

Hempfield School District

Year Ended June 30, 2011



TROUT, EBERSOLE & GROFF_{LLP}

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Hempfield School District

Financial Statements with Supplementary Information

Year Ended June 30, 2011

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Hempfield School District

Financial Statements with Supplementary Information

Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Hempfield School District's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20 to the financial statements, the School District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, 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 with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 18 and 61 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Trout, Ebersole & Groff, LLP

December 6, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2011

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, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Total assets increased \$334 thousand, while total liabilities decreased by \$2.57 million. This resulted in an overall increase in net assets of \$2.9 million.
- Revenues totaled \$102.4 million. General revenues accounted for \$81.9 million, or 80% of this total, while program specific charges for services, grants, or contributions represented \$19.6 million or 20%. The current year includes a continued revenue shift from state funding to federal source stimulus dollars, and continued lower levels of local revenues such as transfer taxes and interest income.
- The School District had \$95.9 million in expenses related to governmental activities; \$16.9 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues, including \$69.3 million of taxes and \$12.6 million of grants and subsidies, interest income and miscellaneous income, provided for these expenses. Net assets increased by \$2.8 million for governmental activities overall.
- Among major funds, the general fund had \$98.8 million in revenues and \$98.7 million in expenditures and transfers. This resulted in the addition of \$123 thousand to fund balance reserves, increasing the general fund's fund balance to about \$8.4 million.

Using this Annual Report

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

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

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Reporting the School District as a Whole

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

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 23 and provide detailed information about the most significant funds, not the School District as a whole. The School District's two types of funds, governmental and proprietary, use different accounting approaches.

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

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2011 compared to 2010:

Table 1
Net Assets
(In Millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	34.9	33.0	.2	.1	35.1	33.1
Capital Assets	<u>120.9</u>	<u>122.5</u>	<u>.2</u>	<u>.2</u>	<u>121.1</u>	<u>122.7</u>
Total Assets	155.8	155.5	.4	.3	156.2	155.8
Liabilities						
Current Liabilities	17.8	18.5	.1	.1	17.9	18.6
Noncurrent Liabilities	<u>80.0</u>	<u>81.9</u>	<u>.1</u>	<u>.1</u>	<u>80.1</u>	<u>82.0</u>
Total Liabilities	97.8	100.4	.2	.2	98.0	100.6
Net Assets						
Invested in Capital Assets, net of Debt	40.8	39.9	.2	.2	41.0	40.1
Restricted	4.8	4.7	.0	.0	4.8	4.7
Unrestricted	<u>12.4</u>	<u>10.6</u>	<u>.0</u>	<u>(.1)</u>	<u>12.4</u>	<u>10.5</u>
Total Net Assets	58.0	55.2	.2	.1	58.2	55.3

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Analysis of Table 1:

- Overall net assets increased \$2.9 million. Net assets of governmental activities increased by \$2.83 million, while business-type activities increased about \$67 thousand.
 - Current assets increased about \$2 million, as cash and investments increased by \$2.3 million and receivables decreased \$307 thousand, due primarily to more revenues being received within the fiscal year.
 - Noncurrent assets decreased \$1.6 million, from \$122.7 million to \$121.1 million. Capitalized technology, land and property, building improvement, and equipment purchases increased these assets about \$1.7 million, and construction in progress spending increased by \$1.2 million, while depreciation expense reduced the overall balance about \$4.9 million. Modular classroom units were installed at the high school facility, and several acres of land and a house in the middle of the main campus were purchased. Architectural and engineering costs for one definite and two possible replacement elementary school projects are reflected in construction in progress, and construction of the new Landisville school began during the summer of 2011.
 - Total liabilities decreased \$2.6 million, primarily due to normal bond payments net of new borrowing. Long-term liabilities for retirement and compensated absence obligations decreased by a total of \$462 thousand, as an early retirement program paid out a larger than normal number of employees in the current year.

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

	2011	2010
Deferred Bond Issuance Costs	1,110,375	783,058
Capital Assets, net of Accumulated Depreciation	119,821,203	121,803,614
Bonds Payable (Current and Long-Term Portions, net of Amortization of Bond Discount and Premium)	<u>(80,719,620)</u>	<u>(82,712,916)</u>
Total Investment in Capital Assets, net of Related Debt - Governmental Activities	40,211,958	39,873,756

Bond obligations decreased from \$82.7 million to \$80.7 million, as payments of \$6.2 million were made on the outstanding principal of existing bonds, new money of \$4 million was borrowed for construction, three bond issues were refinanced or restructured, and amortization of bond discount and premium continued.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Statement of Activities

Table 2
Changes in Net Assets
(In Millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services	.7	.8	2.3	2.4	3.0	3.2
Operating Grants	15.0	13.7	1.3	1.3	16.3	15.0
Capital Grants	1.2	1.4	.0	.0	1.2	1.4
General Revenues:						
Property and Other Taxes	69.3	66.6	.0	.0	69.3	66.6
Grants and Entitlements	12.2	12.4	.0	.0	12.2	12.4
Other	<u>.4</u>	<u>.5</u>	<u>.0</u>	<u>.0</u>	<u>.4</u>	<u>.5</u>
Total Revenues	98.8	95.4	3.6	3.7	102.4	99.1
Expenses						
Program Expenses:						
Instruction	62.0	61.8	.0	.0	62.0	61.8
Support Services:						
Instructional Student Support	6.5	6.4	.0	.0	6.5	6.4
Administrative and Financial						
Support Services	8.6	8.2	.0	.0	8.6	8.2
Operation and Maintenance of						
Plant Services	9.6	8.2	.0	.0	9.6	8.2
Pupil Transportation	4.7	4.3	.0	.0	4.7	4.3
Student Activities	1.5	1.5	.0	.0	1.5	1.5
Interest on Long-Term Debt	2.5	2.8	.0	.0	2.5	2.8
Unallocated Depreciation Expense	.5	.6	.0	.0	.5	.6
Food Service and Day Care Operations	<u>.0</u>	<u>.0</u>	<u>3.5</u>	<u>3.7</u>	<u>3.5</u>	<u>3.7</u>
Total Expenses	95.9	93.8	3.5	3.7	99.4	97.5
Increase in Net Assets	2.9	1.6	0.1	0.0	3.0	1.6

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, 2011

Statement of Activities (Continued)

Table 3
Governmental Activities
(In Millions)

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	62.0	61.8	49.9	50.5
Support Services:				
Instructional Student Support	6.5	6.4	5.6	5.9
Administrative and Financial Support Services	8.6	8.2	8.2	7.9
Operation and Maintenance of Plant Services	9.6	8.2	9.0	7.5
Pupil Transportation	4.7	4.3	3.0	2.7
Student Activities	1.5	1.5	1.4	1.3
Interest on Long-Term Debt	<u>2.5</u>	<u>2.8</u>	<u>1.3</u>	<u>1.5</u>
Total Governmental Activities	95.4	93.2	78.4	77.3

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

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

- Property, earned income, and other taxes provided 84.6% of the \$81.9 million net governmental revenues. Program related grants, subsidies and charges for services provided \$16.9 million of funding for program expenses, and \$12.6 million of additional grants, subsidies, interest and other revenues provided for other expenses.
- Total tax revenues increased \$2.7 million, or about 4%. Current property taxes increased \$2.4 million. The assessed valuation increased from \$3.567 billion to \$3.582 billion, or 0.4% growth in the tax base. This growth is lower than historical averages which exceed 1.5%, in large part due to increasing reduction in assessed valuations as a result of commercial and residential assessment appeals combined with slower new development. The millage applied to the assessed valuation increased from 17.3878 in 2009-2010 to 17.9789 in 2010-2011, a 3.4% index-based increase. Other taxes increased slightly, including interim and delinquent real estate taxes up about \$89 thousand and \$105 thousand, respectively, earned income taxes up \$194 thousand, and transfer taxes up \$121 thousand.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Governmental Activities (Continued)

Expenses for governmental activities increased by \$2.1 million, which is a 2.4% overall increase from the prior year. Expense increases were seen throughout most functional areas. Increases in salaries of about \$1.9 million and benefits of \$1.4 million were offset in part by reduced spending of \$538 thousand for books and supplies, and \$373 thousand less transferred to capital reserve.

Business-Type Activities

Business-type activities consist of food service operations, including child nutrition and catering operations, as well as the child care venture. The child nutrition programs had revenues, including state and federal support, of \$3.6 million, and expenses of \$3.5 million for the fiscal year 2011. This is the first substantial profit, of \$57 thousand, in several years. The child care operation, which just completed its third year of operation, generated a \$59 thousand profit on revenues of \$233 thousand; catering operations showed a profit of about \$10 thousand based on \$101 in revenues, a solid rebound following last year's restructuring.

The School District's Funds

Information about the School District's major funds starts on page 23. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$98.8 million and expenditures of \$101.1 million. Other financing sources provided about \$3.2 million, resulting in an increase to overall fund balances of \$945 thousand.

- General fund transfers to other funds included the normal operating transfers to debt service for bond principal and interest of \$8.9 million and \$303 thousand to the activities fund for district support of extracurricular programs. Revenues from Market Street Sports sponsorships flowed through general fund to capital reserve to provide funding for approved projects, totaling about \$78 thousand. As planned within the budget, a transfer to capital reserve was accrued for \$350 thousand to fund the purchase of technology infrastructure replacement and other capital equipment. Another accrual will add \$1.1 million to the retirement reserve to build additional funds for anticipated increases in PSERS retirement expenses. This retirement transfer was funded from the budget originally intended to fully fund the 8.22% PSERS certified rate set by PSERS, but superseded in the state budget process to a reduced 5.64% rate. These transfers allow the School District to plan for future contingencies under the stringent budgeting guidelines of Act 1.
- The general fund balance increased \$124 thousand, to a total of \$8.4 million. Commitments have been made by the board under GASB 54, to identify and protect contingent resources to address needs in some critical areas. A total of \$3 million has been committed as follows: \$1 million for future debt service, \$1.5 million to provide resources for GASB 45 liabilities, and \$0.5 million to provide funds for the discount on retiree health care from this year's early retirement incentive.

With these transactions recorded, the unassigned fund balance test yields a 5.4% fund balance against the original 2010-2011 budgeted expenditures, which is well within the 8% legal restriction. The committed and unassigned amounts in the fund balance provide some contingency amounts, if needed, to deal with increasing costs and future liabilities. Maintaining a healthy fund balance is important for a positive bond rating, as well as potential resources to deal with unanticipated financial challenges if they were to occur.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

The School District's Funds (Continued)

- The debt service fund had a net increase of \$125 thousand this year, increasing the ongoing fund balance to \$4.85 million. This reserve amount is set aside in part as a safety net because of the School District's variable rate debt, and also to provide a substantial balance to assist with making the required debt service payments on various bond issues over the next several years. As the payments needed to meet debt service requirements approaches \$10 million, these reserves are critical to minimize financial impact on School District taxpayers.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the School District managed School District expenditures based on its general fund budget. At the end of the fiscal year, the board approved certain budgetary transfers to be made as needed, to comply with statutory requirements. Year-end transfers made to other funds had been anticipated within the approved budget for the year. The board also approved a transfer to the retirement reserve which moved the original budget from retirement expenses to fund transfers.

For the general fund, actual revenues were \$98.9 million, which was \$549 thousand less than the original budget estimate. The key difference in this variance relates to the subsidy associated with retirement expenses, for which the School District receives a 50% reimbursement from this state subsidy for the costs incurred. The change in the required retirement payment had a corresponding impact to reduce this subsidy, and equated to \$574 thousand under budget from this revenue source. Other categories of revenues were slightly above or below original expectations, and there was a shift from state to federal source for \$2.3 million as the state backfilled portions of their budget obligations with federal stimulus dollars. Overall, the School District accomplished the goal of better predicting total revenues for the year, and making adjustments to the actual revenues received throughout the year.

Actual expenditures for the year were \$98.7 million, \$88 million of that amount for operational expenses and \$10.7 million for fund transfers and debt service. These amounts left \$1.7 million unspent from the original budget of \$100.4 million. Cuts were made from the beginning of the year to existing budget categories, as it became obvious that total revenues were not going to reach the original target. The \$1 million budgetary reserve was untouched, and other budget dollars were repurposed within the overall budget structure as needed. As already noted, retirement budget not due to the state was transferred to the reserve fund. Vacancies that occurred in positions within the year were scrutinized, and a number of positions were eliminated to produce an overall savings of about \$200 thousand within the year. This helped to provide funding for sick day and retirement bonus payouts to the higher-than-normal number of retirees. There was also \$582 thousand less funding needed for debt service, as the variable rate interest expense came in \$132 thousand less than budget, and borrowing within the year was reduced from the original plan and there was therefore \$450 thousand less in principal repayments than budgeted.

