

**HANOVER PUBLIC
SCHOOL DISTRICT**

ANNUAL
FINANCIAL
REPORT

JUNE 30, 2012

CONTENTS

	Page
List of report distribution	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (required supplementary information) - unaudited	4 - 12
FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of net assets	13
Statement of activities	14
Fund Financial Statements	
Balance sheet - governmental funds	15
Reconciliation of the governmental funds balance sheet to the statement of net assets	16
Statement of revenues, expenditures, and changes in fund balances - governmental funds	17
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balance to the statement of activities	18
Statement of net assets - proprietary fund	19
Statement of revenues, expenses, and changes in fund net assets - proprietary fund	20
Statement of cash flows - proprietary fund	21
Statement of fiduciary net assets	22
Statement of changes in fiduciary net assets	23
Notes to financial statements	24 - 44
REQUIRED SUPPLEMENTARY INFORMATION (unaudited)	
Budgetary comparison schedule -- general fund	45
Schedule of Funding Progress -- OPEB plan	46
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	47
Notes to schedule of expenditures of federal awards	48
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49 - 50
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	51 - 52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	53
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS	54

HANOVER PUBLIC SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

JUNE 30, 2012

- 1 Report - Federal Audit Clearing House
Bureau of Census
1201 East 10th Street
Jeffersonville, IN 47132
(Submitted Electronically)
- 1 Report - Special Audit Services Division
Forum Place – 8th Floor
555 Walnut Street
Harrisburg, PA 17101
(Submitted Electronically)



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hanover Public School District
Hanover, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hanover Public School District as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hanover Public School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of Hanover Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Hanover Public School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 12, the budgetary comparison schedule on page 45 and the OPEB Schedule of Funding Progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hanover Public School District's financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 to the financial statements themselves, and other 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 basic financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 28, 2013

HANOVER PUBLIC SCHOOL DISTRICT

HANOVER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information

June 30, 2012

The discussion and analysis of Hanover Public School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The District's financial status improved during the 2011-12 fiscal year. Total net assets increased 4.53% over the course of the year.
- Overall general revenues and transfers were \$23,187,270, which represents \$789,438 more than net program expenses.
- The net assets of business-type activities – food services – decreased 16.34% this year to \$137,848. Revenues increased 9.28% to \$698,430, while expenses increased 8.74% to \$725,359.
- At the end of the current fiscal year, the fund balance of the General Fund was \$4,130,388 compared to \$5,204,427 in the prior year. A decrease was anticipated in the budget process as fund balance was used to balance the budget. A decrease in fund balance was realized due to a \$1,000,000 payment on debt principal made during the refinancing of a current bond obligation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements, which present different views of the District. The first two statements are **Government-wide financial statements** that provide both *short-term* and *long-term* information about the District's overall financial status. The remaining statements are **fund financial statements** that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements. The *governmental funds* statements indicate how basic services such as regular and special education were financed in the *short term* as well as indicate future spending plans. *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like a business*, such as food services. *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others, such as student activity funds and scholarship funds. The fund financial statements also include the budget/actual comparison of the general fund, which is reported as part of the required supplementary information.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1
Required Components of
Hanover Public School District's
Financial Report**

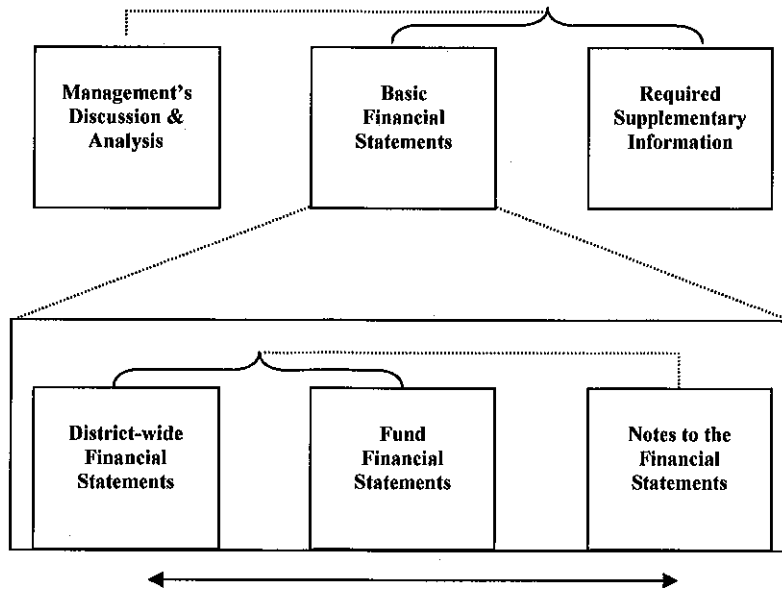


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Hanover Public School District's
Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities of the District that is not proprietary or fiduciary, such as general operating and capital projects.	Activities the District operates similar to private businesses, such as food service.	Instances in which the District administers resources on behalf of someone else, such as scholarship and student activities programs.
Required Financial Statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis & Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Types of assets/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Types of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during year, regardless of when cash is received or paid.	All additions and deductions during year, regardless of when cash is received or paid.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Assets* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition or need for improvements or expansion of the existing school facilities.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** – Most of the District's basic services are included here, such as instruction, administration, and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- **Business-type activities** – The District operates a food service operation and charges fees to students, staff, and visitors to help it cover the costs of the food service operation.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. These statements focus on the District's most significant or "major" funds – not on the District as a whole. Funds are accounting components that the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond requirements. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The District has three types of funds as follows:

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They 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 District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's 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 – These funds are used to account for the District's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provides more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were greater on June 30, 2012 when compared to the prior fiscal year. Total net assets increased 4.53% during the year from \$16,795,403 to \$17,557,912. (See Figure A-1) The upturn in the District's financial position came from its governmental activities. Governmental net assets increased \$789,438 to \$17,420,064, an increase of 4.74%. The net assets of the District's business-type activities decreased \$26,929 to \$137,848. This represents a decrease of 16.34% from the prior year.

Table A-1
Fiscal Years Ended June 30, 2012 and 2011
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$ 20,626,581	\$ 10,617,313	\$ 12,521	\$ 27,327	\$ 20,639,102	\$ 10,644,640
Capital assets	<u>29,160,155</u>	<u>36,116,589</u>	<u>168,007</u>	<u>141,078</u>	<u>29,328,162</u>	<u>36,257,667</u>
Total Assets	<u>\$ 49,786,736</u>	<u>\$ 46,733,902</u>	<u>\$ 180,528</u>	<u>\$ 168,405</u>	<u>\$ 49,967,264</u>	<u>\$ 46,902,307</u>
Current and other liabilities	\$ 5,310,788	\$ 4,338,321	\$ 9,053	\$ 26,159	\$ 5,319,841	\$ 4,364,480
Long-term liabilities	<u>27,845,322</u>	<u>24,975,517</u>	<u>6,698</u>	<u>4,398</u>	<u>27,852,020</u>	<u>24,979,915</u>
Total Liabilities	<u>\$ 33,156,110</u>	<u>\$ 29,313,838</u>	<u>\$ 15,751</u>	<u>\$ 30,557</u>	<u>\$ 33,171,861</u>	<u>\$ 29,344,395</u>
Net Assets						
Invested in capital assets, net of related debt	\$ 6,841,854	\$ 9,934,303	\$ 168,007	\$ 141,078	\$ 7,009,861	\$ 10,075,381
Restricted	4,163,251	2,865,192	0	0	4,163,251	2,865,192
Unrestricted	<u>5,625,521</u>	<u>4,620,569</u>	<u>(3,230)</u>	<u>(3,230)</u>	<u>5,622,291</u>	<u>4,617,339</u>
Total Net Assets	<u>\$ 16,630,626</u>	<u>\$ 17,420,064</u>	<u>\$ 164,777</u>	<u>\$ 137,848</u>	<u>\$ 16,795,403</u>	<u>\$ 17,557,912</u>

