,229	15,246,365	109,792,363
Business-Type Activities				
Accrued Retirement Bonuses	945	1,350	-0-	2,295
Estimated Liability for				
Compensated Absences	<u>63,383</u>	<u>-0-</u>	<u>6,394</u>	<u>56,989</u>
Total Business-Type Activities	64,328	1,350	6,394	59,284
Total Government	116,739,827	8,364,579	15,252,759	109,851,647

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

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

	Interest	Principal	Total
2017	2,630,816	5,515,000	8,145,816
2018	2,545,286	5,720,000	8,265,286
2019	2,453,971	5,720,000	8,173,971
2020	2,328,045	6,235,000	8,563,045
2021	2,187,878	6,445,000	8,632,878
2022 - 2026	8,882,816	32,025,000	40,907,816
2027 - 2031	5,426,717	33,120,000	38,546,717
2032	<u>3,490,036</u>	<u>7,615,000</u>	<u>11,105,036</u>
	29,945,565	102,395,000	132,340,565

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 11 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities and business-type activities for compensated absences is as follows as of June 30, 2016:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	2,176,045	45,787
Accumulated Vacation Leave	438,540	10,407
Accumulated Personal Days	107,182	-0-
Employer Social Security and Medicare on Leave Amounts Above	<u>41,707</u>	<u>795</u>
	2,763,474	56,989

NOTE 12 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus to be transferred into a TSA account. The accrual for estimated retirement benefits was \$1,002,871 at June 30, 2016. Of this liability, \$2,295 was attributed to business-type activities and \$1,000,576 was attributed to the governmental activities.

NOTE 13 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents the component of fund balance that is not in spendable form (such as inventory and prepaid items) or is required to be legally or contractually maintained intact. At June 30, 2016, the School District has the following nonspendable fund balance:

General Fund:	
Inventories	82,390
Prepaid Expenses	<u>117,346</u>
	199,736

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, 2016, the School District has the following as assigned fund balances:

Debt Service Fund:	
Assigned for Debt Service Payment	4,322,904
 Capital Project Fund:	
Assigned for Capital Outlays	3,016,176

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 13 - FUND BALANCE CLASSIFICATIONS (Continued)

General Fund:	
Capital Projects	1,000,000
One to One Initiative	<u>1,000,000</u>
	2,000,000

NOTE 14 - RISK MANAGEMENT

Hospitalization

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit #13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process, and pay the claims. The School District was limited in liability to \$175,000 per individual and \$14,907,045 in total for hospitalization claims for the year ended June 30, 2016.

A liability for claims incurred prior to June 30, 2016, and subsequently paid is recorded in the amount of \$877,908 in accounts payable in the internal service fund. For the year ended June 30, 2015, the liability for claims incurred prior to June 30, 2015, and subsequently paid was \$896,283.

Changes in the School District’s claims liability amount in fiscal years 2016 and 2015 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2014 - 2015	914,000	11,128,656	11,146,373	896,283
2015 - 2016	896,283	11,207,785	11,226,160	877,908

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, 2016, the School District is not aware of any additional assessments relating to the Fund.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 14 - RISK MANAGEMENT (Continued)

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, 2016, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 15 - 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.state.pa.us.

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 3 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.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Contributions

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

Member Contributions

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

Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25% 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 \$13,097,515 for the year ended June 30, 2016.

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

At June 30, 2016, the School District reported a liability of \$170,488,892 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2016, the School District's proportion was .3936 percent, which was an increase of .006 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the School District recognized pension expense of \$15,905,877. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

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

	Deferred Outflows Of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	-0-	672,726
Changes in Assumptions	-0-	-0-
Net Difference between Projected and Actual Investment Earnings	-0-	376,903
Changes in Proportion	3,663,515	-0-
Difference between Employer Contributions and Proportionate Share of Total Contributions	387,361	-0-
Contributions Subsequent to the Measurement Date	<u>13,097,515</u>	<u>-0-</u>
	17,148,391	1,049,629

\$13,097,515 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, 2017. 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:	
2017	162,793
2018	162,793
2019	162,793
2020	<u>2,512,868</u>
	3,001,247

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward PSERS's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method - Entry age normal

Investment Rate of Return - 7.5 percent, including inflation at 3.0 percent

Salary Increases - Effective average of 5.5 percent, which reflects an allowance for inflation of 3.0 percent, real wage growth of 1.0 percent, and merit or seniority increases of 1.5 percent

Mortality Rates - Based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 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.

