

**HANOVER PUBLIC
SCHOOL DISTRICT**

ANNUAL
FINANCIAL
REPORT

JUNE 30, 2008

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HANOVER PUBLIC SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

JUNE 30, 2008

1 Report - Federal Audit Clearing House
Bureau of Census
1201 East 10th Street
Jeffersonville, IN 47132
(Submitted Electronically)

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303 Walnut Street
Harrisburg, PA 17101-1830



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, 2008, 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, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2009 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.

The management's discussion and analysis on pages 4 to 12 and the budgetary comparison schedule on page 42 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.



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

Board of Directors
Hanover Public School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hanover Public School District's basic financial statements. The accompanying 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 basic financial statements of Hanover Public School District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 28, 2009

HANOVER PUBLIC SCHOOL DISTRICT
HANOVER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information
June 30, 2008

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, 2008. 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* issued June 1999. 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 2007-08 fiscal year. Total net assets increased 14.48% over the course of the year.
- Overall general revenues (net of transfers) of governmental activities were \$ 21,640,240, which represents \$ 1,473,507 more than net program expenses.
- The total cost of basic programs increased by 4.67% to \$ 22,336,181. The net cost funded by general revenues grew 3.96% to \$ 20,166,733. The increase was funded primarily by property taxes and minimal growth in the District's tax base. Additional sources of revenue include state formula aid and interest income, which contributed to funding the net cost of the District's governmental activities.
- The net assets of business-type activities – food services – decreased 11.22% this year to \$ 215,808. Revenues increased 4.65% to \$ 646,720, while expenses decreased 3.9% to \$ 741,328.
- At the end of the current fiscal year, the fund balance of the General Fund was \$ 3,556,823 compared to \$ 3,187,903 in the prior year. A decrease was anticipated in the budget process as fund balance was used to balance the budget. The increase in fund balance was realized because revenues were slightly higher than anticipated and expenses were lower than anticipated.

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 basic financial statements rather than as required supplementary information in accordance with requirements of the Pennsylvania Department of Education.

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

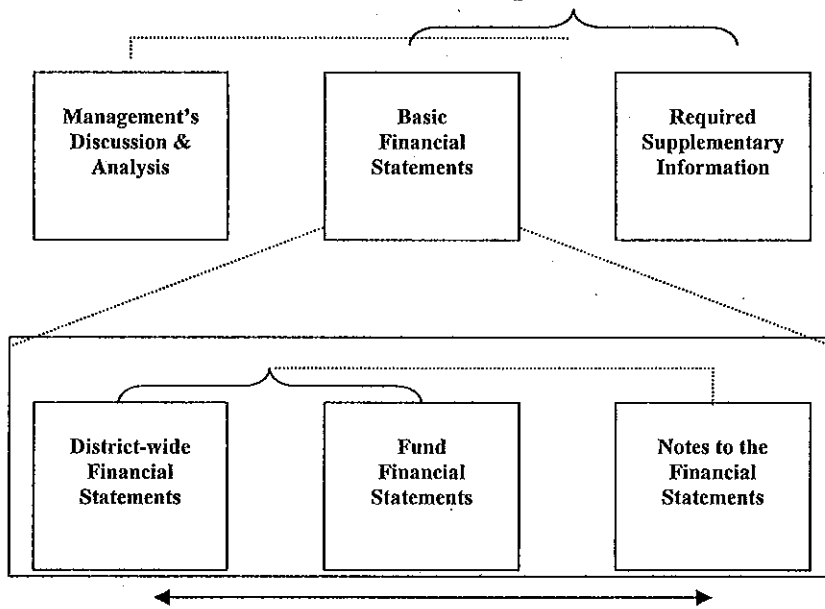


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis explains the structure and contents of each of 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 are 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, expenditures, 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, 2008 when compared to the prior fiscal year. Total net assets increased 14.48% during the year from \$ 9,986,369 to \$ 11,432,599. (See Figure A-1.) The upturn in the District’s financial position came from its governmental activities. Governmental net assets increased \$ 1,473,507 to \$ 11,216,791, an increase of 15.13%. The net assets of the District’s business-type activities decreased \$ 27,279 to \$ 215,808. This represents a decrease of 11.22% from the prior year.