Most of the District's net assets are invested in capital assets (buildings, land, and equipment). The remaining net assets consist of restricted and unrestricted amounts.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year. The table also presents the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-2
Fiscal Years Ended June 30, 2012 and 2011
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Revenues						
Program revenues						
Charges for services	\$ 247,491	\$ 206,618	\$ 235,264	\$ 224,011	\$ 482,755	\$ 430,629
Operating grants and contributions	3,520,680	3,158,601	397,402	418,628	3,918,082	3,577,229
Capital grants and contributions	398,145	474,965	0	0	398,145	474,965
General revenues						
Property and wage taxes	19,502,472	19,789,780	0	0	19,502,472	19,789,780
Unrestricted grants, subsidies and contributions	2,996,219	3,313,062	4,420	1,094	3,000,639	3,314,156
Other	203,347	125,930	1,692	13,195	205,039	139,125
Total Revenues	\$ 26,868,354	\$ 27,068,956	\$ 638,778	\$ 656,928	\$ 27,507,132	\$ 27,725,884
Expenses						
Instruction	\$ 16,818,027	\$ 17,518,525	\$ 0	\$ 0	\$ 16,818,027	\$ 17,518,525
Instructional student support	1,852,167	1,748,711	0	0	1,852,167	1,748,711
Administrative and financial support	2,416,648	2,390,618	0	0	2,416,648	2,390,618
Operation and maintenance of plant	2,531,227	2,365,069	0	0	2,531,227	2,365,069
Pupil transportation	518,360	545,167	0	0	518,360	545,167
Student activities	534,681	493,319	0	0	534,681	493,319
Community services	101,256	95,449	0	0	101,256	95,449
Interest on long-term debt	1,022,215	1,081,158	0	0	1,022,215	1,081,158
Food Services	0	0	667,045	725,359	667,045	725,359
Total Expenses	\$ 25,794,581	\$ 26,238,016	\$ 667,045	\$ 725,359	\$ 26,461,626	\$ 26,963,375
Transfers (out) in	(302)	(41,502)	302	41,502	0	0
Increase (Decrease) in Net Assets	\$ 1,073,471	\$ 789,438	(\$ 27,965)	(\$ 26,929)	\$ 1,045,506	\$ 762,509

Table A-3 shows the District's largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, facilities acquisition, and interest on long-term debt. This table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-3
Fiscal Years Ended June 30, 2012 and 2011
Governmental Activities

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	<u>2011</u>	<u>2012</u>	<u>2011-2012</u>	<u>2011</u>	<u>2012</u>	<u>2011-2012</u>
Instruction	\$ 16,818,027	\$ 17,518,525	4.17%	\$ 13,476,309	\$ 14,676,594	8.91%
Instructional student support	1,852,167	1,748,711	-5.59%	1,704,799	1,546,700 (9.27%)
Administrative and financial support services	2,416,648	2,390,618	-1.08%	2,338,337	2,296,597 (1.79%)
Operation and maintenance of plant services	2,531,227	2,365,069	-6.56%	2,399,765	2,260,922 (5.79%)
Pupil transportation	518,360	545,167	5.17%	509,799	525,685	3.12%
Student activities	534,681	493,319	-7.74%	481,726	441,097 (8.43%)
Facilities acquisition	101,256	95,449	-5.73%	49,418	44,044 (10.87%)
Interest on long-term debt	1,022,215	1,081,158	5.77%	668,112	606,193 (9.27%)
Total governmental activities	\$ 25,794,581	\$ 26,238,016	1.72%	\$ 21,628,265	\$ 22,397,832	3.56%

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4
Fiscal Years Ended June 30, 2012 and 2011
Business-type Activities

Functions/Programs	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	<u>2011</u>	<u>2012</u>	<u>2011-2012</u>	<u>2011</u>	<u>2012</u>	<u>2011-2012</u>
Food services	<u>\$ 667,045</u>	<u>\$ 725,359</u>	<u>8.74%</u>	<u>\$ 34,379</u>	<u>\$ 82,720</u>	<u>140.61%</u>

The Statement of Revenues, Expenses, and Changes in Fund Net Assets for this proprietary fund will further detail the actual results of operation.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2012, the District's governmental funds reported a combined fund balance of \$6,995,654, which is a decrease of \$9,178,982. The major changes in fund balance occurred in three funds:

General Fund

The General Fund had a decrease in fund balance of \$1,074,039. A \$1,000,000 payment on debt principal was made during the refinancing of a current bond obligation.

Capital Reserve Fund

The \$1,298,059 decrease in fund balance was due to the utilization of capital reserve monies to complete payments on the three building projects and the normal maintenance of heat pumps at the middle school.

Capital Projects Fund

The decrease in the capital projects fund of \$6,806,884 was due to expenses related to the construction projects for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is shown in the financial statements.

The District's 2011-2012 budget for the general fund projected that expenditures would exceed revenues by approximately \$805,000. The actual results for the year showed expenditures exceeding revenues by approximately \$1,100,000.

- Actual revenues were \$687,427 higher than expected, due largely to higher tax collections and state sources of income.
- Actual expenditures were over budget by approximately \$1,000,000 due largely to the \$1,000,000 pay down of debt using existing cash reserves.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$36,257,667 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of \$6,929,505, or 23.62% from last year. Total depreciation expense for the year was \$1,564,884, while building and site improvements and additions to equipment and furniture totaled \$8,521,318, net of reclassifications from construction in process. The District has completed during 2011-2012 a renovated Washington Elementary School, a renovated Hanover Street Elementary School and a renovated Stadium Facility. Thus, the District has seen a final spend down of the entire Capital Projects Fund over the course of the 2011-2012 fiscal year.

Debt Administration

As of July 1, 2011, the District had total outstanding bond principal of \$30,215,000. During the year, the District refunded its Series of 2011 bonds and paid an additional \$1,000,000 in principal to reduce the amount of borrowing needed for the Series of 2012 bonds and made payments against principal of \$3,095,000 resulting in ending outstanding debt as of June 30, 2012 of \$27,105,000:

Table A-5
Outstanding Debt

	<u>2011</u>	<u>2012</u>
General Obligation Bonds		
Series 2004	\$ 9,775,000	\$ 9,040,000
Series 2005 A	9,305,000	8,700,000
General Obligation Bank Note Series of 2011	11,135,000	0
Series 2012	0	9,365,000
Bond Discounts/loss - net	<u>(1,089,741)</u>	<u>(922,639)</u>
Total	<u>\$ 29,125,259</u>	<u>\$ 26,182,361</u>

Other long-term obligations include accrued vacation pay and sick leave for specific employees of the District, as well as certain other postemployment benefits (OPEB). More detailed information about our long-term liabilities is included in the notes to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

- The retirement system (PSERS) is projected to have rate spikes of 16.93% in 2013-2014, 21.31% in 2014-2015, 25.80% in 2015-2016, 28.30% in 2016-2017 and 29.15% in 2017-2018, which will have a significant impact on the expenses of the District. The 2012-2013 enacted rate is 12.36%.
- The current economy impacts the District on the revenue side as the District is seeing locally lower receipts in real estate transfer taxes and investment earnings. Limited state basic education subsidy dollars are anticipated over the next several years which could impact the District. In addition, the current state Act 1 Index allowance on the amount of millage that can be increased in any one year impacts the District's ability to generate revenue.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Troy S. Wentz, Business Manager/Board Secretary, at Hanover Public School District, 403 Moul Avenue, Hanover, PA 17331, (717) 637-9000.