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
Public Markets Global Equity	22.5%	4.8%
Private Markets (Equity)	15%	6.6%
Private Real Estate	12%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3%	1.4%
TIPS	12%	1.1%
High Yield Bonds	6%	3.3%
Cash	3%	0.7%
Absolute Return	10%	4.9%
Risk Parity	10%	3.7%
MLPs/Infrastructure	5%	5.2%
Commodities	8%	3.1%
Financing (LIBOR)	<u>(14%)</u>	1.1%
	100%	

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, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	1%	Current Discount	1%
	6.50%	7.50%	8.50%
School District's Proportionate Share of the Net Pension Liability	210,144,000	170,488,892	137,159,000

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2016, the School District reported a payable of \$3,846,995 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2016. These amounts relate to the second quarter of 2016 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 \$344,843 for the employee contributions withheld during June 2016 which are payable to PSERS by July 8, 2016.

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

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

Funding Policy

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

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 16 - 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)	925,034
Interest on Net OPEB Obligation	93,501
Adjustment to Annual Required Contribution	<u>(127,559)</u>
Annual OPEB Cost	890,976
Contributions Made (Estimate)	<u>(536,090)</u>
Estimated Increase in Net OPEB Obligation	354,886
Net OPEB Obligation - Beginning of Year	<u>2,077,792</u>
Net OPEB Obligation - End of Year	2,432,678

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
June 30, 2014	893,343	76%	1,748,628
June 30, 2015	896,371	63%	2,077,792
June 30, 2016	890,976	60%	2,432,678

Funding Status and Funding Progress

As of June 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$7,463,606, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,463,606. The covered payroll (annual payroll of active employees covered by the plan) equaled \$46,096,274, and the ratio of the UAAL to the covered payroll equaled 16.19%.

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 16 - 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 June 1, 2014, 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 2016. The rates continue to gradually decrease thereafter to 4.2% in 2089 based on the Society of Actuaries Long-Run Medical Cost Trend Model.

In the actuarial valuation dated June 1, 2014, the assumption for the percentage of salary increases has decreased and the percentage of withdrawal and retirement age has increased compared to the prior actuarial valuation dated June 30, 2012.

NOTE 17 - DAYCARE OPERATIONS

The School District operates a day care center (the Center) housed on School District property. The School District entered into an agreement with 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 18 - 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 - High School Gymnasium HVAC Improvements

The School District is in the process of renovating the high school gymnasium HVAC system. As of June 30, 2016, the School District has incurred expenditures of \$349,782 for this project. The School District has committed itself to remaining costs to complete of approximately \$60,000. The School District anticipates financing the construction costs using the capital projects fund balance.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 18 - 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 19 - OPERATING LEASES

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

The aggregate amount borrowed was \$23,890,000 via the issuance of the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2012, Series of 2013, and Series of 2014. The Bonds are to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000.

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

Fiscal Year Ended June 30,	Future Minimum Rental Payments
2017	150,019
2018	166,697
2019	166,506
2020 - 2024	832,956
2025 - 2029	832,802
2030 - 2034	833,100
2035 - 2037	<u>499,450</u>
	3,481,530

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 19 - OPERATING LEASES (Continued)

The School District leases certain equipment under a non-cancellable operating lease expiring September 2019. The School District paid a security deposit in the amount of \$85,680 upon the execution of the lease. 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 lease at June 30, 2016, are as follows:

2017	158,330
2018	54,166
2019	27,000
2020	<u>4,500</u>
	243,996

NOTE 20 - SUBSEQUENT EVENT

On July 25, 2016, the School District issued the Series A of 2016 General Obligation Bonds of \$9,180,000 at a premium of \$454,680. The proceeds were used to refund the Series of 2011 General Obligation Bonds, the Series A of 2011 General Obligation Bonds, and the advanced refunding of a portion of the School District's Series of 2012 General Obligation Bonds, and to pay the costs and expenses of issuing the Bonds. The principal 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. The refunding does not significantly alter principal payments disclosed in Note 10, however; the refunding will reduce the School District's interest expense over the next eight years by approximately \$100,000 per year. The interest rates range between .85% and 3.00%.