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

General Fund Budgeting Highlights (Continued)

In comparison with the prior year, actual general fund expenses increased about \$3.3 million in total. Significant changes in spending included:

- There was a shift from the fund transfer category to directly tracking gross athletic expenses within the general fund. This was a change required under the new GASB 54 standard, and puts all athletic expenses into the full general fund budget and spending processes. These costs are therefore tracked within the general fund by all relevant categories of salaries, benefits, and direct expenses, and revenues are reflected as income to offset a portion of the expenses.
- Salaries increased \$2.6 million, or 5.8%, and benefits increased \$1.55 million, or 9.3%. Note that \$750 thousand in salaries and \$149 thousand in benefits relates to the reclassification of athletic expenses from the prior fund transfer category. The remaining salary increases included contractual obligations as well as new positions added primarily for compliance with student enrollments in special areas, and positions funded either directly or indirectly by federal stimulus and other grant funds. While retirement expenses did not increase to the 8.22% budgeted level, they did increase from 4.78% to 5.65%, or \$535 thousand more than the prior year. Medical and dental expenses increased the benefits total by \$445 thousand and \$87 thousand, respectively.
- Other categories of expenditures actually went down in many cases, including supply reductions of \$267 thousand as there was intentional use of supplies on hand, and reduction in spending on books of \$275 thousand.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the School District had \$121.1 million invested in land, buildings, equipment, vehicles, and construction in progress with \$120.9 million in governmental activities. Table 4 shows the fiscal 2011 balance compared to 2010:

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	4.7	4.3	.0	.0	4.7	4.3
Buildings and Improvements	107.0	109.7	.0	.0	107.0	109.7
Furniture, Equipment, Vehicles, and Construction in Progress	<u>8.1</u>	<u>7.8</u>	<u>.2</u>	<u>.2</u>	<u>8.3</u>	<u>8.0</u>
Total Capital Assets	119.8	121.8	.2	.2	120.0	122.0

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Additions to property and equipment were about \$1.8 million for the year 2010-2011. This included the replacement of computers and other technology, phone system replacements in several buildings, installation of three modular units housing six classrooms for the high school, and the purchase of a historic house and three acres of land situated in the middle of the main campus. Depreciation expense of \$4.9 million was recorded for the year. A routine amount of obsolete computer and other technology equipment was retired, which was fully depreciated.

As of June 30, 2011, there are significant costs totaling \$1.4 million in construction in progress. These are primarily architectural, engineering, and project management costs and initial preparation work for the new Landisville Intermediate Center currently under construction. There are also some initial expenses for potential replacement projects at Farmdale and East Petersburg Elementary Schools. Costs related to the abandoned expansion/renovation project at Farmdale, and the costs of flooring replacements at three existing elementary schools, were expensed within the year.

Debt Administration

At June 30, 2011, the School District had \$79.5 million in bonds outstanding, \$5.7 million in principal due within one year. Table 5 summarizes bonds outstanding:

Table 5
Outstanding Debt at Year End
(In Millions)

	Governmental Activities	
	2011	2010
General Obligation Bonds:		
2004A School Improvements	13.6	14.4
2004AA Debt Refinancing	0.0	7.7
2006 Debt Refinancing	0.0	8.3
2006A Note Restructuring	0.0	4.8
2007 Emmaus Financing (Variable Rate)	9.2	9.3
2009 Debt Refinancing	15.9	20.2
2009A Debt Refinancing	9.0	9.1
2010 Note Restructuring	8.1	8.1
2010A Note Restructuring	8.1	0.0
2010B Emmaus Financing (Variable Rate)	4.0	0.0
2011 Note Refinancing	3.4	0.0
2011A Bond Restructuring	<u>8.2</u>	<u>0.0</u>
	79.5	81.9

The 2004AA, 2006, 2009, 2009A, and 2011 bond issues were refinancing issues, which generated significant savings for the School District over the original bond costs. The 2006A, 2010, 2010A, and 2011A notes and bonds were issued to restructure a portion of various bond issues, to spread the millage impact of increased debt service over a longer period of time. These financings will also be repaid in various years through 2030. During the year, the 2010A bond issue was generated to restructure the 2006 bonds, and 2011 notes to restructure a portion of the 2004AA bonds, decreasing some of the principal paid in the next few years and paying that principal later in the maturity dates through 2030 and 2023, at a net present value basis of about

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

Capital Assets and Debt Administration (Continued)

Debt Administration (Continued)

\$201 thousand and \$56 thousand respectively. The 2011A bonds refinanced debt from the remaining 2004AA and 2006A bonds, saving \$764 thousand over the life of the bonds on a net present value basis.

The 2004A bond issue, and both the 2007 and 2010B Emmaus Financings, were new money issues to generate funding for various school construction projects throughout the School District. These financings will be repaid in various years through 2028. During the current year, the Emmaus variable rate instrument was issued for \$4 million, taking advantage of relatively low variable interest rates.

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.

Continuing impact has been felt from the unusual economic and financial trends of the past several years. Some impact has been positive, as the interest paid on the variable rate financing continues between 1% and 2%, overall remarkably low rates. However, interest income has been negatively impacted by that same trend, as the School District missed that budget target by more than \$232 thousand. Certain tax revenues, such as interim and transfer taxes on real estate, have had some recovery but not returned to the levels seen in 2005 through 2008. Earned income taxes have fluctuated, and face cash flow issues with the 2012 implementation of county-wide collection changes across the state.

Budgetary constraints under Act 1 must be balanced with increasing demands of a more diverse student population, both ethnically and economically. There is a much greater need for additional services to our English language learners, more stringent standards under No Child Left Behind, and ever-increasing state standards for special education services to both IEP and gifted students. While grants and federal stimulus funding has provided the School District with the opportunity to add instructional technology and other instructional resources, the School District worked through a very difficult process to budget for 2011-2012 without stimulus dollars available, and less state funding in many areas.

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. Impact from increased cost-sharing for health benefits was realized in 2011 with the implementation of a three-tiered prescription plan, higher payments from employees, and fewer dependents on the plans due to the new spousal rule. However, overall health care costs continue to grow - albeit at a slower rate. Other elements of the salary and benefit package continue to be a challenge in the budgeting process, and led to the negotiations of a district-wide pay freeze for 2011-2012 as well as the highly successful early retirement incentive.

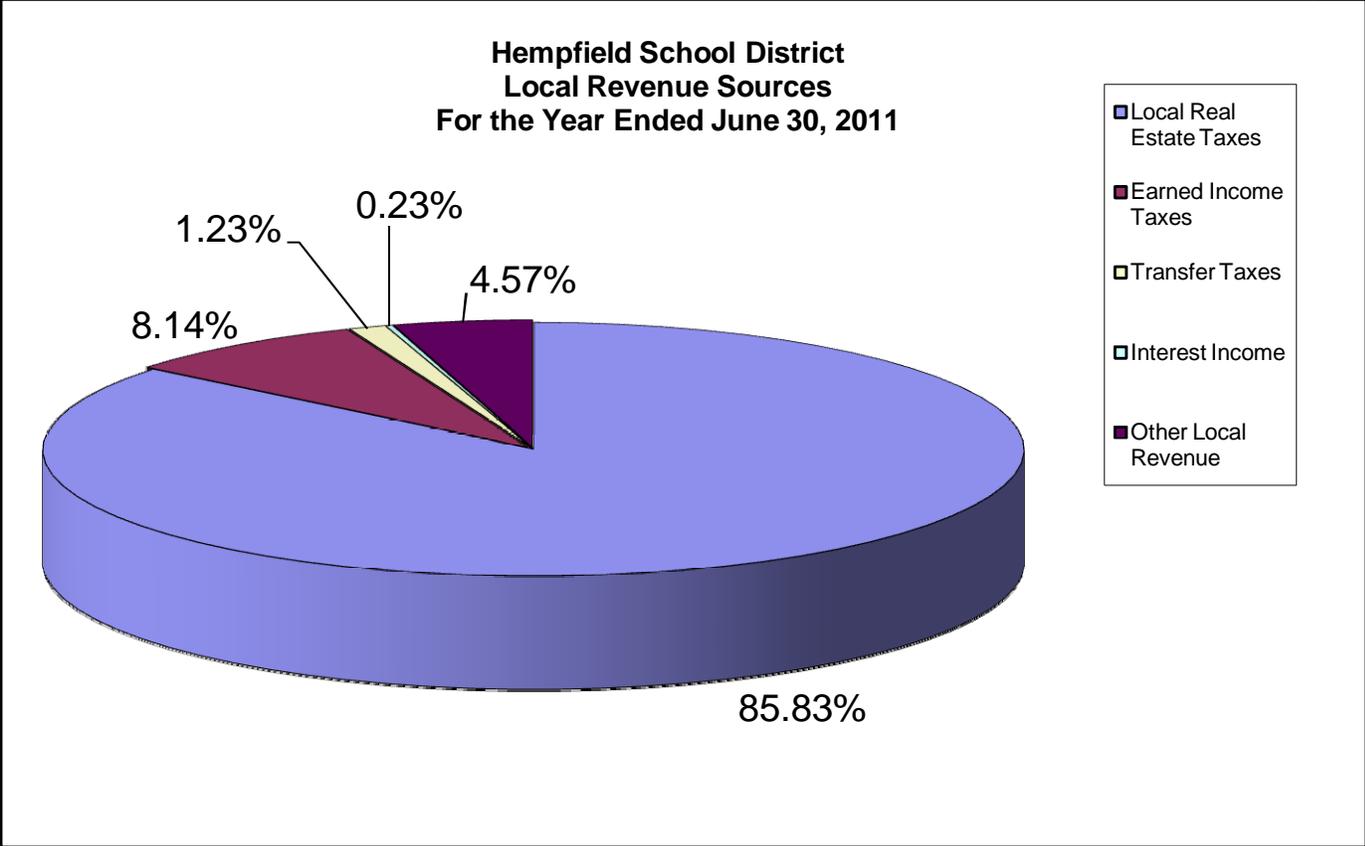
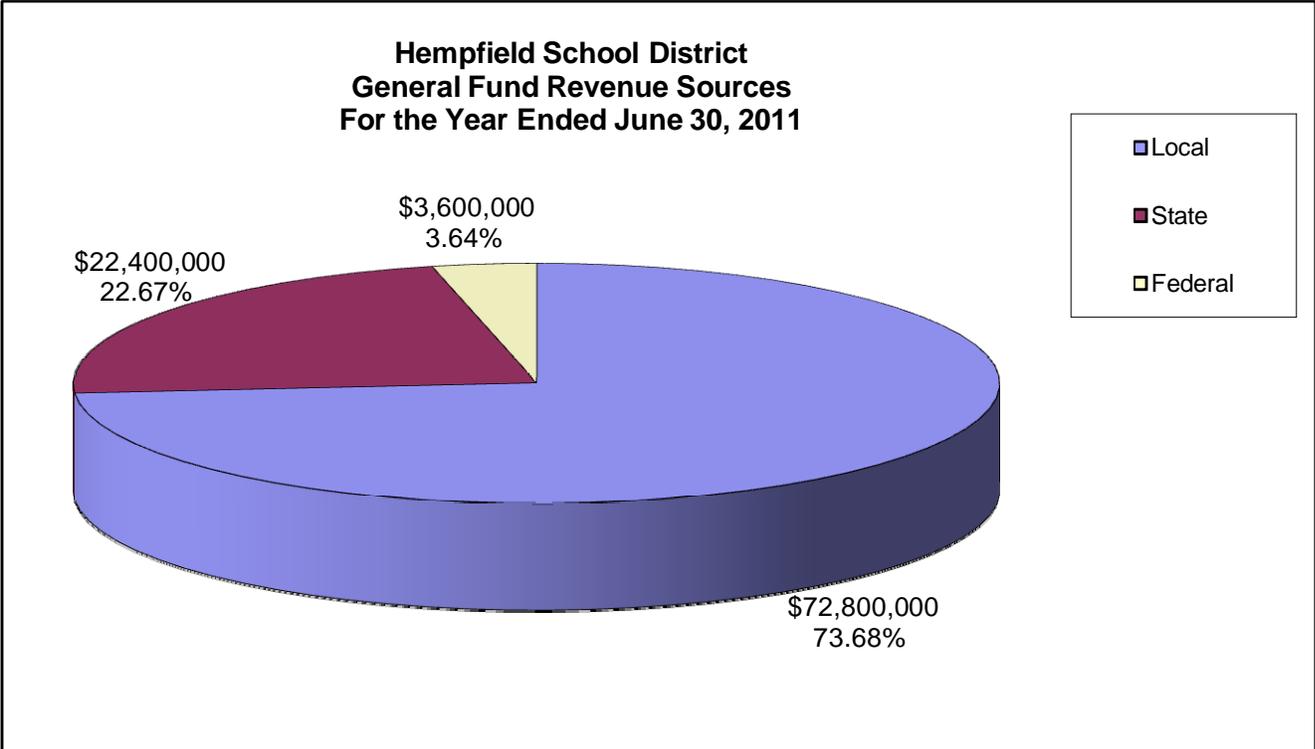
Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

For the Future (Continued)

Funding of Public Education

In many Pennsylvania school districts, state funding provided about one half the costs of public education in the 1970's. The following graphs illustrate the current funding provided by state funds for our School District, and the increased reliance on local dollars to fund public education. The School District relies heavily on local real estate and earned income taxes, which comprise about 94% of our local revenues, and that local revenue provides 73.75% of total revenue.