Table A-1
Fiscal Years Ended June 30, 2008 and 2007
Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|-------------------|----------------------|----------------------|
| | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 |
| Current and other assets | \$ 22,922,557 | \$ 24,085,013 | \$ 35,472 | \$ 9,637 | \$ 22,958,029 | \$ 24,094,650 |
| Capital assets | 24,697,060 | 23,714,632 | 254,971 | 229,505 | 24,952,031 | 23,944,137 |
| Total Assets | \$ 47,619,617 | \$ 47,799,645 | \$ 290,443 | \$ 239,142 | \$ 47,910,060 | \$ 48,038,787 |
| Current and other liabilities | \$ 3,151,182 | \$ 3,475,342 | \$ 21,261 | \$ 5,003 | \$ 3,172,443 | \$ 3,480,345 |
| Long-term liabilities | 34,725,150 | 33,107,512 | 26,100 | 18,331 | 34,751,250 | 33,125,843 |
| Total Liabilities | \$ 37,876,332 | \$ 36,582,854 | \$ 47,361 | \$ 23,334 | \$ 37,923,693 | \$ 36,606,188 |
| Net Assets | | | | | | |
| Invested in capital assets, net of related debt | \$ 2,452,790 | \$ 2,935,140 | \$ 254,971 | \$ 229,505 | \$ 2,707,761 | \$ 3,164,645 |
| Unrestricted | 7,290,497 | 8,281,651 | (11,889) | (13,697) | 7,278,608 | 8,267,954 |
| Total Net Assets | \$ 9,743,287 | \$ 11,216,791 | \$ 243,082 | \$ 215,808 | \$ 9,986,369 | \$ 11,432,599 |

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, 2008 and 2007
Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|--------------------|---------------------|---------------------|
| | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 201,342 | \$ 238,026 | \$ 314,246 | \$ 313,853 | \$ 515,588 | \$ 551,879 |
| Operating grants and contributions | 2,935,778 | 3,113,007 | 299,571 | 321,751 | 3,235,349 | 3,434,758 |
| Capital grants and contributions | 385,193 | 251,042 | 0 | 0 | 385,193 | 251,042 |
| General revenues | | | | | | |
| Property and wage taxes | 17,867,166 | 18,415,822 | 0 | 0 | 17,867,166 | 18,415,822 |
| Grants, subsidies and contributions | 2,062,486 | 2,103,502 | 0 | 0 | 2,062,486 | 2,103,502 |
| Other | 1,387,984 | 1,188,245 | 4,172 | 11,116 | 1,392,156 | 1,199,361 |
| Total Revenues | <u>24,839,949</u> | <u>25,309,644</u> | <u>617,989</u> | <u>646,720</u> | <u>25,457,938</u> | <u>25,956,364</u> |
| Expenses | | | | | | |
| Instruction | 14,284,308 | 15,308,641 | 0 | 0 | 14,284,308 | 15,308,641 |
| Instructional student support | 1,697,573 | 1,832,227 | 0 | 0 | 1,697,573 | 1,832,227 |
| Administrative and financial support | 2,221,918 | 2,129,391 | 0 | 0 | 2,221,918 | 2,129,391 |
| Operation and maintenance of plant | 2,269,255 | 2,209,389 | 0 | 0 | 2,269,255 | 2,209,389 |
| Pupil transportation | 288,536 | 289,303 | 0 | 0 | 288,536 | 289,303 |
| Student activities | 493,852 | 481,345 | 0 | 0 | 493,852 | 481,345 |
| Community services | 84,870 | 85,885 | 0 | 0 | 84,870 | 85,885 |
| Interest on long-term debt | 1,580,969 | 1,432,627 | 0 | 0 | 1,580,969 | 1,432,627 |
| Loss on disposal of fixed assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Food services | 0 | 0 | 771,527 | 741,328 | 771,527 | 741,328 |
| Total Expenses | <u>22,921,281</u> | <u>23,768,808</u> | <u>771,527</u> | <u>741,328</u> | <u>23,692,808</u> | <u>24,510,136</u> |
| Transfers (out) in | (119,433) | (67,329) | 119,433 | 67,329 | 0 | 0 |
| Increase (Decrease) in Net Assets | <u>\$ 1,799,235</u> | <u>\$ 1,473,507</u> | <u>(\$ 34,105)</u> | <u>(\$ 27,279)</u> | <u>\$ 1,765,130</u> | <u>\$ 1,446,228</u> |