HANOVER PUBLIC SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 8,022,264	\$ 226,195	\$ 8,248,459
Prepaid expenses	1,270	0	1,270
Receivables:			
Taxes - net	1,031,043	0	1,031,043
Intergovernmental	1,043,142	0	1,043,142
Accrued interest	656	0	656
Other	149,192	9,362	158,554
Internal balances	232,079	(232,079)	0
Inventories	0	23,849	23,849
Total current assets	<u>10,479,646</u>	<u>27,327</u>	<u>10,506,973</u>
Noncurrent Assets			
Bond issue costs, net	137,667	0	137,667
Capital assets not being depreciated:			
Land	410,600	0	410,600
Capital assets, net:			
Site improvements	4,379,143	0	4,379,143
Buildings and improvements	29,924,324	0	29,924,324
Furniture, fixtures and equipment	1,402,522	141,078	1,543,600
Total capital assets	<u>36,116,589</u>	<u>141,078</u>	<u>36,257,667</u>
Total noncurrent assets	<u>36,254,256</u>	<u>141,078</u>	<u>36,395,334</u>
TOTAL ASSETS	<u>\$ 46,733,902</u>	<u>\$ 168,405</u>	<u>\$ 46,902,307</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 891,114	\$ 14,606	\$ 905,720
Accrued salaries and benefits	764,032	2,311	766,343
Payroll taxes and withholdings	361,183	0	361,183
Accrued interest	288,835	0	288,835
Unearned Revenue	9,165	6,942	16,107
Portion due or payable within one year:			
General obligation bonds payable	1,891,192	0	1,891,192
Compensated absences	132,800	2,300	135,100
Total current liabilities	<u>4,338,321</u>	<u>26,159</u>	<u>4,364,480</u>
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes	24,291,168	0	24,291,168
OPEB Liability	266,644	0	266,644
Compensated absences	417,705	4,398	422,103
Total noncurrent liabilities	<u>24,975,517</u>	<u>4,398</u>	<u>24,979,915</u>
TOTAL LIABILITIES	<u>29,313,838</u>	<u>30,557</u>	<u>29,344,395</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,934,303	141,078	10,075,381
Restricted	2,865,192	0	2,865,192
Unrestricted	4,620,569	(3,230)	4,617,339
TOTAL NET ASSETS	<u>17,420,064</u>	<u>137,848</u>	<u>17,557,912</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,733,902</u>	<u>\$ 168,405</u>	<u>\$ 46,902,307</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 17,518,525	\$ 106,434	\$ 2,735,497	\$ 0	(\$ 14,676,594)	\$ 0	(\$ 14,676,594)
Instructional student support	1,748,711	0	202,011	0	(1,546,700)	0	(1,546,700)
Administration and financial support services	2,390,618	0	94,021	0	(2,296,597)	0	(2,296,597)
Operation and maintenance of plant services	2,365,069	20,789	83,358	0	(2,260,922)	0	(2,260,922)
Pupil transportation	545,167	0	19,482	0	(525,685)	0	(525,685)
Student activities	493,319	31,867	20,355	0	(441,097)	0	(441,097)
Community services	95,449	47,528	3,877	0	(44,044)	0	(44,044)
Interest and amortization	1,081,158	0	0	474,965	(606,193)	0	(606,193)
Total governmental activities	26,238,016	206,618	3,158,601	474,965	(22,397,832)	0	(22,397,832)
Business-type activities:							
Food services	725,359	224,011	418,628	0	0	(82,720)	(82,720)
Total primary government	\$ 26,963,375	\$ 430,629	\$ 3,577,229	\$ 474,965	(\$ 22,397,832)	(\$ 82,720)	(\$ 22,480,552)
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax					\$ 19,789,780	\$ 0	\$ 19,789,780
Grants, subsidies and contributions not restricted					3,313,062	1,094	3,314,156
Investment earnings					89,186	1,252	90,438
Miscellaneous income					36,744	11,943	48,687
Transfers					(41,502)	41,502	0
Total general revenues and transfers					23,187,270	55,791	23,243,061
Change in net assets					789,438	(26,929)	762,509
Net assets - beginning, as restated					16,630,626	164,777	16,795,403
Net assets - ending					\$ 17,420,064	\$ 137,848	\$ 17,557,912

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,656,673	\$ 3,365,517	\$ 74	\$ 8,022,264
Prepaid expenses	1,270	0	0	1,270
Receivables:				
Taxes - net	1,031,043	0	0	1,031,043
Intergovernmental	343,142	0	0	343,142
Due from other funds	226,628	5,451	0	232,079
Other receivables	149,848	0	0	149,848
Total assets	<u>\$ 6,408,604</u>	<u>\$ 3,370,968</u>	<u>\$ 74</u>	<u>\$ 9,779,646</u>
LIABILITIES				
Accounts payable	\$ 385,338	\$ 505,776	\$ 0	\$ 891,114
Accrued salaries and benefits	764,032	0	0	764,032
Payroll taxes and withholdings	361,183	0	0	361,183
Deferred revenue - taxes	758,498	0	0	758,498
Deferred revenue - other	9,165	0	0	9,165
Total liabilities	<u>2,278,216</u>	<u>505,776</u>	<u>0</u>	<u>2,783,992</u>
FUND BALANCES				
Nonspendable	7,270	0	0	7,270
Restricted	0	2,865,192	74	2,865,266
Committed	1,400,100	0	0	1,400,100
Assigned	794,369	0	0	794,369
Unassigned	1,928,649	0	0	1,928,649
Total fund balances	<u>4,130,388</u>	<u>2,865,192</u>	<u>74</u>	<u>6,995,654</u>
Total liabilities and fund balances	<u>\$ 6,408,604</u>	<u>\$ 3,370,968</u>	<u>\$ 74</u>	<u>\$ 9,779,646</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balances - governmental funds \$ 6,995,654

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 in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.

Cost of assets	55,905,630	
Accumulated depreciation	(19,789,041)	36,116,589

Bond issue costs are expensed in governmental funds when the debt is first issued. The Statement of Net Assets reports issue costs as an asset. 137,667

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the fund financial statements. 758,498

State subsidies receivable will be collected in the future, but are not available soon enough to pay for the current period's expenditures, and therefore are excluded from the fund financial statements. 700,000

Long-term liabilities are not due and payable in the current period and are therefore not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets. Long-term liabilities consist of:

Bonds and notes payable, net of discount and premium	(26,182,360)	
Accrued interest on bonds	(288,835)	
OPEB liability	(266,644)	
Compensated absences	(550,505)	(27,288,344)

Net assets of governmental activities in the Statement of Net Assets \$ 17,420,064