Hempfield School District
 MANAGEMENT'S DISCUSSION and ANALYSIS
 (Continued)
 Year Ended June 30, 2011



Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

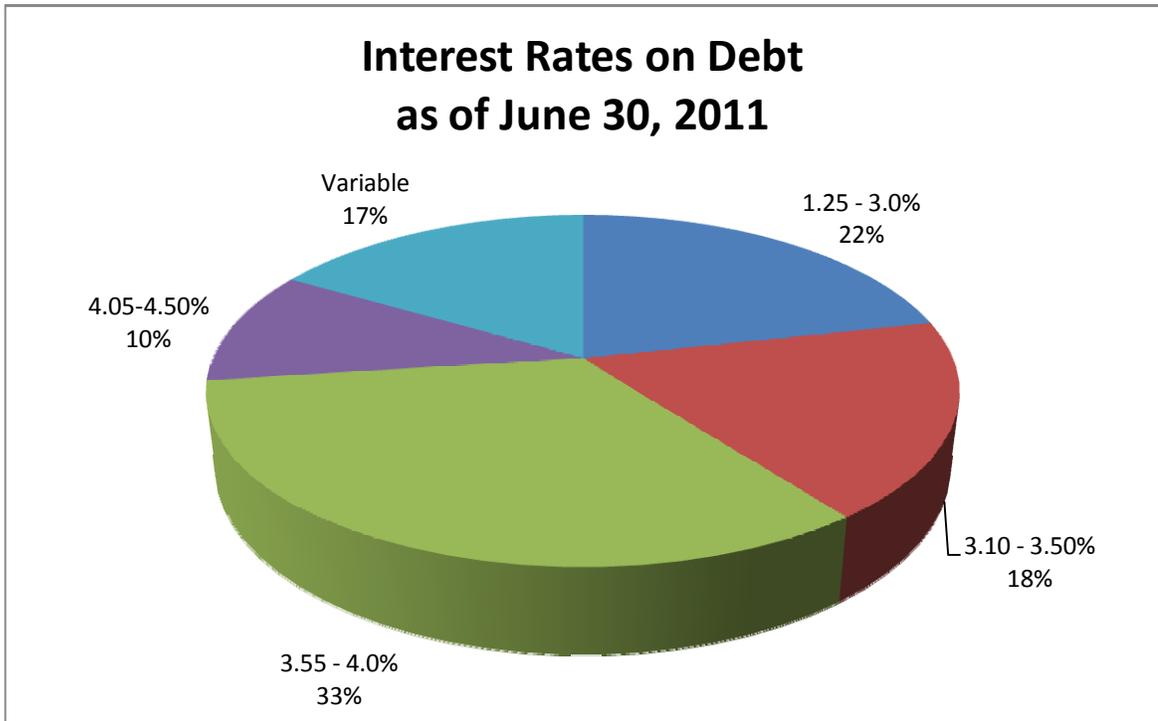
For the Future (Continued)

Funding of Public Education (Continued)

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

Bond Debt and Debt Service

The School District currently carries about \$79.5 million in debt through various bond issues. Most of this debt, about \$66.3 million, is carried in fixed rate bonds. Interest rates on these bonds are illustrated in the following graph, which reflect the various interest rates that apply to each issue. The variable rate debt, borrowed from the Emmaus General Authority 1989 and 1997 bond pool programs, carries a variable interest rate that has been between 1% and 2% in recent months. The School District has investigated other variable rate structures, and is moving forward with a refinancing of these two issues, and borrowing an additional \$12 million for construction in a floating rate note set to close in December 2011. Future debt needs will probably be financed with fixed rate bonds, so that the School District can continue to balance risk with the attractive rates available in today's markets. The fixed rate debt also carries relatively low rates, due in part to the advantageous timing of bond issues during historically low interest rate markets, combined with the School District's AA bond rating.



As the School District has initiated building projects to deal with the needs identified through the feasibility study, construction has begun on a new Landisville Intermediate Center. Planning is under way now for two more replacement buildings to potentially be constructed at the East Petersburg and Farmdale sites. The School District already owns sufficient land for each of these projects, and has taken advantage of using the existing prototype design used for Mountville and Rohrerstown Elementary schools, saving on architectural fees,

Hempfield School District
 MANAGEMENT'S DISCUSSION and ANALYSIS
 (Continued)
 Year Ended June 30, 2011

For the Future (Continued)

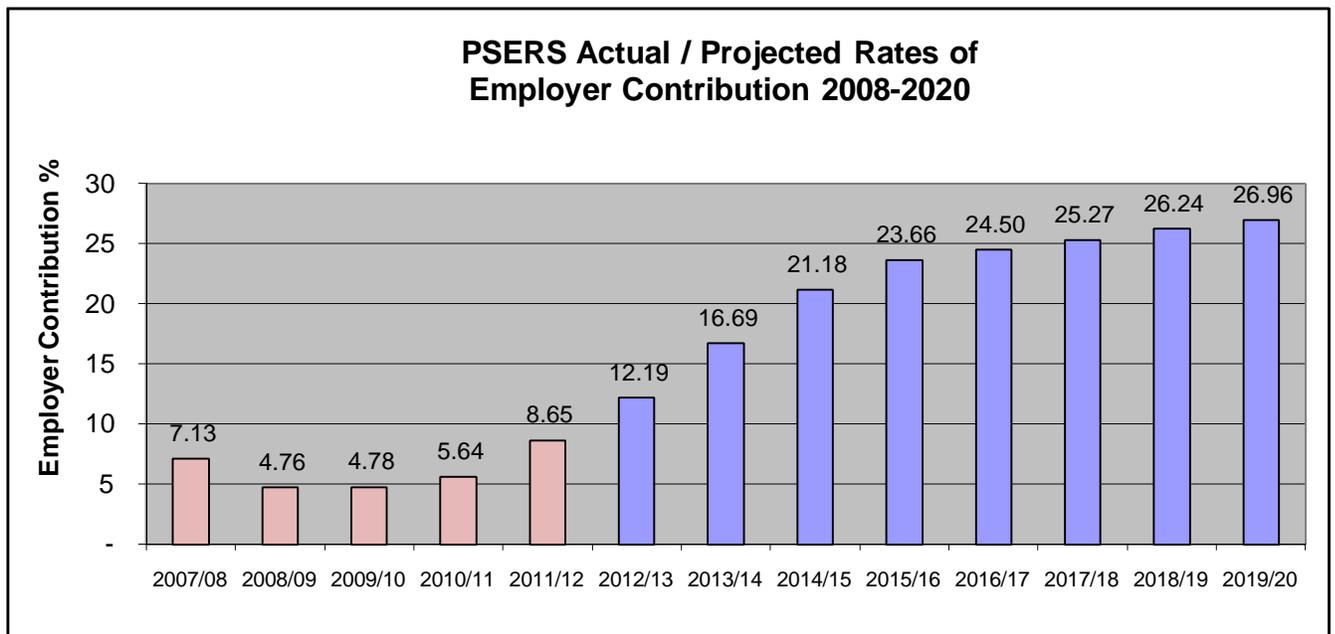
Bond Debt and Debt Service (Continued)

bringing equity across most of the School District, and utilizing an additional state reimbursement factor from the building plan approval as a design clearinghouse model. If the East Petersburg and Farmdale projects do move forward, the School District will need to borrow funds through additional bond issues. These are anticipated in a fixed rate structure, and the financing plans have included restructuring existing debt to keep the annual debt service amount about the same, therefore having little if any millage impact on our taxpayers. While the timeframe is aggressive, these plans allow the School District to take advantage of historically low interest rates and depressed construction costs in the current economy.

Retirement Benefits

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

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



Current and future rates obtained 11-15-2011 from PSERS Website, www.psers.state.pa.us.

Hempfield School District
 MANAGEMENT'S DISCUSSION and ANALYSIS
 (Continued)
 Year Ended June 30, 2011

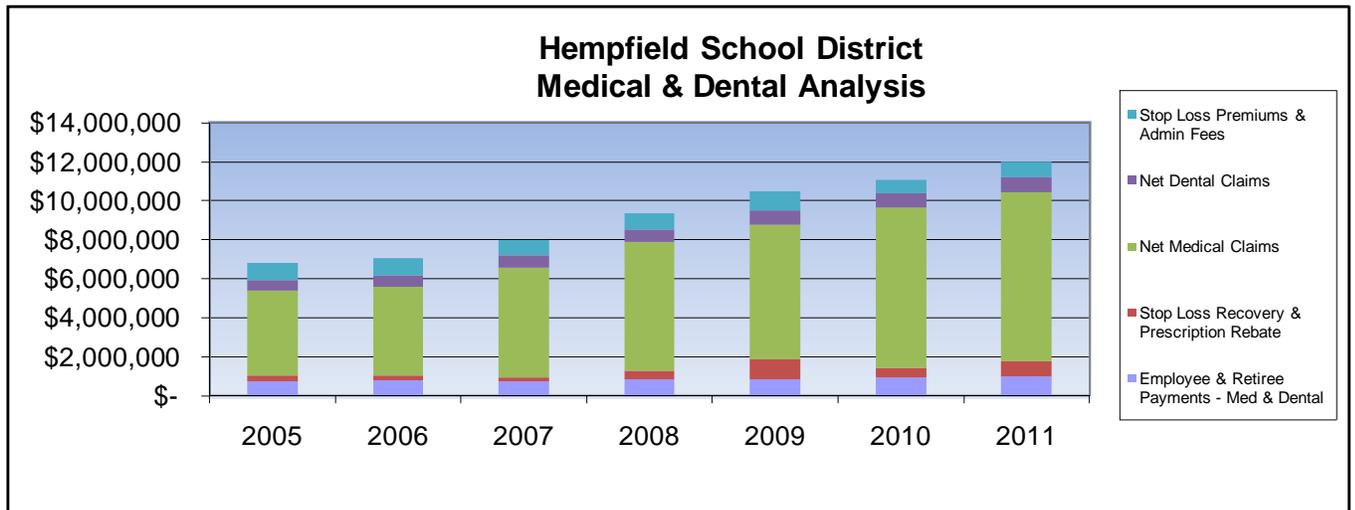
For the Future (Continued)

Retirement Benefits (Continued)

To prepare for the pension challenges, the School District maintained retirement benefit budgets at 7% during the recent years when rates went below 5%, and budgeted at the initial 8.22% certified PSERS rate for the 2010-2011 year just completed. Excess funds from those budgets were placed in a retirement reserve, which now has a balance of about \$3 million. Strategic use of that reserve will be required during the next few years to balance the millage impact on local taxpayers with the financial reality that this is not simply a spike for a year or two - it is a sustained increase to an annual expense based on 25% to 27% of eligible wages. There are no simple solutions to this dilemma, and continued pressure on state legislators for further reforms will be essential.

Medical Benefits

Costs of medical benefits continue to represent a significant challenge in annual budgets. As the graph shows, medical claims have almost doubled between 2005 and 2011. For a number of years, the average annual pace of that growth has been around 13%. With the implementation of higher payments for health care and structural changes that took effect January 2011, we have seen some slowing in the growth this past year, with the increase in net costs about 6.5%. But a single year does not make a trend; this expense item will continue to have close scrutiny, and more cost sharing on the part of our participants over time will be essential. As we look to the future with the implementation of national health care reforms, this will become even more critical.



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

Future Budgets

Planning the 2011-2012 was a daunting task, as we attempted to address an almost \$6 million deficit between lost stimulus funding from the federal level combined with rising costs. All parties - administrators, board members, employees, and taxpayers - were given a voice in the process, and the collaborative solutions helped us close that gap with no furloughs or layoffs. Our administrative staff led the way, agreeing to a pay freeze for 2011-2012 last December. The support staff followed, committing to a pay freeze as well. Our professional staff members were the first in the state to agree to step outside the collective bargaining agreement and take a wage freeze, working with the school board to replicate the salary and step matrix from 2010-2011 to 2011-2012, and extend the current contract from a four-year to a five-year agreement. We initiated a transfer between entities for some of our special education students, meeting needs at the district level instead of

Hempfield School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2011

For the Future (Continued)

Future Budgets (Continued)

contracting with the IU for those services. An early retirement incentive offered a premium discount on health care to employees taking retirement by June 30th, and 30 staff members took advantage of this option. By reducing 24 professional positions and not replacing a number of support staff as well, we closed the remaining budget gap. It is obvious, however, that wage freezes and early retirement incentives will not solve every budget problem, and we continue to look for innovative ways to reduce costs and produce additional revenues over time.