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, interest on long-term debt, and loss on disposal of fixed assets. 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, 2008 and 2007
Governmental Activities

| | Total Cost Of Services | | Percentage Change | Net Costs Of Services | | Percentage Change |
|---|---------------------------|----------------------|----------------------|--------------------------|----------------------|----------------------|
| | 2007 | 2008 | 2007 - 2008 | 2007 | 2008 | 2007 - 2008 |
| Instruction | \$ 14,284,308 | \$ 15,308,641 | 7.17% | \$ 11,656,687 | \$ 12,488,665 | 7.14% |
| Instructional student support | 1,697,573 | 1,832,227 | 7.93% | 1,463,040 | 1,599,362 | 9.32% |
| Administrative and financial support services | 2,221,918 | 2,129,391 (| 4.16%) | 2,140,920 | 2,033,143 (| 5.03%) |
| Operation and maintenance of plant services | 2,269,255 | 2,209,389 (| 2.64%) | 2,184,195 | 2,107,882 (| 3.49%) |
| Pupil transportation | 288,536 | 289,303 | 0.27% | 266,547 | 181,019 (| 32.09%) |
| Student activities | 493,852 | 481,345 (| 2.53%) | 445,728 | 433,113 (| 2.83%) |
| Facilities acquisition | 84,870 | 85,885 | 0.00% | 46,075 | 41,964 | 0.00% |
| Interest on long-term debt | 1,580,969 | 1,432,627 (| 9.38%) | 1,195,776 | 1,181,585 (| 1.19%) |
| Total governmental activities | \$ 22,921,281 | \$ 23,768,808 | 3.70% | \$ 19,398,968 | \$ 20,066,733 | 3.44% |

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, 2008 and 2007
Business-type Activities

| Functions/Programs | Total Cost Of Services | | Percentage Change | Net Costs Of Services | | Percentage Change |
|---------------------------------------|---------------------------|---------------------|----------------------|--------------------------|--------------------|----------------------|
| | 2007 | 2008 | 2007 - 2008 | 2007 | 2008 | 2007 - 2008 |
| Food services | \$ 771,527 | \$ 741,328 (| 3.91%) | (\$ 157,710) | (\$ 105,724) | 32.96% |
| Less: | | | | | | |
| Investment earnings and other | 0 | 0 | 0.00% | 4,172 | 11,116 | 166.44% |
| Total business-type activities | \$ 771,527 | \$ 741,328 (| 3.91%) | (\$ 153,538) | (\$ 94,608) | 38.38% |

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2008, the District's governmental funds reported a combined fund balance of \$ 21,533,159, which is an increase of \$ 1,099,251. The major changes in fund balance occurred in three funds:

General Fund

The General Fund had an increase in fund balance of \$ 368,920. Generally, revenues come in higher than anticipated and expenditures come in lower than anticipated and the full amount budgeted from fund balance is not necessary.

Capital Reserve Fund

The \$117,389 increase in fund balance was due to a fund transfer of \$ 190,000 from the general fund.

Capital Projects Fund

The increase in the capital projects fund of \$ 612,743 was due to interest earnings on the \$ 14,000,000 of bonds for the construction projects in excess of the expenditures 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 2007-2008 budget for the general fund projected that expenditures would exceed revenues by approximately \$ 540,000. The actual results for the year showed an excess of revenues over expenditures of approximately \$ 370,000.

- Actual revenues were \$ 806,000 higher than expected, due largely to higher tax revenues and investment income.
- Actual expenditures were under budget by approximately \$ 103,000 due largely to the interest expense on the variable rate debt being lower than anticipated and no use of budgetary reserve.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$ 23,714,632 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$ 982,428, or 3.98% from last year. Total depreciation expense for the year was \$ 1,314,982, while building and site improvements and additions to equipment and furniture totaled \$ 332,554.

The District is currently in the discussion phase for a renovated or new Washington Elementary, renovations for Hanover Street Elementary, and renovations or new Athletic Stadium.