Hempfield School District

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

BUDGET and ACTUAL - GENERAL FUND

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final
REVENUES	Original	Final	Budgetary Basis	Budget - Favorable (Unfavorable)
Local Sources:				
Real Estate Taxes	\$ 69,411,954	\$ 69,411,954	\$ 69,723,452	\$ 311,498
Other Taxes	7,482,000	7,482,000	8,297,912	815,912
Investment Earnings	100,000	100,000	97,002	(2,998)
Other Revenue	2,140,250	2,140,250	2,591,817	451,567
Total Local Sources	79,134,204	79,134,204	80,710,183	1,575,979
State Sources	29,296,543	29,296,543	28,198,752	(1,097,791)
Federal Sources	1,730,000	1,730,000	1,823,743	93,743
Total Revenues	110,160,747	110,160,747	110,732,678	571,931
EXPENDITURES				
Instructional Services:				
Regular Programs	53,275,314	53,275,314	53,132,344	142,970
Special Programs	14,746,664	14,746,664	15,999,815	(1,253,151)
Vocational Programs	1,340,000	1,340,000	1,067,856	272,144
Other Instructional Programs	655,348	655,348	690,175	(34,827)
Support Services:				
Pupil Personnel	4,295,514	4,295,514	4,272,893	22,621
Instructional Staff	2,266,650	2,266,650	2,175,702	90,948
Administrative	5,049,564	5,049,564	5,032,320	17,244
Pupil Health	1,181,630	1,181,630	1,199,918	(18,288)
Business	1,426,177	1,426,177	1,457,969	(31,792)
Operation of Plant and Maintenance	7,870,660	7,870,660	8,513,863	(643,203)
Student Transportation	4,872,704	4,872,704	4,929,529	(56,825)
Central and Other Business	2,590,111	2,590,111	2,702,180	(112,069)
Noninstructional	1,835,316	1,835,316	1,903,772	(68,456)
Total Expenditures	101,405,652	101,405,652	103,078,336	(1,672,684)
EXCESS of REVENUES over EXPENDITURES	8,755,095	8,755,095	7,654,342	(1,100,753)
OTHER FINANCING SOURCES (USES)				
Debt Service, Current	(10,017,853)	(10,017,853)	(9,683,712)	334,141
Other Fund Transfers	800,000	800,000	691,381	(108,619)
Refund of Prior Years' Expenses	-0-	-0-	73,964	73,964
Proceeds from Sale of Fixed Assets	2,000	2,000	-0-	(2,000)
Budgetary Reserve	(1,000,000)	(1,000,000)	-0-	1,000,000
Net Other Financing Uses	(10,215,853)	(10,215,853)	(8,918,367)	1,297,486
NET CHANGES in FUND BALANCES	\$ (1,460,758)	\$ (1,460,758)	(1,264,025)	\$ 196,733
FUND BALANCES				
Beginning			9,976,459	
Ending			\$ 8,712,434	

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, 2010	-0-	8,015,221	8,015,221	0.00%	42,866,047	18.70%
June 1, 2012	-0-	7,323,913	7,323,913	0.00%	44,070,561	16.62%
June 1, 2014	-0-	7,463,606	7,463,606	0.00%	46,096,274	16.19%

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, 2014	893,343	76.00%
June 30, 2015	896,371	63.00%
June 30, 2016	890,976	60.00%

See independent auditors' report.

Hempfield School District

NOTES to REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation Dates	June 1, 2014	June 1, 2012	June 1, 2010
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%	50%
Per Capita Claims Cost:			
Female (Age 45 - 65+)	\$8,710 - \$15,147	\$8,147 - \$14,167	\$7,351 - \$12,782
Male (Age 45 - 65+)	\$6,031 - \$16,256	\$5,641 - \$15,205	\$5,090 - \$13,718
Demographic Information:			
Active Participants	802	826	830
Retired Participants	<u>91</u>	<u>87</u>	<u>78</u>
Total Participants	893	913	908
Health Care Cost Trend Rate	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	7.5% decreasing to 5.5% in 2014 and to 4.2% in 2099

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	\$ 50,626,103	336.76%	54.36%

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:					
2007	\$ 1,944,436	\$ 1,944,436	\$ -0-	\$ 33,993,638	5.72%
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	25.00%

See independent auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Changes of Benefit Terms:

None.

Changes of Assumptions:

None.

See independent auditors' report.