In conclusion, **Hempfield School District** has committed itself to financial and educational excellence for many years. The School District's system of budgeting and internal controls are well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

Contacting the School District's Financial Management

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

Hempfield School District

STATEMENT of NET ASSETS

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 16,424,613	\$ 1,621	\$ 16,426,234
Investments	14,378,720	70,309	14,449,029
Taxes Receivable, net	2,356,608	-0-	2,356,608
Internal Balances	(9,199)	9,199	-0-
Due from Other Governments	1,503,036	-0-	1,503,036
Other Receivables	250,656	55,408	306,064
Inventories	-0-	40,015	40,015
Total Current Assets	34,904,434	176,552	35,080,986
Noncurrent Assets			
Land	4,687,257	-0-	4,687,257
Building and Building Improvements, net of Accumulated Depreciation	106,964,461	-0-	106,964,461
Furniture and Equipment, net of Accumulated Depreciation	6,622,255	120,472	6,742,727
Vehicles, net of Accumulated Depreciation	162,221	50,435	212,656
Construction in Progress	1,385,009	-0-	1,385,009
Deferred Bond Issue Costs, net of Accumulated Amortization	1,110,375	-0-	1,110,375
Total Noncurrent Assets	120,931,578	170,907	121,102,485
 TOTAL ASSETS	 <u>\$ 155,836,012</u>	 <u>\$ 347,459</u>	 <u>\$ 156,183,471</u>

See notes to financial statements.

Hempfield School District

STATEMENT of NET ASSETS

(Continued)

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 3,281,767	\$ 843	\$ 3,282,610
Current Portion of Long-Term Debt	5,665,000	-0-	5,665,000
Accrued Salaries and Benefits	7,075,003	-0-	7,075,003
Compensated Absences, Due Within One Year	818,484	23,352	841,836
Accrued Interest on Long-Term Debt	380,419	-0-	380,419
Payroll Deductions and Withholdings	545,066	-0-	545,066
Deferred Revenues	32,626	65,225	97,851
Other Current Liabilities	63,135	-0-	63,135
Total Current Liabilities	17,861,500	89,420	17,950,920
Noncurrent Liabilities			
Bonds Payable, net of Amortized			
Discount and Premium	75,054,620	-0-	75,054,620
Accrued Retirement Bonus	1,575,404	3,060	1,578,464
Long-Term Portion of Compensated Absences	2,292,375	67,346	2,359,721
Net Other Postemployment Benefit (OPEB) Liability	1,056,579	-0-	1,056,579
Total Noncurrent Liabilities	79,978,978	70,406	80,049,384
TOTAL LIABILITIES	97,840,478	159,826	98,000,304
NET ASSETS			
Invested in Capital Assets, net of Related Debt	40,781,340	170,907	40,952,247
Restricted for Debt Service	4,839,112	-0-	4,839,112
Unrestricted	12,375,082	16,726	12,391,808
TOTAL NET ASSETS	\$ 57,995,534	\$ 187,633	\$ 58,183,167

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 62,032,993	\$ 107,888	\$ 12,011,890	\$ -0-	\$ (49,913,215)	\$ -0-	\$ (49,913,215)
Instructional Student Support	6,453,757	-0-	805,861	-0-	(5,647,896)	-0-	(5,647,896)
Administrative and Financial Support Services	8,622,205	84,799	294,328	-0-	(8,243,078)	-0-	(8,243,078)
Operation and Maintenance of							
Plant Services	9,559,099	396,768	179,856	-0-	(8,982,475)	-0-	(8,982,475)
Pupil Transportation	4,696,512	-0-	1,675,384	-0-	(3,021,128)	-0-	(3,021,128)
Student Activities	1,544,425	107,161	47,332	-0-	(1,389,932)	-0-	(1,389,932)
Interest on Long-Term Debt	2,486,825	-0-	-0-	1,203,540	(1,283,285)	-0-	(1,283,285)
Depreciation - Unallocated	551,742	-0-	-0-	-0-	(551,742)	-0-	(551,742)
Total Governmental Activities	95,947,558	696,616	15,014,651	1,203,540	(79,032,751)	-0-	(79,032,751)
Business-Type Activities:							
Food Service	3,237,724	2,018,075	1,276,561	-0-	-0-	56,912	56,912
Catering	92,700	100,702	1,997	-0-	-0-	9,999	9,999
Child Care	173,595	233,003	-0-	-0-	-0-	59,408	59,408
Total Business-Type Activities	3,504,019	2,351,780	1,278,558	-0-	-0-	126,319	126,319
Total Government	\$ 99,451,577	\$ 3,048,396	\$ 16,293,209	\$ 1,203,540	\$ (79,032,751)	\$ 126,319	\$ (78,906,432)

See notes to financial statements.

Hempfield School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					\$ 62,361,423	\$ -0-	\$ 62,361,423
Public Utility Realty and Earned Income Taxes Levied for General Purposes, net					6,918,557	-0-	6,918,557
Unrestricted Grants and Subsidies					12,182,655	-0-	12,182,655
Unrestricted Investment Earnings					203,484	157	203,641
Miscellaneous Income					151,345	247	151,592
Loss on Fixed Asset Dispositions					(9,438)	-0-	(9,438)
Transfers					59,408	(59,408)	-0-
Total General Revenues and Transfers					81,867,434	(59,004)	81,808,430
CHANGES in NET ASSETS					2,834,683	67,315	2,901,998
NET ASSETS							
Beginning					55,160,851	120,318	55,281,169
Ending					\$ 57,995,534	\$ 187,633	\$ 58,183,167

See notes to financial statements.

Hempfield School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
ASSETS				
Cash and Cash Equivalents	\$ 14,802,286	\$ -0-	\$ 1,144,021	\$ 15,946,307
Investments	2,168,982	4,839,112	2,615,887	9,623,981
Taxes Receivable, net	2,356,608	-0-	-0-	2,356,608
Due from Other Funds	4,242	-0-	1,349,042	1,353,284
Due from Other Governments	1,503,036	-0-	-0-	1,503,036
Other Receivables	26,416	8,384	-0-	34,800
TOTAL ASSETS	<u>20,861,570</u>	<u>4,847,496</u>	<u>5,108,950</u>	<u>30,818,016</u>
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable	2,253,099	-0-	319,520	2,572,619
Due to Other Funds	1,589,723	-0-	909,518	2,499,241
Accrued Salaries and Benefits	7,075,003	-0-	-0-	7,075,003
Payroll Deductions and Withholdings	545,066	-0-	-0-	545,066
Deferred Revenues	895,642	-0-	-0-	895,642
Other Liabilities	63,135	-0-	-0-	63,135
TOTAL LIABILITIES	<u>12,421,668</u>	<u>-0-</u>	<u>1,229,038</u>	<u>13,650,706</u>
FUND BALANCES				
Restricted	-0-	-0-	1,679,757	1,679,757
Committed	3,000,000	-0-	-0-	3,000,000
Assigned	-0-	4,847,496	2,200,155	7,047,651
Unassigned	5,439,902	-0-	-0-	5,439,902
TOTAL FUND BALANCES	<u>8,439,902</u>	<u>4,847,496</u>	<u>3,879,912</u>	<u>17,167,310</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 20,861,570</u>	<u>\$ 4,847,496</u>	<u>\$ 5,108,950</u>	<u>\$ 30,818,016</u>

See notes to financial statements.

Hempfield School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2011

Total Fund Balances - Governmental Funds \$ 17,167,310

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$183,392,059, and the accumulated depreciation is \$63,570,856. 119,821,203

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. 5,876,511

Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 863,016

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

Bonds Payable	(79,515,000)
Accrued Interest on Long-Term Debt	(380,419)
Bond Issue Costs, net of Amortization	1,110,375
Bond Discount, net of Amortization	338,100
Bond Premium, net of Amortization	(1,542,720)
Net Other Postemployment Benefit (OPEB) Liability	(1,056,579)
Accrued Retirement Bonuses	(1,575,404)
Compensated Absences	<u>(3,110,859)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 57,995,534

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Project Fund	
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 62,486,918	\$ -0-	\$ -0-	\$ 62,486,918
Other Taxes	6,918,557	-0-	-0-	6,918,557
Investment Earnings	167,598	12,567	23,319	203,484
Other Revenue	3,249,402	-0-	-0-	3,249,402
Total Local Sources	72,822,475	12,567	23,319	72,858,361
State Sources	22,402,437	40,000	-0-	22,442,437
Federal Sources	3,549,173	-0-	-0-	3,549,173
Total Revenues	98,774,085	52,567	23,319	98,849,971
EXPENDITURES				
Instructional Services	59,454,753	-0-	-0-	59,454,753
Support Services	27,227,066	-0-	-0-	27,227,066
Noninstructional Services	1,249,459	-0-	-0-	1,249,459
Capital Outlay	-0-	-0-	3,739,541	3,739,541
Debt Service	-0-	8,971,455	-0-	8,971,455
Bond Issuance Costs	-0-	454,479	-0-	454,479
Total Expenditures	87,931,278	9,425,934	3,739,541	101,096,753
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES				
	10,842,807	(9,373,367)	(3,716,222)	(2,246,782)
OTHER FINANCING SOURCES (USES)				
Long-Term Debt Proceeds	-0-	4,000,000	-0-	4,000,000
Refunding Bond Proceeds	-0-	20,190,000	-0-	20,190,000
Premium on Refunding Bond Proceeds	-0-	682,544	-0-	682,544
Debt Service Advance Refunding of Bond Principal	-0-	(20,355,000)	-0-	(20,355,000)
Refund of Prior Years Revenue	(103,291)	-0-	-0-	(103,291)
Refund of Prior Year Expenditure	-0-	114,548	-0-	114,548
Transfers In (Out)	(10,633,366)	4,866,311	4,412,944	(1,354,111)
Proceeds from Sale of Fixed Assets	17,475	-0-	-0-	17,475
Net Other Financing Sources (Uses)	(10,719,182)	9,498,403	4,412,944	3,192,165
NET CHANGES in FUND BALANCES	123,625	125,036	696,722	945,383
FUND BALANCES				
Beginning	8,308,591	4,722,460	3,183,190	16,214,241
Change in Accounting Principle (Note 20)	7,686	-0-	-0-	7,686
Ending	\$ 8,439,902	\$ 4,847,496	\$ 3,879,912	\$ 17,167,310

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, 2011

Total Net Changes in Fund Balances - Governmental Funds \$ 945,383

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	(26,913)	
Depreciation Expense	(4,920,792)	
Capital Outlays	<u>2,965,294</u>	(1,982,411)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues increased by this amount this year. (125,495)

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. (24,219,386)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 26,540,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. \$ 100,951

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, 2011

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.	\$ 186,642
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.	321,585
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.	(54,086)
The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue of the internal service funds is allocated among the governmental activities.	<u>1,121,500</u>
CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,834,683</u></u>

See notes to financial statements.

Hempfield School District

STATEMENT of NET ASSETS -

PROPRIETARY FUNDS

June 30, 2011

	Enterprise Funds			
	Major Fund		Total Funds	Internal Service Funds
	Food Service Fund	Nonmajor Funds		
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,621	\$ -0-	\$ 1,621	\$ 478,306
Investments	70,309	-0-	70,309	4,754,739
Due from Other Funds	9,199	-0-	9,199	1,111,000
Other Receivables	55,408	-0-	55,408	211,614
Inventories	40,015	-0-	40,015	-0-
Total Current Assets	176,552	-0-	176,552	6,555,659
Noncurrent Assets				
Furniture and Equipment, net of Accumulated Depreciation	120,472	-0-	120,472	-0-
Vehicles, net of Accumulated Depreciation	50,435	-0-	50,435	-0-
Total Noncurrent Assets	170,907	-0-	170,907	-0-
TOTAL ASSETS	347,459	-0-	347,459	6,555,659
LIABILITIES				
Current Liabilities				
Accounts Payable	843	-0-	843	679,148
Compensated Absences, Due Within One Year	23,352	-0-	23,352	-0-
Deferred Revenues	65,225	-0-	65,225	-0-
Total Current Liabilities	89,420	-0-	89,420	679,148
Noncurrent Liabilities				
Accrued Retirement Bonus	3,060	-0-	3,060	-0-
Long-Term Portion of Compensated Absences	67,346	-0-	67,346	-0-
Total Noncurrent Liabilities	70,406	-0-	70,406	-0-
TOTAL LIABILITIES	159,826	-0-	159,826	679,148
NET ASSETS				
Invested in Capital Assets, net of Related Debt	170,907	-0-	170,907	-0-
Restricted	-0-	-0-	-0-	5,876,511
Unrestricted	16,726	-0-	16,726	-0-
TOTAL NET ASSETS	\$ 187,633	\$ -0-	\$ 187,633	\$ 5,876,511

See notes to financial statements.