Debt Administration

As of July 1, 2007, the District had total outstanding bond principal of \$ 37,015,000. During the year, the District made payments against principal of \$ 1,570,000 resulting in ending outstanding debt as of June 30, 2008 of \$ 35,445,000:

Table A-5
Outstanding Debt

| | <u>2007</u> | <u>2008</u> |
|---------------------------|----------------------|----------------------|
| General Obligation Bonds | | |
| Series 2004 | \$ 13,400,000 | \$ 12,345,000 |
| Series 2005 | 13,135,000 | 12,645,000 |
| Series 2005 A | 10,480,000 | 10,455,000 |
| Bond Discounts/loss - net | (1,364,033) | (1,275,375) |
| Total | <u>\$ 35,650,967</u> | <u>\$ 34,169,625</u> |

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in Note 9 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 three existing circumstances that could significantly affect its financial health in the future:

- The District is self-insured for health care and the employee health care premiums projected increase for 2009-10 is to be approximately 11%. The 2008-09 healthcare required premium increases from the Lincoln Benefit Trust were approximately 12% for the District.
- The District is undergoing discussions for a renovated or new Washington Elementary School, a renovated Hanover Street Elementary School and a renovated or new Stadium Facility.
- The District's teacher contract and the support staff contract will expire June 30, 2009.

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, 2008

| ASSETS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|---|----------------------------|-----------------------------|----------------------|
| Current Assets | | | |
| Cash and cash equivalents | \$ 9,013,527 | \$ 363,128 | \$ 9,376,655 |
| Investments | 12,760,000 | 0 | 12,760,000 |
| Receivables: | | | |
| Taxes - net | 1,029,380 | 0 | 1,029,380 |
| Intergovernmental | 251,652 | | 251,652 |
| Accrued interest | 56,285 | 0 | 56,285 |
| Other | 288,228 | 38,727 | 326,955 |
| Internal balances | 430,808 | (430,808) | 0 |
| Inventories | 0 | 38,590 | 38,590 |
| Total current assets | <u>23,829,880</u> | <u>9,637</u> | <u>23,839,517</u> |
| Noncurrent Assets | | | |
| Bond issue costs, net | 255,133 | 0 | 255,133 |
| Capital assets not being depreciated: | | | |
| Land | 410,600 | 0 | 410,600 |
| Construction in progress | 895,119 | 0 | 895,119 |
| Capital assets net of accumulated depreciation: | | | |
| Site improvements | 111,512 | 0 | 111,512 |
| Buildings and improvements | 20,841,741 | 0 | 20,841,741 |
| Furniture, fixtures and equipment | 1,455,660 | 229,505 | 1,685,165 |
| Total capital assets | <u>23,714,632</u> | <u>229,505</u> | <u>23,944,137</u> |
| Total noncurrent assets | <u>23,969,765</u> | <u>229,505</u> | <u>24,199,270</u> |
| TOTAL ASSETS | <u>\$ 47,799,645</u> | <u>\$ 239,142</u> | <u>\$ 48,038,787</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 389,872 | \$ 634 | \$ 390,506 |
| Accrued salaries and benefits | 849,070 | 1,769 | 850,839 |
| Payroll taxes and withholdings | 299,505 | 0 | 299,505 |
| Accrued interest | 303,553 | 0 | 303,553 |
| Portion due or payable within one year: | | | |
| General obligation bonds payable | 1,586,342 | 0 | 1,586,342 |
| Compensated absences | 47,000 | 2,600 | 49,600 |
| Total current liabilities | <u>3,475,342</u> | <u>5,003</u> | <u>3,480,345</u> |
| Noncurrent liabilities | | | |
| Portion due or payable after one year: | | | |
| General obligation bonds and notes payable | 32,583,283 | 0 | 32,583,283 |
| Compensated absences | 524,229 | 18,331 | 542,560 |
| Total noncurrent liabilities | <u>33,107,512</u> | <u>18,331</u> | <u>33,125,843</u> |
| TOTAL LIABILITIES | <u>36,582,854</u> | <u>23,334</u> | <u>36,606,188</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 2,935,140 | 229,505 | 3,164,645 |
| Unrestricted | 8,281,651 | (13,697) | 8,267,954 |
| TOTAL NET ASSETS | <u>11,216,791</u> | <u>215,808</u> | <u>11,432,599</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 47,799,645</u> | <u>\$ 239,142</u> | <u>\$ 48,038,787</u> |