Hempfield School District
 COMBINING BALANCE SHEET SCHEDULE - CAPITAL PROJECT FUND
 June 30, 2016

	Capital Fund	Construction Fund	Total Capital Project Fund
ASSETS			
Cash and Cash Equivalents	\$ 2,673,673	\$ 8,133	\$ 2,681,806
Investments	204,206	-0-	204,206
Due from Other Funds	608,146	16,415	624,561
TOTAL ASSETS	<u>3,486,025</u>	<u>24,548</u>	<u>3,510,573</u>
LIABILITIES and FUND BALANCES			
LIABILITIES			
Accounts Payable	469,849	24,548	494,397
FUND BALANCES			
Restricted	-0-	-0-	-0-
Assigned	3,016,176	-0-	3,016,176
TOTAL FUND BALANCES	<u>3,016,176</u>	<u>-0-</u>	<u>3,016,176</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 3,486,025</u>	<u>\$ 24,548</u>	<u>\$ 3,510,573</u>

See independent auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
CAPITAL PROJECT FUND
Year Ended June 30, 2016

	Capital Reserve Fund	Construction Fund	Total Capital Project Fund
REVENUES			
Local Sources:			
Investment Earnings	\$ 11,328	\$ 19	\$ 11,347
EXPENDITURES			
Capital Outlay	<u>2,310,902</u>	<u>38,579</u>	<u>2,349,481</u>
DEFICIENCY of REVENUES OVER EXPENDITURES	(2,299,574)	(38,560)	(2,338,134)
OTHER FINANCING SOURCES			
Transfers In	438,486	16,415	454,901
Refunds of Prior Year Expenditures	<u>268,328</u>	<u>-0-</u>	<u>268,328</u>
Total Other Financing Sources	<u>706,814</u>	<u>16,415</u>	<u>723,229</u>
NET CHANGES in FUND BALANCES	(1,592,760)	(22,145)	(1,614,905)
FUND BALANCES			
Beginning	<u>4,608,936</u>	<u>22,145</u>	<u>4,631,081</u>
Ending	<u>\$ 3,016,176</u>	<u>\$ -0-</u>	<u>\$ 3,016,176</u>

See independent auditors' report.

Hempfield School District
 COMBINING SCHEDULE of NET POSITION -
 INTERNAL SERVICE FUNDS
 June 30, 2016

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service
ASSETS					
Current Assets					
Cash and Cash					
Equivalents	\$ 1,091,128	\$ -0-	\$ -0-	\$ -0-	\$ 1,091,128
Investments	2,534,657	5,138,128	250,287	223,780	8,146,852
Other Receivables	<u>113,575</u>	<u>740</u>	<u>-0-</u>	<u>-0-</u>	<u>114,315</u>
TOTAL ASSETS	<u>3,739,360</u>	<u>5,138,868</u>	<u>250,287</u>	<u>223,780</u>	<u>9,352,295</u>
LIABILITIES					
Current Liabilities					
Accounts Payable	877,908	-0-	-0-	-0-	877,908
Due to Other Funds	<u>-0-</u>	<u>500,000</u>	<u>-0-</u>	<u>-0-</u>	<u>500,000</u>
TOTAL LIABILITIES	<u>877,908</u>	<u>500,000</u>	<u>-0-</u>	<u>-0-</u>	<u>1,377,908</u>
NET POSITION					
Unrestricted	<u>\$ 2,861,452</u>	<u>\$4,638,868</u>	<u>\$ 250,287</u>	<u>\$ 223,780</u>	<u>\$7,974,387</u>

See independent auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET POSITION -
INTERNAL SERVICE FUNDS
Year Ended June 30, 2016

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service Funds
OPERATING REVENUES					
Charges for Services	\$ 12,597,384	\$ -0-	\$ -0-	\$ -0-	\$ 12,597,384
OPERATING EXPENSES					
Employee Benefits	<u>12,707,201</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>12,707,201</u>
OPERATING LOSS	(109,817)	-0-	-0-	-0-	(109,817)
NONOPERATING REVENUES					
Investment Earnings	<u>17,331</u>	<u>8,555</u>	<u>1,376</u>	<u>717</u>	<u>27,979</u>
INCOME (LOSS) BEFORE TRANSFERS	(92,486)	8,555	1,376	717	(81,838)
TRANSFERS OUT	<u>-0-</u>	<u>(500,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(500,000)</u>
CHANGES in NET POSITION	(92,486)	(491,445)	1,376	717	(581,838)
NET POSITION					
Beginning	<u>2,953,938</u>	<u>5,130,313</u>	<u>248,911</u>	<u>223,063</u>	<u>8,556,225</u>
Ending	<u>\$ 2,861,452</u>	<u>\$ 4,638,868</u>	<u>\$ 250,287</u>	<u>\$ 223,780</u>	<u>\$ 7,974,387</u>