Hempfield School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
 PROPRIETARY FUNDS
 Year Ended June 30, 2011

	Enterprise Funds			
	Major Fund			
	Food Service Fund	Nonmajor Funds	Total Funds	Internal Service Funds
OPERATING REVENUES				
Food Service Revenue	\$ 1,982,954	\$ -0-	\$ 1,982,954	\$ -0-
Charges for Services	33,516	333,705	367,221	11,020,156
Miscellaneous	1,842	10	1,852	-0-
Total Operating Revenues	2,018,312	333,715	2,352,027	11,020,156
OPERATING EXPENSES				
Salaries	1,246,543	36,709	1,283,252	-0-
Employee Benefits	534,165	14,563	548,728	11,027,464
Purchased Professional and Technical Services	66,311	-0-	66,311	-0-
Other Purchased Services	728	173,595	174,323	-0-
Supplies	1,346,836	37,378	1,384,214	-0-
Depreciation	40,222	-0-	40,222	-0-
Other Operating Expenses	2,919	4,050	6,969	-0-
Total Operating Expenses	3,237,724	266,295	3,504,019	11,027,464
OPERATING INCOME (LOSS)	(1,219,412)	67,420	(1,151,992)	(7,308)
NONOPERATING REVENUES				
Investment Earnings	157	-0-	157	17,808
State Sources	178,626	1,997	180,623	-0-
Federal Sources	1,097,935	-0-	1,097,935	-0-
Total Nonoperating Revenues	1,276,718	1,997	1,278,715	17,808
Income Before Transfers	57,306	69,417	126,723	10,500
TRANSFERS IN (OUT)	10,009	(69,417)	(59,408)	1,111,000
CHANGES in NET ASSETS	67,315	-0-	67,315	1,121,500
NET ASSETS				
Beginning	120,318	-0-	120,318	4,755,011
Ending	\$ 187,633	\$ -0-	\$ 187,633	\$ 5,876,511

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2011

	Enterprise Funds			
	Major Fund			Internal
	Food	Nonmajor		Service
	Service Fund	Funds	Total Funds	Funds
CASH FLOWS from OPERATING ACTIVITIES				
Cash Received from Users	\$ 2,014,397	\$ 333,715	\$ 2,348,112	\$ 11,020,156
Cash Payments to Employees for Services	(1,298,104)	(36,709)	(1,334,813)	-0-
Cash Payments for Insurance Services	(534,165)	(14,563)	(548,728)	(11,434,491)
Cash Payments to Suppliers for Goods and Services	(1,245,919)	(210,973)	(1,456,892)	-0-
Cash Payments for Other Operating Expenses	(2,919)	(4,050)	(6,969)	-0-
Net Cash Provided (Used) by Operating Activities	(1,066,710)	67,420	(999,290)	(414,335)
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES				
Cash Payments for Purchase of Capital Assets	<u>(24,173)</u>	<u>-0-</u>	<u>(24,173)</u>	<u>-0-</u>
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES				
State Sources	179,907	1,997	181,904	-0-
Federal Sources	941,297	-0-	941,297	-0-
Transfers In (Out) from Other Funds	10,009	(69,417)	(59,408)	951,115
Net Cash Provided (Used) by Noncapital Financing Activities	1,131,213	(67,420)	1,063,793	951,115
CASH FLOWS from INVESTING ACTIVITIES				
Investment Earnings	157	-0-	157	17,808
Additions to Investment Pools	(45,196)	-0-	(45,196)	(161,396)
Net Cash Used by Investing Activities	(45,039)	-0-	(45,039)	(143,588)
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	(4,709)	-0-	(4,709)	393,192
CASH and CASH EQUIVALENTS				
Beginning of Year	<u>6,330</u>	<u>-0-</u>	<u>6,330</u>	<u>85,114</u>
End of Year	<u>\$ 1,621</u>	<u>\$ -0-</u>	<u>\$ 1,621</u>	<u>\$ 478,306</u>

See notes to financial statements.

Hempfield School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2011

	Enterprise Funds			Internal Service Funds
	<u>Major Fund</u>	Nonmajor Funds	Total Funds	
	Food Service Fund			
RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (1,219,412)	\$ 67,420	\$ (1,151,992)	\$ (7,308)
ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES				
Depreciation	40,222	-0-	40,222	-0-
Donated Commodities Used	160,372	-0-	160,372	-0-
Increase in Receivables	(4,503)	-0-	(4,503)	(181,435)
Decrease in Inventory	7,285	-0-	7,285	-0-
Increase (Decrease) in Accounts Payable	299	-0-	299	(225,592)
Decrease in Accrued Salaries and Benefits	(51,561)	-0-	(51,561)	-0-
Increase in Deferred Revenue	588	-0-	588	-0-
Total Adjustments	<u>152,702</u>	<u>-0-</u>	<u>152,702</u>	<u>(407,027)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,066,710)</u>	<u>\$ 67,420</u>	<u>\$ (999,290)</u>	<u>\$ (414,335)</u>
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION				
NONCASH FLOWS from NONCAPITAL and RELATED FINANCING ACTIVITIES				
Receipt of USDA Donated Commodities	161,141	-0-	161,141	-0-
Use of USDA Donated Commodities	(160,372)	-0-	160,372	-0-

See notes to financial statements.

Hempfield School District

STATEMENT of NET ASSETS -

FIDUCIARY FUNDS

June 30, 2011

	Scholarship Fund	Student Activity Fund
ASSETS		
Cash and Cash Equivalents	\$ 84,713	\$ 193,158
Investments	42,385	-0-
Due from Other Funds	<u>-0-</u>	<u>30,000</u>
TOTAL ASSETS	<u>127,098</u>	<u>223,158</u>
LIABILITIES		
Accounts Payable	-0-	19,991
Due to Other Funds	-0-	4,242
Other Current Liabilities	<u>-0-</u>	<u>198,925</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>223,158</u>
NET ASSETS		
Restricted for Scholarships	<u>\$ 127,098</u>	<u>\$ -0-</u>

See notes to financial statements.

Hempfield School District
 STATEMENT of CHANGES in NET ASSETS -
 FIDUCIARY FUNDS
 Year Ended June 30, 2011

	Scholarship Fund
ADDITIONS	
Gifts and Contributions	\$ 16,629
Investment Earnings	<u>358</u>
Total Additions	16,987
DEDUCTIONS	
Scholarships Awarded	<u>10,950</u>
CHANGES in NET ASSETS	6,037
NET ASSETS	
Beginning	<u>121,061</u>
Ending	<u>\$ 127,098</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 7,000 students.

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

Reporting Entity

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

The School District is financially accountable for:

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

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

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member 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, 2011, was approximately \$959,557. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District did not have any financial transactions with the Authority during the year ended June 30, 2011. 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. A subsequent event related to the Authority is described in Note 22.

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, 2011. 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, 2011, was approximately \$3,811,703. Complete financial information for the LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Academy (Academy)

The Academy is an alternative public school organized by 10 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member school district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 30, 2011, was approximately \$29,995. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2011, was \$139,904. 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 \$125,000. The pool reimburses monies to the School District for individual claims above \$125,000 up to \$200,000. The pool has commercial insurance for claims greater than \$200,000.

Basis of Presentation - Fund Accounting

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

Basis of Presentation - Financial Statements

Government-Wide Financial Statements

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

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

The School District reports the following major proprietary fund:

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

The School District reports the following nonmajor proprietary funds:

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

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

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

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

Basis of Accounting

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

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2011, which are not intended to finance fiscal 2011 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are recorded at market value.

Taxes Receivable and Deferred Tax Revenues

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

Inventories

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

Inventories in the cafeteria fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2011. Any unused commodities donated by the federal government at June 30, 2011, were reported as deferred revenue since title does not pass to the School District until the commodities are used.

Capital Assets and Depreciation

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

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 bonus that are expected to be paid using expendable, available resources are reported as expenditures in the fund from which the individual earning the leave or bonus is paid, and a corresponding liability reflected.

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year end are included with committed or assigned fund balances, as appropriate, because they do not constitute expenditures or liabilities. As of June 30, 2011, the School District had no encumbrances.

Pension Plan

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2011, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Interfund Activity

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

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

Fund Balance Classification

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

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

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

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

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

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

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

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

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

Estimates

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

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

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

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

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

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District has a written policy for custodial credit risk. The public school code requires that all deposits of the School District, which are not insured, are collateralized by the depository institution. As of June 30, 2011, \$16,246,046 of the School District's bank balance of \$16,788,181 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	16,246,046
	<u>16,246,046</u>

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	16,246,046
Insured Amount	<u>542,135</u>
Bank Balance	16,788,181
Outstanding Checks	<u>(85,736)</u>
Carrying Amount - Bank Balances	16,702,445
Petty Cash	<u>1,660</u>
Total Cash and Cash Equivalents per Financial Statements	16,704,105

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

Investments

As of June 30, 2011, the School District had the following investments:

Investments	Fair Value
PA Local Government Investment Trust	9,921,681
PA Treasury Department - Invest Program	1,229
PA School District Liquid Asset Fund	1,975,737
Societe Generale Guaranteed Investment Contract	2,587,461
Goldman Sachs Financial Square Treasury Obligations	<u>5,306</u>
	14,491,414

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, 2011, the School District investments are rated as:

Investments	Standard & Poor's
PA Local Government Investment Trust	AAAm
PA Treasury Department - Invest Program	AAAm
PA School District Liquid Asset Fund	AAAm
Societe Generale Guaranteed Investment Contract	A+
Goldman Sachs Financial Square Treasury Obligations	AAAm

Concentration of Credit Risk

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

Governmental Activities:	
PA Local Government Investment Trust	68%
PA School District Liquid Asset Fund	14%
Societe Generale Guaranteed Investment Contract	18%
Business Type Activities:	
PA Local Government Investment Trust	100%
General Fund:	
PA Local Government Investment Trust	100%
Capital Project Fund:	
Societe Generale Guaranteed Investment Contract	99%

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

Concentration of Credit Risk (Continued)

Internal Service Funds:		
PA Local Government Investment Trust	58%	
PA School District Liquid Asset Fund	42%	

Custodial Credit Risk

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

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2011, was 17.9789 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2011, 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, 2011, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	1,133,337	270,321	863,016
Realty Transfer Taxes	70,868	70,868	-0-
Earned Income Taxes	<u>1,152,403</u>	<u>1,152,403</u>	<u>-0-</u>
	2,356,608	1,493,592	863,016

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2011, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	4,242	1,589,723
Food Service Fund	9,199	-0-
Capital Project Fund	1,349,042	909,518
Retirement Benefit Reserve Fund	1,111,000	-0-
Student Activity Fund	<u>30,000</u>	<u>4,242</u>
	2,503,483	2,503,483

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

A transfer in the amount of \$427,599 is pending from the general fund to the capital reserve fund, a component of the capital project fund, to provide resources for future capital expenditures.

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

Transfers are pending between the general fund and the student activity fund for reimbursement of expenses.

Transfers are pending within the capital project fund from the construction fund to the capital reserve fund for construction costs initially paid from the capital reserve fund.

Interfund transfers for the year ended June 30, 2011, are as follows:

Fund	Transfers In	Transfers Out
General Fund	59,408	10,692,774
Food Service Fund	10,009	-0-
Catering Fund	-0-	10,009
Capital Project Fund	4,477,469	64,525
Child Care Fund	83	59,491
Debt Service Fund	8,851,656	3,985,345
Retirement Benefit Reserve Fund	1,111,000	-0-
Student Activity Fund	<u>302,519</u>	<u>-0-</u>
	14,812,144	14,812,144

Transfers to the food service fund from the catering fund were made in the amount equal to the fund's net operating profit loss for the fiscal year ended June 30, 2011.

Transfers from the general fund to the capital reserve fund, a component of the capital project fund, in the amount of \$427,599 were made to provide resources for future capital expenditures.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - INTERFUND ACCOUNTS (Continued)

Transfers in the amount of \$8,851,656 are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds.

Transfers are made from the debt service fund to the construction fund, a component of the capital project fund, of net bond proceeds in the amount of \$3,985,345 to fund construction costs.

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

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

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

Transfers are made within the capital project fund from the construction fund to the capital reserve fund in the amount of \$64,525 to reimburse the capital reserve fund for prior year construction costs paid from that fund.