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

HANOVER PUBLIC SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

| Functions/Programs | Program Revenue | | | | 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 | \$ 15,308,641 | \$ 150,137 | \$ 2,669,839 | \$ 0 | (\$ 12,488,665) | \$ 0 | (\$ 12,488,665) |
| Instructional student support | 1,832,227 | 0 | 232,865 | 0 | (1,599,362) | 0 | (1,599,362) |
| Admin and financial support services | 2,129,391 | 0 | 96,248 | 0 | (2,033,143) | 0 | (2,033,143) |
| Operation and maintenance of plant services | 2,209,389 | 7,926 | 93,581 | 0 | (2,107,882) | 0 | (2,107,882) |
| Pupil transportation | 289,303 | 0 | 8,284 | 0 | (281,019) | 0 | (281,019) |
| Student activities | 481,345 | 37,367 | 10,865 | 0 | (433,113) | 0 | (433,113) |
| Community services | 85,885 | 42,596 | 1,325 | 0 | (41,964) | 0 | (41,964) |
| Interest and amortization | 1,432,627 | 0 | 0 | 251,042 | (1,181,585) | 0 | (1,181,585) |
| Total governmental activities | 23,768,808 | 238,026 | 3,113,007 | 251,042 | (20,166,733) | 0 | (20,166,733) |
| Business-type activities | | | | | | | |
| Food services | 741,328 | 313,853 | 321,751 | 0 | 0 | (105,724) | (105,724) |
| Total primary government | \$ 24,510,136 | \$ 551,879 | \$ 3,434,758 | \$ 251,042 | (\$ 20,166,733) | (\$ 105,724) | (\$ 20,272,457) |
| General revenues and transfers: | | | | | | | |
| Property taxes, levied for general purposes, public utility realty tax, earned income tax | | | | | \$ 18,415,822 | \$ 0 | \$ 18,415,822 |
| Grants, subsidies and contributions not restricted | | | | | 2,103,502 | 0 | 2,103,502 |
| Investment earnings | | | | | 1,172,373 | 9,523 | 1,181,896 |
| Miscellaneous income | | | | | 15,872 | 1,593 | 17,465 |
| Transfers | | | | | (67,329) | 67,329 | 0 |
| Total general revenues and transfers | | | | | 21,640,240 | 78,445 | 21,718,685 |
| Change in net assets | | | | | 1,473,507 | (27,279) | 1,446,228 |
| Net assets - beginning | | | | | 9,743,284 | 243,087 | 9,986,371 |
| Net assets - ending | | | | | \$ 11,216,791 | \$ 215,808 | \$ 11,432,599 |

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

HANOVER PUBLIC SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | General Fund | Capital Reserve Fund | Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|-------------------------------------|---------------------|-------------------------|--------------------------|-------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 3,848,215 | \$ 2,106,125 | \$ 3,056,469 | \$ 2,718 | \$ 9,013,527 |
| Investments | 0 | 760,000 | 12,000,000 | 0 | 12,760,000 |
| Receivables: | | | | | |
| Accrued interest | 0 | 15,031 | 41,254 | 0 | 56,285 |
| Taxes - net | 1,029,380 | 0 | 0 | 0 | 1,029,380 |
| Intergovernmental | 251,652 | 0 | 0 | 0 | 251,652 |
| Due from other funds | 433,773 | 0 | | 0 | 433,773 |
| Other receivables | 288,228 | 0 | 0 | 0 | 288,228 |
| Total assets | <u>\$ 5,851,248</u> | <u>\$ 2,881,156</u> | <u>\$ 15,097,723</u> | <u>\$ 2,718</u> | <u>\$ 23,832,845</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 370,402 | \$ 1,697 | \$ 413 | \$ 186 | \$ 372,698 |
| Due to other funds | 0 | 0 | 632 | 2,333 | 2,965 |
| Accrued salaries and benefits | 849,070 | 0 | 0 | 0 | 849,070 |
| Payroll taxes and withholdings | 299,505 | 0 | 0 | 0 | 299,505 |
| Deferred revenue | 775,448 | 0 | 0 | 0 | 775,448 |
| Total liabilities | <u>2,294,425</u> | <u>1,697</u> | <u>1,045</u> | <u>2,519</u> | <u>2,299,686</u> |
| FUND BALANCES | | | | | |
| Unreserved - designated | 131,000 | 2,879,459 | 15,096,678 | 0 | 18,107,137 |
| Unreserved - undesignated | 3,425,823 | 0 | 0 | 199 | 3,426,022 |
| Total fund balances | <u>3,556,823</u> | <u>2,879,459</u> | <u>15,096,678</u> | <u>199</u> | <u>21,533,159</u> |
| Total liabilities and fund balances | <u>\$ 5,851,248</u> | <u>\$ 2,881,156</u> | <u>\$ 15,097,723</u> | <u>\$ 2,718</u> | <u>\$ 23,832,845</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, 2008