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local revenues				
Taxes	\$ 19,720,535	\$ 0	\$ 0	\$ 19,720,535
Investment income	60,509	21,821	6,856	89,186
Federal revenue from intermediary sources	423,213	0	0	423,213
Other	237,384	0	359,467	596,851
State sources	5,247,665	0	0	5,247,665
Federal sources	714,100	0	0	714,100
Total revenues	<u>26,403,406</u>	<u>21,821</u>	<u>366,323</u>	<u>26,791,550</u>
EXPENDITURES				
Instruction	16,266,510	0	0	16,266,510
Support services	6,644,118	0	0	6,644,118
Operation of noninstructional services	572,452	0	0	572,452
Facilities acquisition, construction and improvements	0	1,322,972	7,194,390	8,517,362
Debt service:				
Principal	3,095,000	0	0	3,095,000
Interest	847,704	0	0	847,704
Debt issue costs	122,819	0	0	122,819
Total expenditures	<u>27,548,603</u>	<u>1,322,972</u>	<u>7,194,390</u>	<u>36,065,965</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term debt	9,365,000	0	0	9,365,000
Payments to refund bond	(9,387,460)	0	0	(9,387,460)
Refund of prior year expenses	(261)	0	0	(261)
Bond Premium	151,234			151,234
Proceeds from sale of capital assets	0	0	8,422	8,422
Interfund transfers, net	(57,355)	3,092	12,761	(41,502)
Total other financing sources and uses	<u>71,158</u>	<u>3,092</u>	<u>21,183</u>	<u>95,433</u>
Net change in fund balances	(1,074,039)	(1,298,059)	(6,806,884)	(9,178,982)
Fund balances - beginning	<u>5,204,427</u>	<u>4,163,251</u>	<u>6,806,958</u>	<u>16,174,636</u>
Fund balances - ending	<u>\$ 4,130,388</u>	<u>\$ 2,865,192</u>	<u>\$ 74</u>	<u>\$ 6,995,654</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		(\$ 9,178,982)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.		
Depreciation expense	(1,564,884)	
Capital outlays	<u>8,521,318</u>	6,956,434
Because some property taxes and state revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year.		
		69,245
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		3,095,000
Governmental funds report bond issuance costs, bond loss, and discounts as expenditures. However, in the statement of activities, these costs are amortized over the life of the related bond. This is the amount of amortization in the current period.		
		(196,059)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This is the additional interest accrued in the statement of activities over the amount due.		
		(37,395)
The issuance of a revenue note provides current financial resources to governmental funds, but has no effect on net assets. Likewise, the payment to refund bonds uses current financial resources, but also has no effect on net assets. Governmental funds report issuance costs, discounts, and other similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Issuance of revenue note	(\$ 9,365,000)	
Payment to currently refund bonds	9,387,460	
Bond premium, net of discount	(69,290)	
Issue costs	<u>40,875</u>	(5,955)
In the statement of activities, the change in OPEB liability is recorded as an expense. However, since this does not require the use of current financial resources, this is not reported as an expenditure in governmental funds.		
		(64,018)
In the statement of activities, compensated absences represent contractually required obligations that do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(48,832)
In the statement of activities, state reimbursements receivable for debt payments which will not be received by the District for an indeterminable period after the school's fiscal year ends, are not considered "available" revenues in the governmental funds.		
		<u>200,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>789,438</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 226,195
Receivables	9,362
Inventory	<u>23,849</u>
Total current assets	<u>259,406</u>
Noncurrent Assets	
Machinery and equipment - net	<u>141,078</u>
Total noncurrent assets	<u>141,078</u>
Total assets	<u>\$ 400,484</u>
LIABILITIES	
Current Liabilities	
Unearned revenue	\$ 6,942
Accounts payable	14,606
Accrued wages	2,311
Due to other funds	232,079
Current portion of compensated absences	<u>2,300</u>
Total current liabilities	<u>258,238</u>
Noncurrent Liabilities	
Compensated absences payable	<u>4,398</u>
Total noncurrent liabilities	<u>4,398</u>
Total liabilities	<u>262,636</u>
NET ASSETS	
Invested in capital assets	141,078
Unrestricted	<u>(3,230)</u>
Total net assets	<u>137,848</u>
Total liabilities and net assets	<u>\$ 400,484</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

	Food Service
OPERATING REVENUE	
Food service revenues	\$ 237,048
Total operating revenues	<u>237,048</u>
OPERATING EXPENSES	
Food and milk purchases	373,200
Salaries	219,363
Employee benefits	76,892
Supplies	22,713
Depreciation	26,929
Travel	218
Repairs and Maintenance	5,065
Miscellaneous	979
Total operating expenses	<u>725,359</u>
Operating (loss)	(488,311)
NON-OPERATING REVENUES (EXPENSES)	
State subsidies	42,839
Federal subsidies	375,789
Investment earnings	1,252
Total non-operating revenue (expenses)	<u>419,880</u>
Income (loss) before transfers	(68,431)
TRANSFERS	
Transfers in	<u>41,502</u>
Change in net assets	(26,929)
Total net assets - beginning	<u>164,777</u>
Total net assets - ending	<u>\$ 137,848</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2012**

	Food Service
Cash flows from operating activities:	
Cash received from food sales	\$ 237,988
Cash payments to suppliers for goods	(354,185)
Cash payments to and on behalf of employees	(338,128)
Cash payments for services	<u>(6,044)</u>
Net cash (used) by operating activities	<u>(460,369)</u>
Cash flows from noncapital financing activities:	
Federal subsidies	346,620
State subsidies	<u>43,008</u>
Net cash provided by noncapital financing activities	<u>389,628</u>
Cash flows from investing activities:	
Earnings on investments	<u>1,252</u>
Net (decrease) in cash and cash equivalents	(69,489)
Cash and cash equivalents - beginning	<u>295,684</u>
Cash and cash equivalents - ending	<u>\$ 226,195</u>
Reconciliation of income from operations to net cash provided by operating activities	
Cash flows from operating activities:	
Operating loss	(\$ 488,311)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	26,929
Donated food used	29,000
(Increase) decrease in:	
Accounts receivable	(60)
Inventory	(1,660)
Increase (decrease) in:	
Due to other funds	(41,073)
Accrued salaries	2,400
Compensated absences payable	(2,200)
Accounts payable/unearned revenue	<u>14,606</u>
Total adjustments	<u>27,942</u>
Net cash (used) by operating activities	<u>(\$ 460,369)</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 437,068	\$ 73,047
Accounts receivable	500	221
Total assets	<u>\$ 437,568</u>	<u>\$ 73,268</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 12,200	\$ 8,091
Due to student groups	0	65,177
Total liabilities	<u>12,200</u>	<u>73,268</u>
NET ASSETS		
Net assets held in trust for others	<u>425,368</u>	<u>0</u>
Total net assets	<u>425,368</u>	<u>0</u>
Total liabilities and net assets	<u>\$ 437,568</u>	<u>\$ 73,268</u>

The Notes to Financial Statements are an integral part of this statement.

HANOVER PUBLIC SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012**

	Private Purpose Trust Fund
ADDITIONS	
Interest income	\$ 1,647
Contributions	5,434
Total additions	<u>7,081</u>
DEDUCTIONS	
Scholarships and awards/grants	17,711
Other operating expenses	300
Total deductions	<u>18,011</u>
Change in net assets	(10,930)
Net assets - beginning	<u>436,298</u>
Net assets - ending	<u>\$ 425,368</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

The financial statements of the Hanover Public School District (School District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its government-wide and proprietary fund financial statements provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

Reporting Entity

The Governmental Accounting Standards Board Statement (GASB) defines the criteria used to determine the composition of the reporting entity. This standard requires that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, the School District has no component units.

The following joint ventures are not component units of Hanover Public School District, and are not included in this report.

York County School of Technology – is a separate legal entity, organized by the fourteen public school districts in York County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the school's operations.

Lincoln Intermediate Unit #12 – is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints one member to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services, management advisory services, joint purchasing, and training.

See Note 12 for additional information on joint ventures.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories of governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The School District reports the following major governmental funds:

General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property, earned income, per capita and occupation taxes, and state and federal subsidies. Many of the more important activities of the School District, including instruction, administration of the School District, and certain non-instructional services are accounted for in this fund. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

Capital Reserve Fund

This fund is authorized by P. L. 145, Act of April 30, 1943, Section 2932 of the School Laws of Pennsylvania, for the purpose of funding capital improvements to facilities and purchasing educational equipment. This fund accounts for monies transferred during any fiscal year from appropriations.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds).

2. Proprietary Funds

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following fund is utilized:

Food Service Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food or services to the students on a continuing basis be financed or recovered primarily through user charges or cost

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

reimbursement plans. The revenues from food sales and expenses to provide services are classified as "operating". Federal and state grants and earnings on investments are classified as "non-operating". Significant accounting policies for this fund include:

- Equipment utilized by the food service fund is recorded as capital assets of that fund (at cost), and is depreciated on a straight-line basis over the estimated useful life of 5 -15 years.
- Food and supplies inventories are valued at cost on a first-in, first-out basis.