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2011, the following amounts are due from other governmental units:

Due From	General Fund
Federal Grants	77,258
State Retirement Subsidy	544,383
State FICA Subsidy	268,394
Lancaster-Lebanon IU #13	400,934
Other State Subsidies	191,923
Other Local Governments	<u>20,144</u>
	1,503,036

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, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	4,287,257	400,000	-0-	4,687,257
Capital Assets Being Depreciated:				
Building and Building Improvements	154,117,673	447,124	-0-	154,564,797
Furniture and Equipment	21,695,418	853,420	(266,237)	22,282,601
Vehicles	<u>445,702</u>	<u>42,718</u>	<u>(16,025)</u>	<u>472,395</u>
Total Cost	<u>176,258,793</u>	<u>1,343,262</u>	<u>(282,262)</u>	<u>177,319,793</u>
Accumulated Depreciation:				
Building and Building Improvements	44,393,695	3,206,641	-0-	47,600,336
Furniture and Equipment	14,224,720	1,676,553	(240,927)	15,660,346
Vehicles	<u>286,998</u>	<u>37,598</u>	<u>(14,422)</u>	<u>310,174</u>
Total Accumulated Depreciation	<u>58,905,413</u>	<u>4,920,792</u>	<u>(255,349)</u>	<u>63,570,856</u>
Net Capital Assets Being Depreciated	<u>117,353,380</u>	<u>(3,577,530)</u>	<u>(26,913)</u>	<u>113,748,937</u>
Net Capital Assets	121,640,637	(3,177,530)	(26,913)	118,436,194
Construction in Progress	162,977	1,222,032	-0-	1,385,009

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Historical Cost:				
Capital Assets Being Depreciated:				
Furniture and Equipment	422,846	24,173	(3,186)	443,833
Vehicles	<u>149,261</u>	<u>-0-</u>	<u>(33,980)</u>	<u>115,281</u>
Total Cost	572,107	24,173	(37,166)	559,114
Accumulated Depreciation:				
Furniture and Equipment	300,735	25,812	(3,186)	323,361
Vehicles	<u>84,416</u>	<u>14,410</u>	<u>(33,980)</u>	<u>64,846</u>
Total Accumulated Depreciation	<u>385,151</u>	<u>40,222</u>	<u>(37,166)</u>	<u>388,207</u>
Net Capital Assets	186,956	(16,049)	-0-	170,907

Depreciation expenses were charged to governmental functions as follows:

Instruction	3,030,711
Instructional Student Support	447,665
Administrative and Financial Support Services	666,954
Operation and Maintenance of Plant Services	223,720
Unallocated Depreciation Expense	<u>551,742</u>
	4,920,792

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2011, the School District was liable for \$5,015,650 of payroll, which is payable during July and August 2011, 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, 2011, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses.

The School District was also liable for the following benefits on payroll paid prior to or accrued as of June 30, 2011:

Retirement	1,089,337
Social Security	377,431
Other Benefits	<u>592,585</u>
	2,059,353

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 9 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2011:

	General Fund	Enterprise Fund	Total
Deferred Delinquent Real Estate Taxes	863,016	-0-	863,016
Deferred Grant Program Revenue	3,553	-0-	3,553
Interim Taxes	21,073	-0-	21,073
Prepaid Summer School Tuition	8,000	-0-	8,000
Unused Donated Commodities	-0-	11,539	11,539
Prepaid Lunch Sales	<u>-0-</u>	<u>53,686</u>	<u>53,686</u>
	895,642	65,225	960,867

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, 2011, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2011
Series A of 2004 Bonds	May 15, 2024	4.00% - 4.50%	13,610,000
Series A of 2007 Notes	August 1, 2017	Variable	9,200,000
Series of 2009 Bonds	October 15, 2023	2.50% - 4.125%	15,910,000
Series A of 2009 Bonds	October 15, 2014	2.00% - 3.25%	9,045,000
Series of 2010 Bonds	October 15, 2023	3.00% - 4.00%	8,055,000
Series A of 2010 Notes	April 15, 2030	1.00% - 4.05%	8,060,000
Series B of 2010 Notes	February 1, 2028	Variable	4,000,000
Series of 2011 Notes	October 15, 2023	2.50% - 3.25%	3,445,000
Series A of 2011 Bonds	October 15, 2021	3.00% - 4.00%	<u>8,190,000</u>
			79,515,000

On September 15, 2004, the School District issued Series A of 2004 General Obligation Bonds of \$17,290,000 to provide funds for renovations, and/or additions to Centerville Middle School and various School District athletic fields, for other capital projects of the School District, to capitalize a portion of the interest on the bonds, and to pay the costs and expenses of issuing the debt. The principal amount of the Series A of 2004 outstanding at June 30, 2011, was \$13,610,000 due in various amounts as described in the indenture from May 15, 2012 through May 15, 2024. Principal due within one year is \$815,000.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On June 1, 2007, the School District issued Series A of 2007 General Obligation Notes of \$9,500,000. The purpose of the notes was to provide funds for: (1) completion of Centerville Middle School (2) the school district wide energy performance contract, and (3) the completion of various projects related to the athletic and parking facilities. The principal amount of the Series A of 2007 outstanding at June 30, 2011, was \$9,200,000 due in various amounts through August 1, 2017. The interest rate for the Series A of 2007 is a variable rate which is calculated based on the weekly rate of the bonds plus .50%, but in no event shall the rate exceed 15.50%. The interest rate at June 30, 2011, was .88%. Principal due within one year is \$100,000.

On June 15, 2009, the School District issued Series of 2009 General Obligation Bonds of \$21,130,000. The proceeds were used to (1) refund the Series of 1998 General Obligation Bonds, (2) refund the Series A of 2001 General Obligation Bonds, (3) refund a portion of the Series B of 2003 General Obligation Bonds, and (4) pay the costs and expenses of issuing the bonds. The principal amount outstanding at June 30, 2011, was \$15,910,000 due in various amounts through October 15, 2023. Principal due within one year is \$4,370,000.

On September 15, 2009, the School District issued Series A of 2009 General Obligation Bonds of \$9,050,000 at a premium of \$1,063,080. The proceeds were used to refund the Series A 2003 General Obligation Bonds and to pay the costs and expenses of issuing the bonds. The principal amount outstanding at June 30, 2011, was \$9,045,000 due in various amounts through October 15, 2014. Principal due within one year is \$5,000.

On May 10, 2010, the School District issued Series of 2010 General Obligation Bonds of \$8,060,000. The proceeds were used to refund the Series of 2005 General Obligation Bonds and pay the cost and expenses of issuing the bonds. The principal amount outstanding at June 30, 2011, was \$8,055,000 due in various amounts through October 15, 2023. The purpose of the refunding was to extend the dates of the principal and interest payments, therefore easing the impact of debt service on the School District's budget. Principal due within one year is \$5,000.

On December 6, 2010, the School District issued the Series A of 2010 General Obligation Notes of \$8,555,000. The proceeds were used to currently refund the Series of 2006 General Obligation Bonds and to pay the costs and expenses of issuing the notes. The principal amount outstanding at June 30, 2011, was \$8,060,000 due in various amounts through April 15, 2030. The purpose of the refunding was to extend the due dates of the principal payments while partially offsetting the resulting additional interest expense with lower interest rates. Principal due within one year is \$5,000.

On December 1, 2010, the School District issued the Series B of 2010 General Obligation Notes of \$4,000,000. The purpose of the notes was to provide funding for the planning, design, and early construction costs associated with three building projects of the School District and to pay the costs and expenses of issuing the notes. The principal amount outstanding at June 30, 2011, was \$4,000,000 due in various amounts through February 1, 2028. The interest rate for the notes is a variable rate which is calculated on the weekly rate of the Emmaus General Authority variable rate bonds plus a gross up rate further described in the indenture. The rate shall not exceed 25.00% and was set at 1.93% as of June 30, 2011. Principal due within one year is \$5,000.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On June 13, 2011, the School District issued the Series of 2011 General Obligation Notes of \$3,445,000 at a premium of \$58,899. 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, 2011, was \$3,445,000 due in various installments from October 15, 2011 through October 15, 2023. The purpose of the refunding was to restructure the School Districts debt service obligations into future years to ease the impact of debt service on the School District's budget while taking advantage of favorable interest rates. The current and present values of the associated additional costs to the School District are \$529,510 and \$56,132, respectively. Principal due within one year is \$250,000.

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, 2011, was \$8,190,000 due in various installments from October 15, 2011 through October 15, 2021. The current and present value of the School District's savings amount to \$798,454 and \$764,376, respectively, over the term of the issue. Principal due within one year is \$110,000.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
General Obligation Debt	81,865,000	24,190,000	26,540,000	79,515,000
Bond Discount	(367,558)	(22,875)	(52,333)	(338,100)
Bond Premium	1,215,475	705,419	378,174	1,542,720
Accrued Retirement Bonuses	1,898,249	-0-	319,785	1,578,464
Other Postretirement Benefits	1,002,493	54,086	-0-	1,056,579
Estimated Liability for Compensated Absences	<u>3,376,887</u>	<u>-0-</u>	<u>175,330</u>	<u>3,201,557</u>
	88,990,546	24,926,630	27,360,956	86,556,220

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

	Interest	Principal	Total
2012	2,469,687	5,665,000	8,134,687
2013	2,380,441	5,780,000	8,160,441
2014	2,171,186	5,830,000	8,001,186
2015	1,918,168	6,375,000	8,293,168
2016	1,674,028	6,420,000	8,094,028
2017 – 2021	6,287,543	25,140,000	31,427,543
2022 – 2026	2,598,970	17,855,000	20,453,970
2027 - 2030	<u>583,302</u>	<u>6,450,000</u>	<u>7,033,302</u>
	20,083,325	79,515,000	99,598,325

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 11 - DEFEASED DEBT OUTSTANDING

In prior years, the School District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, does not appear as a liability on the statement of net assets. As of June 30, 2011, the total amount of defeased debt outstanding but removed from the statement of net assets amounted to \$90,000.

NOTE 12 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities and business-type activities for compensated absences is as follows as of June 30, 2011:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	2,316,060	66,875
Accumulated Vacation Leave	417,713	10,995
Accumulated Personal Days	156,016	6,383
Employer Social Security and Medicare on Leave Amounts Above	<u>221,070</u>	<u>6,445</u>
	3,110,859	90,698

NOTE 13 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus to be transferred into a TSA account. The accrual for estimated retirement benefits was \$1,578,464 at June 30, 2011. Of this liability, \$3,060 was attributed to business-type activities and \$1,575,404 was attributed to the governmental activities.

NOTE 14 - FUND BALANCE CLASSIFICATIONS

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At June 30, 2011, the School District has the following restricted balance:

Capital Project Fund - Restricted for future Capital Projects	1,679,757
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Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 14 - FUND BALANCE CLASSIFICATIONS (Continued)

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At June 30, 2011, the School District has included the following as committed fund balances:

General Fund - Committed for Early Retirement Incentives	500,000
General Fund - Committed for Future Debt Service Expenditures	1,000,000
General Fund - Committed to Offset Future Postemployment Benefit Expenditures	1,500,000

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or body to which the governing body delegates the authority.

Debt Service Fund - Assigned for Debt Service Payment	4,847,496
Capital Project Fund - Assigned for Capital Outlays	2,200,155

NOTE 15 - RISK MANAGEMENT

Hospitalization

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit #13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process and pay the claims. The School District was limited in liability to \$125,000 per individual and \$13,191,932 in total for hospitalization claims for the year ended June 30, 2011.

A liability for claims incurred prior to June 30, 2011, and subsequently paid is recorded in the amount of \$679,148 in accounts payable in the internal service fund. For the year ended June 30, 2010, the liability for claims incurred prior to June 30, 2010, and subsequently paid was \$824,622.

Changes in the School District's claims liability amount in fiscal years 2011 and 2010 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2009 - 2010	528,852	10,288,190	9,992,420	824,622
2010 - 2011	824,622	10,436,578	10,582,052	679,148

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 15 - RISK MANAGEMENT (Continued)

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for seventeen 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 re-insurance 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, 2011, the School District is not aware of any additional assessments relating to the Fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2011, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 16 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the plan. That report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members.

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class TC or 6.50% for Class TD. Members who joined on or after July 11, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class TC or 7.50% for Class TD. Members who joined the plan after June 30, 2001, are automatically in Class TD and are required to contribute 7.50%.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy (Continued)

The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. For fiscal year ended June 30, 2011, the rate of employer contribution was 5.64% of covered payroll. The 5.64% rate is comprised of a pension contribution rate of 5.00% for pension benefits and .64% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. **Hempfield School District's** contributions to PSERS for the years ended June 30, 2011, 2010, and 2009, were \$2,776,926, \$2,264,930, and \$2,115,600, respectively. Those amounts are equal to the required contribution for each year.

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

The School District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability of \$1,056,579 resulting from the adoption.

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

Funding Policy

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

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:

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	976,167
Interest on OPEB Obligation	27,980
Adjustment to Annual Required Contribution	<u>(38,172)</u>
Annual OPEB Cost	965,975
Contributions Made	<u>911,889</u>
Estimated Increase in Net OPEB Obligation	54,086
Net OPEB Obligation - Beginning of Year	<u>1,002,493</u>
Net OPEB Obligation - End of Year	1,056,579

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/2009	800,778	29%	564,951
6/30/2010	795,482	45%	1,002,493
6/30/2011	965,975	93%*	1,056,579

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

Funding Status and Funding Progress

As of June 1, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$8,015,221, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,015,221. The covered payroll (annual payroll of active employees covered by the plan) equaled \$42,866,047, and the ratio of the UAAL to the covered payroll equaled 18.7%.

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 School District is required 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. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB statement No. 45 have been implemented prospectively.