Total fund balances - governmental funds \$ 21,533,159

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

| | | |
|--------------------------|---------------|------------|
| Cost of assets | 38,139,287 | |
| Accumulated depreciation | (14,424,655) | 23,714,632 |

Bond issue costs are reported in governmental funds when the debt is first issued. The Statement of Net Assets reports issue costs as an asset. 255,133

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 funds. 758,274

Long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, 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 | (34,169,625) | |
| Accrued interest on bonds | (303,553) | |
| Compensated absences | (571,229) | (35,044,407) |

Net assets of governmental activities in the Statement of Net Assets \$ 11,216,791

HANOVER PUBLIC SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

| | General Fund | Capital Reserve Fund | Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|---|---------------------|----------------------|-----------------------|-------------------------|--------------------------|
| REVENUES | | | | | |
| Local revenues | | | | | |
| Taxes | \$ 18,585,838 | \$ 0 | \$ 0 | \$ 0 | \$ 18,585,838 |
| Investment income | 392,024 | 118,293 | 662,056 | 0 | 1,172,373 |
| From other federal sources | 347,000 | 0 | 0 | 0 | 347,000 |
| Other | 326,057 | 1,238 | 0 | 39,217 | 366,512 |
| State sources | 4,379,950 | 0 | 0 | 1,629 | 4,381,579 |
| Federal sources | 626,358 | 0 | 0 | 0 | 626,358 |
| Total revenues | <u>24,657,227</u> | <u>119,531</u> | <u>662,056</u> | <u>40,846</u> | <u>25,479,660</u> |
| EXPENDITURES | | | | | |
| Instruction | 14,275,945 | 0 | 0 | 0 | 14,275,945 |
| Support services | 6,296,759 | 0 | 30,189 | 0 | 6,326,948 |
| Operation of noninstructional services | 387,741 | 0 | 0 | 174,647 | 562,388 |
| Facilities acquisition, construction and improvements | 0 | 192,142 | 19,124 | 0 | 211,266 |
| Debt service: | | | | | |
| Principal | 1,570,000 | 0 | 0 | 0 | 1,570,000 |
| Interest | 1,366,533 | 0 | 0 | 0 | 1,366,533 |
| Total expenditures | <u>23,896,978</u> | <u>192,142</u> | <u>49,313</u> | <u>174,647</u> | <u>24,313,080</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Interfund transfers, net | (391,329) | 190,000 | 0 | 134,000 | (67,329) |
| Total other financing sources and uses | <u>(391,329)</u> | <u>190,000</u> | <u>0</u> | <u>134,000</u> | <u>(67,329)</u> |
| Net change in fund balances | <u>368,920</u> | <u>117,389</u> | <u>612,743</u> | <u>199</u> | <u>1,099,251</u> |
| Fund balances - beginning | <u>3,187,903</u> | <u>2,762,070</u> | <u>14,483,935</u> | <u>0</u> | <u>20,433,908</u> |
| Fund balances - ending | <u>\$ 3,556,823</u> | <u>\$ 2,879,459</u> | <u>\$ 15,096,678</u> | <u>\$ 199</u> | <u>\$ 21,533,159</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, 2008**