The School District does not attempt to allocate "building-wide costs" to the food service fund. Thus, general fund expenditures, which partially benefit the food service fund (utilities, janitorial services, insurance, etc.), are not proportionately recognized within the cafeteria fund; similarly, the food service fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

a. Agency Fund

This fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist with explicit approval and are subject to revocation of the School District's governing body. This accounting reflects the School District's agency relationship with student activity organizations.

b. Private Purpose Trust Fund

This fund accounts for scholarship monies that are maintained by the School District, but are for the benefit of individual students within the School District.

Basis of Presentation

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. 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District, and 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 business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. 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 funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total 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.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. Property 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. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

All investments are stated at cost, which approximates market value.

Inventories

Inventory in the Food Service Fund consists of expendable supplies held for consumption and food (valued at cost) and government donated commodities (valued at estimated fair value). The expendable supplies are recorded as an expenditure when used. The costs of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements, and the asset (valued at cost) is offset by nonspendable fund balance. There were no significant governmental fund supplies inventories at June 30, 2012.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The School District maintains a capitalization threshold of \$ 1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities	Business-Type Activities
Land improvements	20 years	N/A
Buildings and improvements	20 - 50 years	N/A
Furniture and equipment	5 - 20 years	5 - 15 years
Vehicles	10 years	N/A

Interfund Activity

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, 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 as nonoperating revenues/expenses in proprietary funds.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

1. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
2. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required. The final budget amounts shown in the financial statements are the final authorized amounts as revised during the year.
3. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Education, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period.
4. Included in the General Fund budget are program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency. These programs frequently result in supplementary budget appropriations.

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

5. Capital budgets are implemented for capital improvements and capital projects in the Capital Reserve Fund and approved by the Board.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows for all proprietary funds, there are no investments that could be considered cash and cash equivalents.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net assets. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts, bond loss on refinancing, and issuance costs are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 underwriter discounts and issue costs on debt issuances are reported as expenditures. Original bond issue discounts or premiums are reflected as other financing uses or sources.

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of GASB Statements, which establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 10 for additional information.

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of GASB. These provisions require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable. The School District has identified the accrued sick, vacation, and personal leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement or termination.

Note 1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

The GASB establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g. life insurance) when provided separately from a pension plan. See Note 11 for additional information on the School District's other postemployment benefits.

Net Assets – Government-Wide/Proprietary Funds

In the government-wide financial statements and proprietary fund financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those capital assets.

Restricted Net Assets: This component consists of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

As of June 30, 2012, restricted net assets in government activities consist of the following:

Restricted for future capital projects	<u>\$ 2,865,192</u>
--	---------------------

Unrestricted Assets: This component consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amount of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund* that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the School Board has authorized the finance committee to make assignments of fund balance. Thus these assignments can be made or changed without formal action of the full Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and assigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Minimum Fund Balance Policy

The District will strive to maintain an unassigned fund balance level in the general fund of not less than 3% and not more than 8% of budgeted expenditures for that fiscal year. The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed 8%. If the assigned and unassigned portion of fund balance exceeds 20% of budgeted expenditures, the Board may utilize a portion of fund balance by appropriating excess funds for nonrecurring expenditures only.

Policy Regarding Order of Spending

The district currently does not have a formal policy in place regarding the order of spending residual fund balance. Therefore, the default order of spending is to use restricted resources first and then apply unrestricted resources in the following order: committed, assigned, and unassigned.

Note 2. Cash and Investments

Section 440.1 of the Pennsylvania School Code defines allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills
- Short term obligations of the U.S. Government or its agencies
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF 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 shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.

Custodial Credit Risk – Deposits

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 does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$ 8,570,622 of the School District's bank balance of \$ 8,826,577 was exposed to credit risk. All of the \$ 8,570,622 was uninsured and collateralized with securities held by the pledging bank's trust department, but not in the School District's name.

Included in cash and cash equivalents on the balance sheet are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 575,579. All these funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of \$1 per share. PSDLAF deposits are invested by PSDLAF directly in portfolios of securities held by a third party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool. The School District is exposed to custodial credit risk because the collateral securities held by PSDLAF agents are not in the School District name.

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments in PSDLAF are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Credit Risk - Investments

The School District does not have a formal written investment policy that limits its investment choices to certain credit ratings. As of June 30, 2012, the School District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAAm

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. More than 5% of the School District's investments were in PA School District Liquid Asset Fund.

Note 3. Taxes

Real estate taxes are considered fully collectible since liens can be filed on properties. The uncollectible portion of per capita taxes was estimated based on previous collection experience.

Property taxes for the fiscal year are levied as of July 1 on assessed property values. The tax bills are mailed by the Tax Collectors in mid-July and are payable as follows:

Discount	July 15 – September 15
Face	September 16 – November 15
Penalty	November 16 - December 31

Installment payments are available, with one-third of the face value due at September 15, October 15 and November 15. After December 31, the bills are considered delinquent and turned over to the York County for real estate tax bill collection and the York Adams Tax Bureau for per capita taxes collection.

Note 4. Taxes Receivable and Deferred Tax Revenues

Taxes receivable and deferred tax revenues in the fund financial statements consist of the following as of June 30, 2012:

Real estate	\$ 592,474
Per capita	327,842
Earned income	300,200
Realty transfer	26,903
Allowance for uncollectible accounts	<u>(216,376)</u>
	1,031,043
 Taxes collected within sixty days, recorded as revenues in governmental funds	 <u>(272,545)</u>
 Taxes estimated to be collected after sixty days, recorded as deferred revenue in governmental funds	 <u>\$ 758,498</u>

Note 5. Interfund Receivable and Payables and Transfers

Due from/to other funds consist of the following as June 30, 2012:

Funds	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ 232,079	\$ 5,451
Capital Reserve Fund	5,451	
Enterprise Funds:		
Food Service Fund	<u>0</u>	<u>232,079</u>
	<u>\$ 237,530</u>	<u>\$ 237,530</u>

The general fund due from cafeteria fund is a buildup of the general fund paying for cafeteria fund expenses, mainly payroll, that the cafeteria fund has yet to pay back. It is the intention of the District to have the total liability paid back to the general fund, however this may not occur within one year. The Capital reserve fund due from general fund is to reclassify the purchase of auditorium lights to the capital reserve fund.

Note 5. Interfund Receivable and Payables and Transfers (Continued)

Interfund transfers consist of the following for the year ended June 30, 2012:

Funds	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 57,355
Capital Reserve	3,092	0
Capital Projects	12,761	0
Food Service	<u>41,502</u>	<u>0</u>
	<u>\$ 57,355</u>	<u>\$ 57,355</u>

The transfer from general fund to capital reserve fund was to cover the final project expenses that were paid out of that fund. The transfer from general fund to capital projects fund was to adjust for the sinking fund activity. The transfer from general fund to cafeteria fund was to make up for the excess of expenses (except depreciation) over revenues for the year.