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 Year Ended June 30, 2016

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, 2015	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2016	Passed Through to Subrecipients	
Child Nutrition Cluster													
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	\$ -0-	\$ 158,801	\$ 158,801	\$ -0-	\$ -0-	
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	-0-	647,896	647,896	-0-	-0-	
U.S. Department of Agriculture	Pennsylvania Department of Agriculture	Food Donation (Note 2)	I	10.555	N/A	07/01/15 - 06/30/16	N/A	<u>(21,204) A)</u>	<u>134,760 B)</u>	<u>151,786 C)</u>	<u>(4,178) D)</u>	<u>-0-</u>	
		Total		10.555				<u>(21,204)</u>	<u>782,656</u>	<u>799,682</u>	<u>(4,178)</u>	<u>-0-</u>	
		Total Child Nutrition Cluster							(21,204)	941,457	958,483	(4,178)	-0-
General Services Administration	Pennsylvania Department of General Services	Donation of Federal Surplus Personal Property	I	39.003	N/A	07/01/15 - 06/30/16	2,612	-0-	2,612	2,612	-0-	-0-	
Special Education Cluster													
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Grants to States	I	84.027	062-150013	07/01/15 - 09/30/16	1,248,237	-0-	1,248,237	1,248,237	-0-	-0-	
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-150013	07/01/15 - 06/30/16	4,176	-0-	4,176	4,176	-0-	-0-	
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-140013	07/01/14 - 06/30/15	7,419	<u>7,419</u>	<u>7,419</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	
		Total		84.173				<u>7,419</u>	<u>11,595</u>	<u>4,176</u>	<u>-0-</u>	<u>-0-</u>	
		Total Special Education Cluster							\$ 7,419	\$ 1,259,832	\$ 1,252,413	\$ -0-	\$ -0-

See independent auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2016

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, 2015	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2016	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-160189	08/04/15 - 9/30/16	609,714	\$ -0-	\$ 566,033	\$ 609,714	\$ 43,681	\$ -0-
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-150189	07/31/14 - 09/30/15	624,105	<u>101,981</u>	<u>115,285</u>	<u>13,304</u>	<u>-0-</u>	<u>-0-</u>
			Total	84.010				101,981	681,318	623,018	43,681	-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	-0-	66,147	64,971	(1,176)	-0-
U.S. Department of Education	Pennsylvania Department of Education	English Language Acquisition Grants	I	84.365	010-150189	07/31/14 - 09/30/15	78,700	<u>5,247</u>	<u>5,247</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
			Total	84.365				5,247	71,394	64,971	(1,176)	-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	-0-	149,797	183,957	34,160	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-150189	07/31/14 - 09/30/15	191,301	<u>38,125</u>	<u>38,125</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
			Total	84.367				38,125	187,922	183,957	34,160	-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	-0-	637,818	677,330	39,512	-0-
U.S. Department of Education	Pennsylvania Department of Education	Striving Readers (Note 5)	I	84.371	143-140189	10/01/14 - 09/30/15	814,032	<u>91,786</u>	<u>271,344</u>	<u>179,558</u>	<u>-0-</u>	<u>-0-</u>
			Total	84.371				91,786	909,162	856,888	39,512	-0-
TOTAL EXPENDITURES OF FEDERAL AWARDS								\$ 223,354	\$ 4,053,697	\$ 3,942,342	\$ 111,999	-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, 2016

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, 2016 was \$94,848, which was received through the Lancaster-Lebanon Intermediate Unit #13.

NOTE 5 - ACCRUAL ADJUSTMENT at JUNE 30, 2015

Project Title	Source Code	Grantor's Number	Grant Period Beginning/ Ending Date	Accrual Shown at June 30, 2015	Correct Accrual at June 30, 2015
Striving Readers	I	143-140189	10/01/14 - 09/30/15	91,724	91,786

NOTE 6 - COST PRINCIPLES

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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, 2016, 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 November 16, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

November 16, 2016
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, 2016. **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 programs.

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, 2016.

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.

November 16, 2016
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2016

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of **Hempfield School District**.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of **Hempfield School District** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The 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 program tested as a major federal program is: Striving Readers - CFDA #84.371.
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

None

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

None

Hempfield School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

There were no findings from the prior year.