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions

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

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

NOTE 18 - DAYCARE OPERATIONS

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

NOTE 19 - CONTINGENCIES and COMMITMENTS

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

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

Transportation Contract

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

Hempfield School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 19 - CONTINGENCIES and COMMITMENTS (Continued)

Capital Projects

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

East Petersburg Elementary School

The School District is in the process of designing a new elementary school and has entered into a service agreement with an architectural and engineering firm with a remaining amount of approximately \$720,000. The award of contract based on bids is expected in February 2012 with construction activity commencing in the spring of 2012. The completion of the project is expected by August 2013. The School District anticipates issuing general obligation bonds to finance the construction of the new schools and the demolition of the existing building.

Farmdale Elementary School

The School District is in the process of designing a new elementary school and has committed itself to a service agreement with an architectural and engineering firm in the amount of approximately \$770,000. The award of contract based on bids is expected in February 2012 with construction activity commencing in the spring of 2012. The completion of the project is expected by August 2013. The School District anticipates issuing general obligation bonds to finance the construction of the new schools and the demolition of the existing building.

Landisville Intermediate Center

The School District is in the process of building a new intermediate school and has committed itself to construction contracts as follows:

General Trades	8,941,760
Plumbing	998,000
HVAC	2,642,000
Electrical	<u>1,586,000</u>
	14,167,760

In addition, the School District anticipates incurring costs for the demolition of the existing school, furniture, fixtures, and equipment as well as professional fees in the amount of approximately \$1,740,000. The completion of the project is expected by August 2012. The School District anticipates funding this project from (1) the restricted fund balance of the capital project fund and (2) the issuance of additional variable rate general obligation debt.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 20 - CHANGE in ACCOUNTING PRINCIPLE

The School District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*, effective July 1, 2010. Financial statements issued for the general fund reflect an adjustment to beginning fund balance in the amount of \$7,686 that represents the ending fund balance for the athletic fund. The prior year ending fund balance of the capital reserve special revenue fund of \$3,183,190 has been reclassified and is now reported in the capital project fund.

NOTE 21 - EARLY RETIREMENT INCENTIVE

During the year ended June 30, 2011, the School District has offered an early retirement incentive (ERI) to employees that meet certain eligibility requirements. Employees electing to retire under this arrangement (generally in June 2011, but in no case later than the start of the 2011-12 school year) were offered a reduced rate for continued medical coverage. Normally, retiring eligible employees can elect continued coverage under the School District's health plan until age 65, but are responsible to pay the full calculated cost determined by the School District's third party administrator for the elected coverage under the self-insured plan. Under the ERI, employees would only be required to pay 50% of the cost for single coverage for up to five years subject to additional limitations. Any family members would continue to pay the full incremental cost of the employee plus one or family coverage, as appropriate.

The following table summarizes the estimated continued participation in the School District's health plan by personnel electing the ERI and the annual estimated cost to the School District as a result of the ERI.

Fiscal Year Ended	Number of ERI Participants	Estimated Annual Cost
June 30, 2012	27	91,800
June 30, 2013	23	104,600
June 30, 2014	20	102,200
June 30, 2015	13	86,100
June 30, 2016	9	75,700
June 30, 2017	8	<u>39,600</u>
		500,000

The Hempfield School Board has committed general fund balance in the amount of the expected future costs of \$500,000 as of June 30, 2011. The cost effect of this ERI is also reflected in the liability for postemployment health care benefits further described in Note 17. The School District based its cost estimate on the following inputs: (1) actuarially determined current monthly rate for single coverage of \$684, (2) participation until 65 with no assumed mortality, and (3) annual growth rate of health care cost of 23% which includes a provision to account for the hidden subsidy of higher health care cost associated with retirees. The estimate has not been discounted to present value.

Hempfield School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 22 - SUBSEQUENT EVENTS

Guaranteed Lease Revenue Bonds, Series of 2011

On September 22, 2011, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series of 2011 in the maximum aggregate principal amount of \$43,000,000 to provide funds for renovations and additions to the 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 other ongoing proposed capital projects of the LCCTC, and for the payment and costs of issuing the bonds. Although the resolution provided for an amount not to exceed \$43,000,000, it is currently anticipated that aggregate amount borrowed will be between \$21,000,000 and \$30,000,000. The bonds will be issued in three different series over three different years: 2012, 2013, and 2014. The amount of each annual series shall not exceed \$10,000,000 without the School District's approval. The bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000.

As stated in the parameters of the borrowing resolution, **Hempfield School District** is responsible for approximately \$1,154,215 of each \$10,000,000 in bond principal borrowed.

General Obligation Bonds, Series B of 2011

On November 8, 2011, the School District adopted a resolution to issue the Series B of 2011 General Obligation Notes in the aggregate principal amount of \$25,285,000 to currently refund the General Obligation Notes Series A of 2007 and Series B of 2010, to fund costs related to capital projects, especially the Landisville Intermediate Center, and for the payment of bond issuance costs. The bonds will bear interest at a variable rate calculated as the sum of the LIBOR index multiplied by the applicable factor plus the applicable spread. The applicable factor is seventy percent and subject to reduction with a favorable bond counsel opinion. The applicable spread can vary between 0.68% and 1.58% depending on the School District's bond rating; the initial applicable spread is 0.68%. The maximum annual rate of interest shall be 12%. Under the terms of the bond agreement, the School District, after the initial index floating rate period (3 years), can convert the variable rate bonds to a fixed rate bond structure.

The following schedule illustrates the annual debt service requirements to maturity for the Series B of 2011 General Obligation Bonds with interest expense amounts calculated at the estimated rate of 2.68%:

	Interest	Principal	Total
2012	370,819	-0-	370,819
2013	677,638	-0-	677,638
2014	677,515	5,000	682,515
2015	677,381	5,000	682,381
2016	677,247	5,000	682,247
2017 - 2021	2,256,370	12,815,000	15,071,370
2022 - 2026	<u>773,794</u>	<u>12,455,000</u>	<u>13,228,794</u>
	6,110,764	25,285,000	31,395,764

Hempfield School District

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

BUDGET and ACTUAL - GENERAL FUND

Year Ended June 30, 2011

	Budgeted Amounts		Actual Budgetary	Variance with Final
REVENUES	Original	Final	Basis	Budget - Favorable (Nonfavorable)
Local Sources:				
Real Estate Taxes	\$ 62,488,765	\$ 62,488,765	\$ 62,486,918	\$ (1,847)
Other Taxes	6,888,000	6,888,000	6,918,557	30,557
Investment Earnings	400,000	400,000	167,598	(232,402)
Other Revenue	3,143,606	3,143,606	3,249,402	105,796
Total Local Sources	72,920,371	72,920,371	72,822,475	(97,896)
State Sources	25,285,542	25,285,542	22,402,437	(2,883,105)
Federal Sources	1,200,000	1,200,000	3,549,173	2,349,173
Total Revenues	99,405,913	99,405,913	98,774,085	(631,828)
EXPENDITURES				
Instructional Services:				
Regular Programs	46,222,917	46,031,562	46,031,318	244
Special Programs	11,411,232	11,289,363	11,289,224	139
Vocational Programs	1,676,254	1,523,762	1,523,761	1
Other Instructional Programs	476,307	604,583	604,573	10
Adult Education Programs	4,500	5,879	5,877	2
Support Services:				
Pupil Personnel	3,412,539	3,457,784	3,457,720	64
Instructional Staff	1,882,983	1,904,825	1,904,768	57
Administrative	4,865,700	4,884,933	4,871,343	13,590
Pupil Health	902,932	853,971	853,943	28
Business	1,085,776	1,044,522	1,044,506	16
Operation of Plant and Maintenance	8,989,648	8,021,084	7,972,081	49,003
Student Transportation	4,494,547	4,696,644	4,696,629	15
Central and Other Business	2,556,018	2,426,101	2,426,076	25
Noninstructional	1,304,845	1,249,541	1,249,459	82
Total Expenditures	89,286,198	87,994,554	87,931,278	63,276
EXCESS of REVENUES over EXPENDITURES	10,119,715	11,411,359	10,842,807	(568,552)
OTHER FINANCING SOURCES (USES)				
Debt Service, Current	(9,433,956)	(9,433,959)	(8,851,656)	582,303
Other Fund Transfers	(685,000)	(1,873,599)	(1,781,710)	91,889
Refund of Prior Years Revenues	(250)	(103,292)	(103,291)	1
Proceeds from Sale of Fixed Assets	2,000	2,000	17,475	15,475
Budgetary Reserve	(1,000,000)	(1,000,000)	-0-	1,000,000
Net Other Financing Uses	(11,117,206)	(12,408,850)	(10,719,182)	1,689,668
NET CHANGES in FUND BALANCES	(997,491)	(997,491)	123,625	1,121,116
FUND BALANCES				
Beginning			8,308,591	
Change in Accounting Principle (Note 20)			7,686	
Ending			<u><u>\$ 8,439,902</u></u>	

See auditors' report.

Hempfield School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

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

1. Under Act I requirements, management submits to the School Board a preliminary budget for adoption 90 days prior to the primary election, and then a final budget for adoption on or before June 30, for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
2. Public meetings are conducted to obtain taxpayer comments for both the preliminary and final budget adoption process. The proposed budgets are made available to the public 20 days before each adoption date, and are advertised 10 days before each adoption date.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year.
7. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. There is no budget for the capital reserve fund.

Hempfield School District
 COMBINING BALANCE SHEET SCHEDULE - CAPITAL PROJECT FUNDS
 June 30, 2011

	Capital Reserve Fund	Construction Fund	Total Capital Project Fund
ASSETS			
Cash and Cash Equivalents	\$ 942,329	\$ 201,692	\$ 1,144,021
Investments	28,426	2,587,461	2,615,887
Due from Other Funds	1,349,042	-0-	1,349,042
TOTAL ASSETS	<u>2,319,797</u>	<u>2,789,153</u>	<u>5,108,950</u>
LIABILITIES and FUND BALANCES			
LIABILITIES			
Accounts Payable	119,642	199,878	319,520
Due to Other Funds	-0-	909,518	909,518
TOTAL LIABILITIES	<u>119,642</u>	<u>1,109,396</u>	<u>1,229,038</u>
FUND BALANCES			
Restricted	-0-	1,679,757	1,679,757
Assigned	2,200,155	-0-	2,200,155
TOTAL FUND BALANCES	<u>2,200,155</u>	<u>1,679,757</u>	<u>3,879,912</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 2,319,797</u>	<u>\$ 2,789,153</u>	<u>\$ 5,108,950</u>

See auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
CAPITAL PROJECT FUNDS
Year Ended June 30, 2011

	Capital Reserve Fund	Construction Fund	Total Capital Project Fund
REVENUES			
Local Sources:			
Investment Earnings	\$ 2,623	\$ 20,696	\$ 23,319
EXPENDITURES			
Capital Outlay	<u>1,477,782</u>	<u>2,261,759</u>	<u>3,739,541</u>
DEFICIENCY of REVENUES over EXPENDITURES	(1,475,159)	(2,241,063)	(3,716,222)
OTHER FINANCING SOURCES			
Transfers In	<u>492,124</u>	<u>3,920,820</u>	<u>4,412,944</u>
NET CHANGES in FUND BALANCES	(983,035)	1,679,757	696,722
FUND BALANCES			
Beginning	<u>3,183,190</u>	<u>-0-</u>	<u>3,183,190</u>
Ending	<u>\$ 2,200,155</u>	<u>\$ 1,679,757</u>	<u>\$ 3,879,912</u>

See auditors' report.

Hempfield School District
 COMBINING SCHEDULE of NET ASSETS -
 INTERNAL SERVICE FUNDS
 June 30, 2011

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service Funds
ASSETS					
Current Assets					
Cash and Cash					
Equivalents	\$ 478,306	\$ -0-	\$ -0-	\$ -0-	\$ 478,306
Investments	2,314,128	1,974,733	245,609	220,269	4,754,739
Due from Other Funds	-0-	1,111,000	-0-	-0-	1,111,000
Other Receivables	<u>211,614</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>211,614</u>
TOTAL ASSETS	<u>3,004,048</u>	<u>3,085,733</u>	<u>245,609</u>	<u>220,269</u>	<u>6,555,659</u>
LIABILITIES					
Current Liabilities					
Accounts Payable	<u>679,148</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>679,148</u>
NET ASSETS					
Restricted	<u>\$ 2,324,900</u>	<u>\$ 3,085,733</u>	<u>\$ 245,609</u>	<u>\$ 220,269</u>	<u>\$ 5,876,511</u>

See auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
INTERNAL SERVICE FUNDS
Year Ended June 30, 2011

	Hospitalization Fund	Retirement Benefit Reserve Fund	Workers' Compensation Fund	Unemployment Compensation Fund	Total Internal Service Funds
OPERATING REVENUES					
Charges for Services	\$ 11,020,156	\$ -0-	\$ -0-	\$ -0-	\$ 11,020,156
OPERATING EXPENSES					
Employee Benefits	<u>11,027,464</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,027,464</u>
OPERATING LOSS	(7,308)	-0-	-0-	-0-	(7,308)
NONOPERATING REVENUES					
Investment Earnings	<u>9,264</u>	<u>7,918</u>	<u>330</u>	<u>296</u>	<u>17,808</u>
INCOME BEFORE TRANSFERS	1,956	7,918	330	296	10,500
TRANSFERS IN	<u>-0-</u>	<u>1,111,000</u>	<u>-0-</u>	<u>-0-</u>	<u>1,111,000</u>
CHANGES in NET ASSETS	1,956	1,118,918	330	296	1,121,500
NET ASSETS					
Beginning	<u>2,322,944</u>	<u>1,966,815</u>	<u>245,279</u>	<u>219,973</u>	<u>4,755,011</u>
Ending	<u>\$ 2,324,900</u>	<u>\$ 3,085,733</u>	<u>\$ 245,609</u>	<u>\$ 220,269</u>	<u>\$ 5,876,511</u>

See auditors' report.