Note 6. Intergovernmental Receivables

Intergovernmental receivables at June 30, 2012 consist of the following:

State:	Social Security subsidy	\$ 52,724
	Retirement subsidy	188,859
	Other	12,213
Federal:	Various	<u>89,346</u>
Governmental Funds		<u>343,142</u>
State:	Estimated reimbursement for debt payments	<u>700,000</u>
Governmental Activities		<u>\$ 1,043,142</u>

Note 7. Capital Assets

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Cost:				
Land	\$ 410,600	\$ 0	\$ 0	\$ 410,600
Construction in process	8,705,632	0	(8,705,632)	0
Site improvements	1,205,008	4,383,427	(19,872)	5,568,563
Buildings and improvements	32,201,411	12,372,604	0	44,574,015
Furniture, fixtures and equipment	<u>4,881,533</u>	<u>470,919</u>	<u>0</u>	<u>5,352,452</u>
Total cost	<u>47,404,184</u>	<u>17,226,950</u>	<u>(8,725,504)</u>	<u>55,905,630</u>
Less accumulated depreciation:				
Site improvements	(1,091,639)	(117,653)	19,872	(1,189,420)
Buildings and improvements	(13,496,093)	(1,153,598)	0	(14,649,691)
Furniture, fixtures and equipment	(3,656,297)	(293,633)	0	(3,949,930)
Total accumulated depreciation	<u>(18,244,029)</u>	<u>(1,564,884)</u>	<u>19,872</u>	<u>(19,789,041)</u>
Capital assets, net	<u>\$ 29,160,155</u>	<u>\$ 15,662,066</u>	<u>(\$ 8,705,632)</u>	<u>\$ 36,116,589</u>
Business-Type Activities:				
Cost:				
Machinery and equipment	\$ 463,181	\$ 0	\$ 0	\$ 463,181
Less accumulated depreciation:				
Machinery and equipment	(295,174)	(26,929)	0	(322,103)
Capital assets, net	<u>\$ 168,007</u>	<u>(\$ 26,929)</u>	<u>\$ 0</u>	<u>\$ 141,078</u>

Depreciation expense for the year ended June 30, 2012 was charged to governmental functions as follows:

Instruction	\$ 1,182,226
Instructional student support	161
Instructional technical support	198,491
Administrative and financial support services	6,810
Health services	14,882
Business services	567
Operation and maintenance of plant services	143,217
Central support	70
Student activities	<u>18,460</u>
	<u>\$ 1,564,884</u>

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits consist of the following as of June 30, 2012:

General Fund:	
Salaries	\$ 660,694
Retirement	54,279
Social Security	49,059
	<u>\$ 764,032</u>
Food Service Fund:	<u>\$ 2,311</u>

Note 9. Long-term Liabilities

The changes in long-term liabilities during the year ended June 30, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
General obligation bonds/notes payable:						
(A) Series of 2004	\$ 9,775,000	\$ 0	(\$ 735,000)	\$ 9,040,000	\$ 755,000	\$ 8,285,000
(B) Series of 2005A	9,305,000	0	(605,000)	8,700,000	625,000	8,075,000
(C) Series of 2011	11,135,000	0	(11,135,000)	0	0	0
(D) Series of 2012	0	9,365,000	0	9,365,000	600,000	8,765,000
Bond discounts - net	(214,207)	69,290	17,536	(127,381)	(13,663)	(113,718)
Bond loss - net	(875,534)	(134,142)	214,417	(795,259)	(75,145)	(720,114)
Subtotal - bonds/notes	<u>29,125,259</u>	<u>9,300,148</u>	<u>(12,243,047)</u>	<u>26,182,360</u>	<u>1,891,192</u>	<u>24,291,168</u>
Compensated absences:						
Sick leave	251,708	154,315	(135,398)	270,625	44,250	226,375
Personal leave	94,452	181,556	(172,454)	103,554	72,150	31,404
Vacation pay	155,513	176,718	(155,905)	176,326	16,400	159,926
Subtotal - compensated absences	<u>501,673</u>	<u>512,589</u>	<u>(463,757)</u>	<u>550,505</u>	<u>132,800</u>	<u>417,705</u>
Total long-term liabilities	<u>\$ 29,626,932</u>	<u>\$ 9,812,737</u>	<u>(\$ 12,706,804)</u>	<u>\$ 26,732,865</u>	<u>\$ 2,023,992</u>	<u>\$ 24,708,873</u>
Business-Type Activities:						
Compensated absences:						
Sick leave	\$ 7,924	\$ 5,590	(\$ 8,211)	\$ 5,303	\$ 1,680	\$ 3,623
Vacation pay	591	3,377	(3,377)	591	60	531
Personal leave	383	2,832	(2,411)	804	560	244
Total long-term liabilities	<u>\$ 8,898</u>	<u>\$ 11,799</u>	<u>(\$ 13,999)</u>	<u>\$ 6,698</u>	<u>\$ 2,300</u>	<u>\$ 4,398</u>

Bonds and Notes

The bonds and notes are secured by a pledge of the full faith, credit, and taxing power of the School District and include the following:

- (A) The Refunding Series of 2004 bonds dated December 15, 2004 were issued in the amount of \$ 16,195,000. Interest rates range from 1.75% to 4.30%. Those bonds were issued to provide funds to refund the School District's Series 1999 and 2001 bonds and to pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2004 bonds.

Note 9. Long-term Liabilities (Continued)

- (B) The Series of 2005A bonds dated August 15, 2005 were issued in the amount of \$ 10,505,000. Interest rates range from 2.80% to 4.25%. These bonds were issued to provide funds to advance refund the School District's Series of 2002 Bonds and pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2005A bonds.
- (C) The Refunding Series of 2011 Note dated February 23, 2011 was issued in the amount of \$11,720,000 at a variable rate which is based on 68% of 1 month Libor plus .96%. The maximum rate is 12%. The note was issued to refinance the Series of 2005 Bonds.
- (D) The Refunding Series of 2012 bonds dated March 27, 2012 were issued in the amount of \$ 9,365,000. Interest rates range from 1.00% to 3.00%. Those bonds were issued to provide funds to refund the School District's Series 2011 bonds and to pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2012 bonds.

The annual principal and interest requirements for future general obligation bonds and notes as of June 30, 2012 are as follows:

	Series of 2004		Series of 2005A		Series of 2012		Totals		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	755,000	360,210	\$ 625,000	\$ 349,510	\$ 600,000	\$ 252,670	\$ 1,980,000	\$ 962,390	\$ 2,942,390
2014	790,000	333,785	645,000	327,635	645,000	208,531	2,080,000	869,951	2,949,951
2015	815,000	305,148	670,000	304,415	655,000	195,631	2,140,000	805,194	2,945,194
2016	845,000	274,585	695,000	279,625	670,000	182,531	2,210,000	736,741	2,946,741
2017	880,000	241,630	725,000	251,825	690,000	162,431	2,295,000	655,886	2,950,886
2018-2022	4,955,000	643,343	4,085,000	782,497	3,685,000	571,357	12,725,000	1,997,197	14,722,197
2023-2027	0	0	1,255,000	52,710	2,420,000	130,363	3,675,000	183,073	3,858,073
	<u>\$ 9,040,000</u>	<u>\$ 2,158,701</u>	<u>\$ 8,700,000</u>	<u>\$ 2,348,217</u>	<u>\$ 9,365,000</u>	<u>\$ 1,703,514</u>	<u>\$27,105,000</u>	<u>\$ 6,210,432</u>	<u>\$ 33,315,432</u>

Subsequent Event – bond issue

On January 17, 2013 the District authorized to issue Series of 2013 bonds in the amount of \$14,085,000 to refund the outstanding balances of the Series of 2004 and 2005A bonds. Interest rates range from 0.350% to 4.50%. The bonds are expected to be issued in February 2013.

Leases

Operating Leases:

The School District has entered into noncancelable operating leases for copiers and a mailing machine. Minimum lease payments in future years are as follows:

2013	\$ 39,173
2014	38,021
2015	38,021
2016	22,179
	<u>137,394</u>
Total minimum lease payments	<u>\$ 137,394</u>

The total rent for all operating leases for the year ended June 30, 2012 was \$ 35,458.