| | | | |
|---|---|---------|------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 1,099,251 | | |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| <p>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.</p> | | | |
| Depreciation expense | (1,314,982) | | |
| Capital outlays | <table style="margin-left: auto; margin-right: 0;"> <tr> <td style="border-bottom: 1px solid black; padding-right: 10px;">332,554</td> <td style="padding-left: 10px;">(982,428)</td> </tr> </table> | 332,554 | (982,428) |
| 332,554 | (982,428) | | |
| <p>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.</p> | | | |
| | (170,016) | | |
| <p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | | | |
| | 1,570,000 | | |
| <p>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.</p> | | | |
| | (105,222) | | |
| <p>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. The difference in interest accrued in the statement of activities compared to the amount due is shown here.</p> | | | |
| | 39,128 | | |
| <p>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.</p> | | | |
| | <table style="margin-left: auto; margin-right: 0;"> <tr> <td style="border-bottom: 1px solid black; padding-right: 10px;">22,794</td> <td></td> </tr> </table> | 22,794 | |
| 22,794 | | | |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ <u>1,473,507</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, 2008

| | Food Service |
|---|-------------------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents | \$ 363,128 |
| Intergovernmental receivables | 38,727 |
| Inventory | <u>38,590</u> |
| Total current assets | <u>440,445</u> |
| Noncurrent Assets | |
| Machinery and equipment - net | <u>229,505</u> |
| Total noncurrent assets | <u>229,505</u> |
| Total assets | <u>\$ 669,950</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable | \$ 634 |
| Accrued wages | 1,769 |
| Due to other funds | 430,808 |
| Current portion of compensated absences | <u>2,600</u> |
| Total current liabilities | <u>435,811</u> |
| Noncurrent Liabilities | |
| Compensated absences payable | <u>18,331</u> |
| Total noncurrent liabilities | <u>18,331</u> |
| Total liabilities | <u>454,142</u> |
| NET ASSETS | |
| Invested in capital assets | 229,505 |
| Unrestricted | (13,697) |
| Total net assets | <u>215,808</u> |
| Total liabilities and net assets | <u>\$ 669,950</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, 2008

| | Food Service |
|--|-------------------|
| OPERATING REVENUE | |
| Food service revenues | \$ 313,853 |
| Total operating revenues | <u>313,853</u> |
| OPERATING EXPENSES | |
| Food and milk purchases | 313,358 |
| Salaries | 231,721 |
| Employee benefits | 129,080 |
| Supplies | 36,196 |
| Depreciation | 27,279 |
| Travel | 2,627 |
| Miscellaneous | 1,067 |
| Total operating expenses | <u>741,328</u> |
| Operating (loss) | (427,475) |
| NON-OPERATING REVENUES (EXPENSES) | |
| State subsidies | 44,864 |
| Federal subsidies | 278,480 |
| Interfund transfers | 67,329 |
| Investment earnings | 9,523 |
| Total non-operating revenue (expenses) | <u>400,196</u> |
| Change in net assets | (27,279) |
| Total net assets - beginning | <u>243,087</u> |
| Total net assets - ending | <u>\$ 215,808</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, 2008**

| | Food Service |
|--|--------------|
| Cash flows from operating activities: | |
| Cash received from food sales | \$ 314,204 |
| Cash payments to suppliers for goods | (327,275) |
| Cash payments to and on behalf of employees | (95,600) |
| Cash payments for services | (1,067) |
| Net cash (used) by operating activities | (109,738) |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | (1,813) |
| Cash flows from noncapital financing activities: | |
| Transfers from other funds | 0 |
| Federal subsidies | 213,146 |
| State subsidies | 41,842 |
| Net cash provided by noncapital financing activities | 254,988 |
| Cash flows from investing activities: | |
| Earnings on investments | 9,523 |
| Net increase in cash and cash equivalents | 152,960 |
| Cash and cash equivalents - beginning | 210,168 |
| Cash and cash equivalents - ending | \$ 363,128 |
| Reconciliation of income from operations to net cash provided by operating activities | |
| Cash flows from operating activities: | |
| Operating loss | (\$ 427,475) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | 27,279 |
| Donated food used | 35,319 |
| (Increase) decrease in: | |
| Accounts receivable | 351 |
| Inventory | (10,285) |
| Increase (decrease) in: | |
| Due to other funds | 289,095 |
| Accrued salaries | (16,125) |
| Compensated absences payable | (7,769) |
| Accounts payable | (128) |
| Total adjustments | 317,737 |
| Net cash (used) by operating activities | (\$ 109,738) |