Hempfield School District

COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
 PROPRIETARY FUNDS - NONMAJOR ENTERPRISE FUNDS
 Year Ended June 30, 2011

	Catering Fund	Child Care Fund	Total Nonmajor Enterprise Funds
OPERATING REVENUES			
Charges for Services	\$ 100,702	\$ 233,003	\$ 333,705
Miscellaneous	<u>10</u>	<u>-0-</u>	<u>10</u>
Total Operating Revenues	100,712	233,003	333,715
OPERATING EXPENSES			
Salaries	36,709	-0-	36,709
Employee Benefits	14,563	-0-	14,563
Other Purchased Services	-0-	173,595	173,595
Supplies	37,378	-0-	37,378
Other Operating Expenses	<u>4,050</u>	<u>-0-</u>	<u>4,050</u>
Total Operating Expenses	<u>92,700</u>	<u>173,595</u>	<u>266,295</u>
OPERATING INCOME	8,012	59,408	67,420
NONOPERATING REVENUE			
State Sources	<u>1,997</u>	<u>-0-</u>	<u>1,997</u>
INCOME BEFORE TRANSFERS	10,009	59,408	69,417
TRANSFERS OUT	<u>(10,009)</u>	<u>(59,408)</u>	<u>(69,417)</u>
CHANGES in NET ASSETS	-0-	-0-	-0-
NET ASSETS			
Beginning	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 Year Ended June 30, 2011

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/10 - 06/30/11	N/A	\$ -0-	\$ 141,147	\$ 148,501	\$ 7,354
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/09 - 06/30/10	N/A	7,970	7,970	-0-	-0-
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/10 - 06/30/11	N/A	-0-	756,577	789,062	32,485
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/09 - 06/30/10	N/A	<u>35,603</u>	<u>35,603</u>	<u>-0-</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						43,573	941,297	937,563	39,839
Passed Through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Notes 2 and 3)	I/F	10.555	N/A	07/01/10 - 06/30/11	N/A	<u>(10,770) A)</u>	<u>161,141 B)</u>	<u>160,372 C)</u>	<u>(11,539) D)</u>
Total U.S. Department of Agriculture						\$ 32,803	\$ 1,102,438	\$ 1,097,935	\$ 28,300

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2011

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Education									
Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	013-110189	08/02/10 - 09/30/11	623,794	\$ -0-	\$ 543,598	\$ 617,794	\$ 74,196
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	013-100189	06/09/09 - 09/30/10	564,543	75,870	75,870	-0-	-0-
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	077-100189	06/09/09 - 09/30/10	1,800	-0-	600	1,467	867
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-100189	07/01/09 - 03/31/11	17,372	2,725	6,949	6,540	2,316
English Language Acquisition Grants	I/F	84.365	010-110189	07/12/10 - 09/30/11	63,280	-0-	63,280	63,280	-0-
English Language Acquisition Grants	I/F	84.365	010-100189	09/08/09 - 09/30/10	68,842	15,887	15,887	-0-	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-110189	08/02/10 - 09/30/11	237,682	-0-	238,465	237,682	(783)
Improving Teacher Quality State Grants	I/F	84.367	020-109189	06/09/09 - 09/30/10	232,741	46,548	46,548	-0-	-0-
ARRA - Title I Grants to Local Educational Agencies, Recovery Act (Note 2)	I/F	84.389	127-100189	06/09/09 - 09/30/10	315,785	\$ (718)	\$ 157,481	\$ 158,199	\$ -0-

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2011

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
U.S. Department of Education (Continued)									
Passed Through the Pennsylvania Department of Education: (Continued)									
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Note 2)	I/F	84.394	126-110189	07/01/10 - 06/30/11	1,440,298	\$ -0-	\$ 1,440,298	\$ 1,440,298	\$ -0-
Education Jobs Fund	I/F	84.410	140-139363	08/10/10 - 09/30/11	852,861	<u>-0-</u>	<u>852,861</u>	<u>852,861</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						140,312	3,441,837	3,378,121	76,596
Passed Through Intermediate Unit #1:									
Special Education - Grants to States (Note 2)	I/F	84.027	062-10032	08/01/10 - 06/30/11	20,144	-0-	-0-	20,144	20,144
Passed Through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 2)	I/F	84.027	062-110013	07/01/10 - 06/30/11	1,333,162	-0-	1,333,162	1,333,162	-0-
ARRA - Special Education - Grants to States, Recovery Act (Note 2)	I/F	84.391	128-100013	02/17/09 - 09/30/11	1,602,165	<u>598,526</u>	<u>1,240,746</u>	<u>757,211</u>	<u>114,991</u>
Total Passed Through the Lancaster-Lebanon Intermediate Unit #13						598,526	2,573,908	2,090,373	114,991
Total U.S. Department of Education						\$ 738,838	\$ 6,015,745	\$ 5,488,638	\$ 211,731

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2011

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Federal Emergency Management Agency									
Passed Through the Pennsylvania Emergency Management Agency:									
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (Note 5)	I/F	97.036	FEMA-1898-DR- PA-071-UDCHK- 00	04/16/10 - 10/16/10	11,557	<u>\$ 11,557</u>	<u>\$ 11,557</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
TOTAL EXPENDITURES of FEDERAL AWARDS						<u><u>\$ 783,198</u></u>	<u><u>\$ 7,129,740</u></u>	<u><u>\$ 6,586,573</u></u>	<u><u>\$ 240,031</u></u>

Legend

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2011

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - CLUSTER IDENTIFICATION

Project Title	Federal CFDA Number	Cluster
School Breakfast Program	10.553	Child Nutrition Cluster
National School Lunch Program	10.555	Child Nutrition Cluster
Title I Grants to Local Educational Agencies	84.010	Title I, Part A Cluster
Special Education - Grants to States	84.027	Special Education Cluster (IDEA)
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	Title I, Part A Cluster
ARRA - Special Education - Grants to States, Recovery Act	84.391	Special Education Cluster (IDEA)
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	State Fiscal Stabilization Fund Cluster

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

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

See auditors' report.

Hempfield School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2011

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS (Continued)

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, 2011, was \$437,950, of which \$156,837 is listed on the PDE confirmation as program #044-007189 and \$281,113 was received through the Lancaster-Lebanon Intermediate Unit #13.

NOTE 5 - ACCRUAL (DEFERRAL) ADJUSTMENTS at JUNE 30, 2010

Project Title	Source Code	Grant Number	Grant Period Beginning / Ending Date	Accrual (Deferral) Shown at June 30, 2010	Correct Accrual (Deferral) at June 30, 2010
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	I/F	FEMA-1898-DR-PA-071-UDCHK-00	04/16/10 - 10/16/10	\$ -0-	\$ 11,557

See auditors' report.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Hempfield School District** as of and for the year ended June 30, 2011, which collectively comprise **Hempfield School District's** basic financial statements and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Hempfield School District's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Hempfield School District's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Hempfield School District's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described as item #2011-1 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of **Hempfield School District** in a separate letter dated December 6, 2011.

Hempfield School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Hempfield School District's** response and, accordingly, we express no opinion on it.

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

Trout, Ebersole & Groff, LLP

December 6, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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

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

Compliance

We have audited **Hempfield School District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Hempfield School District's** major federal programs for the year ended June 30, 2011. **Hempfield School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Hempfield School District's** management. Our responsibility is to express an opinion on **Hempfield School District's** compliance based on our audit.

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

In our opinion, **Hempfield School District** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Trout, Ebersole & Groff, LLP

December 6, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2011

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of **Hempfield School District**.
2. One significant deficiency relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The significant deficiency is not determined to be a material weakness.
3. No instances of noncompliance material to the financial statements of **Hempfield School District** were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for **Hempfield School District** expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for **Hempfield School District** are reported in part C of this schedule.
7. The programs tested as major programs are: Title I Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, Improving Teacher Quality State Grants - CFDA #84.367, Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389, Special Education - Grants to States, Recovery Act - CFDA #84.391, State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Education Stabilization Fund) - CFDA #84.394, and Education Jobs Fund - CFDA #84.410.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Hempfield School District** was not determined to be a low-risk auditee.

Hempfield School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2011

B. Findings - Financial Statements Audit

Significant Deficiency

#2011-1 - Internal Controls - Cash Disbursement Cycle

Current work flow related to accounts payable at the School District achieves only limited segregation of duties. One employee currently sets up vendors, enters invoices, and prints checks that are either system-signed during the printing process or are signed by the employee via applying a signature stamp. The employee is also responsible to match the checks to invoices, mail the checks and follow up on vendor statement discrepancies.

During the audit, we noted two instances where invoices were recorded in an incorrect accounting period because the period was determined based on the invoice date. The School District should record expenses in the period in which they are incurred by considering other factors such as shipping terms, date of service, or date of delivery. It also came to our attention that certain capital project related invoices had no signature affixed to indicate approval prior to payment.

We recommend that the School District increase the segregation of duties in the cash disbursement cycle. This could be achieved by assigning the responsibility of printing the checks, matching them with invoices, and mailing them to another School District employee. This employee should perform a second review during the matching process to ascertain that invoices were entered correctly, accounted for in the correct period, and show evidence of approval. In addition, the School District could consider assigning the vendor file maintenance to another employee to further enhance segregation of duties.

School District Response: District management acknowledges this finding, and is working to improve our business practices in this area. It should be noted that the district experienced both a personnel transition and prolonged absences of key employees as a contributing factor in this finding.

A reorganization of the business office is under way to improve segregation of duties. As we work through this hiring, reorganization and training process, emphasis will be placed on understanding the complete business cycle and providing appropriate segregation of duties to improve internal controls.

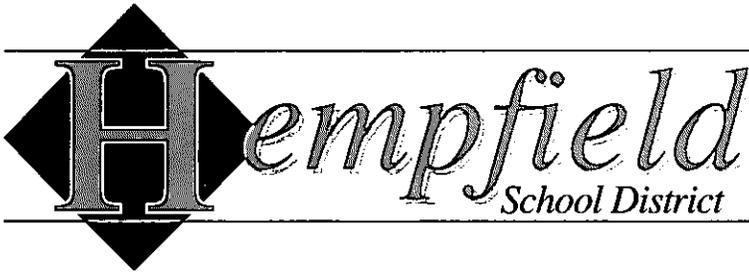
Training will be provided and reminders put in place for employees handling accounts payable functions on an annual basis. This training will emphasize the need to not only review the invoice date, but also the underlying timing of materials and services to ensure payment in the proper fiscal year. We have also reminded key personnel that every invoice must bear the proper approval signatures prior to payment being processed.

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

None

Hempfield School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

There are no prior audit findings.



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Brenda J. Becker, Ed.D.
Superintendent of Schools
717-898-5564

Corrective Action Plan

December 6, 2011

United States Department of Education (oversight agency for this audit)

Hempfield School District respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:

Trout, Ebersole and Groff, LLP
Certified Public Accountants
1705 Oregon Pike
Lancaster, Pennsylvania 17601

Audit period: July 1, 2010 through June 30, 2011

The findings from the June 30, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS- FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

#2011-1 - Internal Controls - Cash Disbursement Cycle

Current work flow related to accounts payable at the School District achieves only limited segregation of duties. One employee currently sets up vendors, enters invoices, and prints checks that are either system-signed during the printing process or are signed by the employee via applying a signature stamp. The employee is also responsible to match the checks to invoices, mail the checks and follow up on vendor statement discrepancies.

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School District Response

District management acknowledges this finding, and is working to improve our business practices in this area. It should be noted that the district experienced both a personnel transition and prolonged absences of key employees as a contributing factor in this finding.

A reorganization of the business office is under way to improve segregation of duties. As we work through this hiring, reorganization and training process, emphasis will be placed on understanding the complete business cycle and providing appropriate segregation of duties to improve internal controls.

Training will be provided and reminders put in place for employees handling accounts payable functions on an annual basis. This training will emphasize the need to not only review the invoice date, but also the underlying timing of materials and services to ensure payment in the proper fiscal year. We have also reminded key personnel that every invoice must bear the proper approval signatures prior to payment being processed.

If the United States Department of Education has questions regarding this plan, please call Mary Lynne Kniley, Director of Finance, at (717) 898-5601.

Sincerely Yours,



Mary Lynne Kniley, CPA, MBA, PRSBA
Director of Finance, Hempfield School District