Note 10. Pension Plan

Plan description:

Name of plan: The Public School Employees' Retirement System (the System)

Type of plan: Governmental cost sharing multiple-employer defined benefit plan

Benefits: Retirement and disability, legislatively mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants

Authority: The Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535)

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the Publications page of the PSERS website.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates:

Member contributions –

Active members who joined the System prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001 contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

Employer Contributions –

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and .65% for healthcare insurance premium assistance.

Note 10. Pension Plan (continued)

Information regarding employer contributions consists of the following for the three years ended June 30:

	Contribution Required	Actual Contribution as a Percentage
June 30, 2012	\$ 1,055,196	100%
June 30, 2011	666,256	100%
June 30, 2010	556,327	100%

For the year ended June 30, 2012, the Commonwealth of Pennsylvania reimbursed the School District for one-half of its retirement expense.

Note 11. Postemployment Healthcare Plan

Plan Description

The School District has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the School District. The plan provides medical, prescription drug and dental coverage for both retiree and family. The member is eligible until the employee reaches Medicare age. To continue coverage upon retirement, the retiree must reimburse the School District 100% of the School District's cost of coverage.

Retirees opting to participate are required to pay a premium amount that is less than the School District's annual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the School District, which gives rise to the benefit.

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School District. For fiscal year 2012, the School District contributed \$ 116,006 in the form of additional premiums for active employees based on implicit rates for retired employees in the plan. Plan members receiving benefits also contributed \$ 252,081, or 100% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 not to exceed thirty years.

Note 11. Postemployment Healthcare Plan (Continued)

The following table shows 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 to the plan:

Annual required contribution (ARC)	\$ 183,346
Interest on net OPEB obligation	9,118
Adjustment to ARC	(12,440)
Annual OPEB cost	180,024
Employer contributions made - estimated	(116,006)
Increase in net OPEB obligation	64,018
Net OPEB obligation - beginning of the year	<u>202,626</u>
Net OPEB obligation - end of the year	<u>\$ 266,644</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 180,024	64%	\$ 266,644
2011	181,039	66%	202,626
2010	169,167	62%	77,212

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/10	\$ 0	\$ 1,397,373	\$ 1,397,373	0.00%	\$11,153,677	12.53%

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 future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 11. Postemployment Healthcare Plan (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 employer and the plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), annual salary increase of 4.25 to 7%, and an annual healthcare cost trend rate of 7.5 percent in 2010, decreasing 0.5 percent to 5.5% in 2014 and gradually decreasing to 4.2% in 2099. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Note 12. Joint Ventures

Expenditures paid to the following joint ventures are reflected as instruction expenditures in the General Fund and consist of the following for the year ended June 30, 2012:

York County School of Technology	<u>\$ 387,816</u>
Lincoln Intermediate Unit No. 12	<u>\$ 1,794,112</u>

Note 13. Fund Balance

The following table provides details of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable:				
Prepays	\$ 1,270	\$ 0	\$ 0	\$ 1,270
Long term interfund receivables	6,000	0	0	6,000
Restricted for:				
Future capital expenditures		2,865,192	74	2,865,266
Committed for:				
Future retirement expense increases	1,400,100	0	0	1,400,100
Assigned for:				
Subsequent year budget deficit	794,369	0	0	794,369
Unassigned	<u>1,928,649</u>	<u>0</u>	<u>0</u>	<u>1,928,649</u>
Total Fund Balances	<u>\$ 4,130,388</u>	<u>\$ 2,865,192</u>	<u>\$ 74</u>	<u>\$ 6,995,654</u>

Note 14. Commitments and Contingencies

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

The School District is involved with various lawsuits in the normal course of operations. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District. Accordingly, no provisions for any contingent liabilities that may result have been made in the financial statements.

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note 15. Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District is insured against these risks by the purchase of commercial insurance to cover any reasonable loss. Settlement amounts have not exceeded insurance coverage for the current year or three prior years. All expenditures for the School District's risk management are recorded in the general fund or food service fund.

Lincoln Benefit Trust

The School District is a member of Lincoln Benefit Trust. The Trust is a claims servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the seventeen participating School Districts. Each participating employer contributes to the trust amounts determined by actuarial principles to be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits. Since each district is responsible for its own risk, additional assessments would be charged to make up any deficiency; thus this functions like a retrospectively rated program.

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between \$ 75,000 and \$ 300,000 are paid from the Trust minipool. Claims incurred over \$ 300,000 are paid from a stop loss insurance policy purchased by the Trust.

Note 15. Risk Management (continued)

Changes in net assets for the School District's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2012:

Net assets - July 1, 2011	\$ 1,580,809
Contributions and interest income	3,038,626
Minipool reimbursement	153,039
Claims paid	(2,358,588)
Stop-loss insurance	(129,796)
Minipool premium	(35,534)
Administrative fees	(105,742)
Other	(4,850)
Net assets - June 30, 2012	<u>\$ 2,137,964</u>

Overall, the Lincoln Benefit Trust had net assets of \$ 64,189,108 as of June 30, 2012, and showed an increase in net assets of \$ 9,068,054 for the year then ended. Financial statements of the Trust are available at the School District.

Note 16. Restatement

During the year ended June 30, 2012, the following restatement was made to properly accrue a receivable from the state for estimated reimbursement of long term debt payments. The final reimbursement percentage has not been approved through the state's PlanCon process. This represents an estimate of the amount of reimbursement that has been earned on prior years' debt payments. An estimate of this reimbursement will continue to be recorded on future debt payments until the state finalizes the reimbursement percentage, at which time the actual reimbursement will be reconciled with the estimates.

	Governmental Activities
Net Assets as of June 30, 2011, as originally reported	<u>\$ 16,130,626</u>
Recording of state reimbursement for long term debt not previously recorded	<u>500,000</u>
Net Assets as of June 30, 2011 - as restated	<u>\$ 16,630,626</u>
	Governmental Activities
Change in Net Assets as of June 30, 2011, as originally reported	<u>\$ 1,003,471</u>
Recording of state reimbursement for long term debt not previously recorded	<u>70,000</u>
Change in Net Assets as of June 30, 2011, as restated	<u>\$ 1,073,471</u>

Required Supplementary Information

HANOVER PUBLIC SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Local Sources				
Taxes	\$ 19,265,414	\$ 19,265,414	\$ 19,720,535	\$ 455,121
Investment earnings	50,000	50,000	60,509	10,509
Federal revenue from intermediate sources	360,000	360,000	423,213	63,213
Other	166,500	166,500	237,384	70,884
State sources	4,974,065	4,974,065	5,247,665	273,600
Federal sources	900,000	900,000	714,100	(185,900)
Total revenues	<u>25,715,979</u>	<u>25,715,979</u>	<u>26,403,406</u>	<u>687,427</u>
EXPENDITURES				
Instruction	15,771,055	16,203,427	16,266,510	(63,083)
Support services	7,013,513	6,648,841	6,644,118	4,723
Operation of noninstructional services	428,445	578,445	572,452	5,993
Debt service:				
Principal	1,925,000	1,925,000	3,095,000	(1,170,000)
Interest	1,164,713	1,164,713	847,704	317,009
Debt issue costs	0	0	122,819	(122,819)
Total expenditures	<u>26,302,726</u>	<u>26,520,426</u>	<u>27,548,603</u>	<u>(1,028,177)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term debt	0	0	9,365,000	9,365,000
Payments to refund bond	0	0	(9,387,460)	(9,387,460)
Refund of prior year receipts	0	(275)	(261)	14
Bond premium	0	0	151,234	151,234
Interfund transfers in/(out)	(217,875)	0	(57,355)	(57,355)
Total other financing sources and (uses)	<u>(217,875)</u>	<u>(275)</u>	<u>71,158</u>	<u>71,433</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(804,622)	(804,722)	(1,074,039)	(269,317)
Fund balance - beginning	<u>3,050,425</u>	<u>3,050,425</u>	<u>5,204,427</u>	<u>2,154,002</u>
Fund balance - ending	<u>\$ 2,245,803</u>	<u>\$ 2,245,703</u>	<u>\$ 4,130,388</u>	<u>\$ 1,884,685</u>

HANOVER PUBLIC SCHOOL DISTRICT

**OPEB (OTHER POST EMPLOYMENT BENEFIT PLAN)
UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2012**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/10	\$ 0	\$ 1,397,373	\$ 1,397,373	0.00%	\$11,153,677	12.53%
01/01/08	\$ 0	\$ 1,347,401	\$ 1,347,401	0.00%	\$10,867,978	12.40%

This schedule will be expanded to show multi-year trend information as additional actuarial valuations are performed in the future.

HANOVER PUBLIC SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Period	Program or award Amount	Total Received for the Year	Accrued (Deferred) Revenue as of July 1, 2011	Revenue Recognized	Expenditures Recognized	Accrued (Deferred) Revenue at June 30, 2012
U.S. DEPARTMENT OF EDUCATION									
Guaranteed Student Loan Program (PHEAA)	84.032	22766	07/01/11-06/30/12	N/A	\$ 142,408	\$ 0	\$ 142,408	\$ 142,408	\$ 0
Pell Grant Program	84.063	16084	07/01/11-06/30/12	N/A	113,768	0	113,768	113,768	0
Total direct funds					256,176	0	256,176	256,176	0
<u>Passed Through Pennsylvania Department of Education</u>									
ESEA Title I	84.010	013-11-0181	07/01/10-06/30/11	312,214	45,503	45,503	0	0	0
ESEA Title I	84.010	013-12-0181	07/01/11-06/30/12	301,013	307,833	0	301,013	301,013	(6,820)
ARRA Fiscal Stabilization	84.394	126-11-0181	07/01/10-06/30/11	294,476	147,238	147,238	0	0	0
ESEA Title II	84.367	020-11-0181	07/01/10-06/30/11	86,116	24,441	24,441	0	0	0
ESEA Title II	84.367	020-12-0181	07/01/11-06/30/12	73,675	37,080	0	73,675	73,675	36,595
ESEA Title III	84.365	010-11-0181	07/01/10-06/30/11	41,538	0	0	41,538	41,538	41,538
ESEA Title III	84.365	010-12-0181	07/01/11-06/30/12	38,508	29,999	0	38,508	38,508	8,509
Academic Achievement Award	84.010	077-11-0181	07/01/10-09/30/11	5,000	5,000	5,000	0	0	0
ARRA - Education Jobs Fund	84.410	140-13-9173	07/01/11-06/30/12	2,704	0	0	2,704	2,704	2,704
Total passed through Pennsylvania Department of Education				591,094	222,182	457,438	457,438	457,438	82,526
<u>Passed through Lincoln Intermediate Unit #12</u>									
IDEA Part B	84.027	N/A	07/01/11-06/30/12	279,092	279,092	0	279,092	279,092	0
Total passed through Lincoln Intermediate Unit #12				279,092	279,092	0	279,092	279,092	0
Total U.S. Department of Education				1,132,362	222,182	992,706	992,706	992,706	82,526
U.S. DEPARTMENT OF AGRICULTURE									
National School Lunch Program (commodities)	10.555	N/A	07/01/11-06/30/12	N/A (B)	29,000	0	29,000	29,000	0
<u>Passed through the Pennsylvania Department of Education</u>									
National School Lunch Program (cash)	10.555	362	07/01/11-06/30/12	N/A	286,389	0	286,389	286,389	0
Breakfast	10.553	365 & 367	07/01/11-06/30/12	N/A	53,857	0	53,857	53,857	0
Summer Food	10.559	264	07/11/11-6/30/12	N/A	6,543	0	6,543	6,543	0
Total passed through Pennsylvania Department of Education				346,789	0	346,789	346,789	346,789	0
Total U.S. Department of Agriculture				375,789	0	375,789	375,789	375,789	0
Total Federal Expenditures				\$ 1,508,151	\$ 222,182	\$ 1,368,495	\$ 1,368,495	\$ 1,368,495	\$ 82,526

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. References to Schedule of Expenditures of Federal Awards

(B) Based on USDA valuation

Note 2. Summary of Federal Programs

Project Title	CFDA No.	Expenditures	Percent
Child Nutrition Cluster:			
National School Lunch Program (cash)	10.555	286,389	
National School Lunch Program (commodities)	10.555	29,000	
School Breakfast Program	10.553	53,857	
Summer Food Service Program for Children	10.559	6,543	
		375,789	27.5%
Student Financial Assistance Cluster:			
Federal Family Education Loans (PHEAA)	84.032	142,408	
Pell Grant Program	84.063	113,768	
		256,176	18.7%
I.D.E.A. Part B	84.027	279,092	20.4%
ARRA - Education Jobs Fund	84.410	2,704	0.2%
ESEA Title I	84.010	301,013	22.0%
Title II - Improving Teacher Quality	84.367	73,675	5.4%
ESEA Title III	84.365	80,046	5.8%
Total federal expenditures		\$ 1,368,495	100.0%

Note 3. Significant Accounting Policies

Basis of Accounting

The schedule of expenditures of federal awards is presented using the modified accrual basis in accordance with accounting principles prescribed by the Pennsylvania Department of Education, which conform to generally accepted governmental accounting policies. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as deferred revenue or a receivable, respectively.



Smith Elliott Kearns & Company, LLC
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**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**

Board of Directors
Hanover Public School District
Hanover, 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 Hanover Public School District, as of and for the year ended June 30, 2012, which collectively comprise the Hanover Public School District's basic financial statements and have issued our report thereon dated January 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Hanover Public School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hanover Public 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 Hanover Public School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hanover Public 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 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.



Smith Elliott Kearns & Company, LLC
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Board of Directors
Hanover Public School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hanover Public 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 matters that we reported to management of Hanover Public School District in a separate letter dated January 28, 2013.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 28, 2013



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Hanover Public School District
Hanover, Pennsylvania

Compliance

We have audited the compliance of Hanover Public School District, 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 Hanover Public School District's major federal programs for the year ended June 30, 2012. Hanover Public School District's major federal programs are identified in the summary of auditor's 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 Hanover Public School District's management. Our responsibility is to express an opinion on Hanover Public 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 Hanover Public 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 Hanover Public School District's compliance with those requirements.

In our opinion, Hanover Public School District, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Hanover Public School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hanover Public School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Hanover Public School District's internal control over compliance.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Hanover Public School District

A deficiency in internal control over compliance 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, 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 a 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Hanover Public School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Hanover Public School District's compliance but not to provide an opinion on the effectiveness of Hanover Public School District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hanover Public School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 28, 2013

**HANOVER PUBLIC SCHOOL DISTRICT
HANOVER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Hanover Public School District.
2. There are no significant deficiencies relating to the audit of the financial statements 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" and Part B of this schedule.
3. No instances of noncompliance material to the financial statements of Hanover Public School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for Hanover Public School District expresses an unqualified opinion.
6. No instances of noncompliance material to the major federal award programs for Hanover Public School District were disclosed during the audit.
7. The programs tested as major programs include:
 - Child Nutrition Cluster:
 - National School Lunch Program CFDA # 10.555
 - School Breakfast Program CFDA # 10.553
 - Summer Food Service Program for Children CFDA # 10.559
8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. Hanover Public School District qualified as a low-risk auditee.

B. Findings - Financial Statements Audit

None

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

None

HANOVER PUBLIC SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
RELATED TO FEDERAL AWARDS
Year Ended June 30, 2012

Findings related to federal awards

None