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

HANOVER PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

| | Private Purpose Trust Fund | Agency Fund |
|--|-------------------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 456,323 | \$ 68,793 |
| Total assets | <u>\$ 456,323</u> | <u>\$ 68,793</u> |
| LIABILITIES | | |
| Accounts payable and other liabilities | \$ 8,800 | \$ 9,073 |
| Due to student groups | <u>0</u> | <u>59,720</u> |
| Total liabilities | <u>8,800</u> | <u>68,793</u> |
| NET ASSETS | | |
| Restricted - non expendable | 192,684 | 0 |
| Restricted - expendable | <u>254,839</u> | <u>0</u> |
| Total net assets | <u>447,523</u> | <u>0</u> |
| | | |
| Total liabilities and net assets | <u>\$ 456,323</u> | <u>\$ 68,793</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, 2008**

| | Private Purpose Trust Fund |
|--------------------------------|---------------------------------------|
| ADDITIONS | |
| Interest income | \$ 21,022 |
| Contributions | 70,108 |
| Total additions | <u>91,130</u> |
| DEDUCTIONS | |
| Scholarships and awards/grants | 14,700 |
| Other operating expenses | 48 |
| Total deductions | <u>14,748</u> |
| Change in net assets | 76,382 |
| Net assets - beginning | <u>371,141</u> |
| Net assets - ending | <u>\$ 447,523</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 except for the Hanover Foundation for Excellence in Education, Inc.

The Hanover Foundation for Excellence in Education, Inc. was formed as a nonprofit organization to solicit contributions to support the innovative educational programs of the Hanover Public School District. Therefore, the Foundation is considered a component unit of the School District for financial reporting purposes; however, due to minimal assets and activity, the Foundation is not reflected in the School District's 2007/2008 financial statements.

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 11 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 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).

Additionally, the district reports the following non-major governmental fund:

Athletic Fund

This fund is authorized by Sec. 511 of the Public School Code of 1949 to account for the revenues and expenditures of athletic activities.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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 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 fixed 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.

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.

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 Food Service Fund inventories are not offset by a fund balance reserve. The costs of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements. There were no significant governmental fund supplies inventories at June 30, 2008.

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 \$ 500. 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 |

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

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.
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 are reflected as other financing uses.

Note 1. Summary of Significant Accounting Policies (Continued)

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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 27 establishes 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.

GASB 45 Accounting for Other Postemployment Benefits

In June, 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The Statement 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. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. The district will be required to implement Statement No. 45 in fiscal year ending June 30, 2009. The district anticipates that implementation of Statement No. 45 will result in additional expenses and liabilities being recorded in the government-wide financial statements.

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.

Note 2. Cash and Investments (Continued)

- 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.

The School District has entered into an overnight repurchase agreement with a local financial institution. These funds are pooled securities which are maintained by the bank but are not in the name of the School District. The fair value of these funds equals cost. These funds are classified as cash.

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, 2008, \$ 1,421,620 of the School District's bank balance of \$ 1,521,620 was exposed to credit risk. All of the \$ 1,421,620 was uninsured and collateralized with securities held by the pledging bank's trust department, but not in the School District's name.

Credit Risk – Investments

Included in cash and cash equivalents and investments on the balance sheet are pooled investments in the Pennsylvania Local Government (PLGIT) and Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 21,322,209. The PLGIT 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. At June 30, 2008, the School District's investments in PLGIT and PSDLAF were rated AAAM by Standard and Poor's Investors Service.

Interest Rate Risk - Investments

Certain investments in the PLGIT pools are not subject to interest rate risk (PLGIT Plus and PLGIT ARM) as the funds are accessible on a daily basis and the interest rates change daily based on market conditions. However, the following investments are subject to interest rate risk.

| Investments | Maturities | Fair Value |
|-------------------------|------------|---------------|
| PSDLAF: | | |
| Collateralized CD Pools | 7/14/2008 | \$ 760,000 |
| Collateralized CD Pools | 5/5/2009 | \$ 12,000,000 |

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.

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 1 – September 4 |
| Face | September 5 – November 5 |
| Penalty | November 6 - December 31 |

Installment payments are available, with one-third of the face value due at September 1, October 1 and November 1. After December 31, the bills are considered delinquent and turned over to the York County Tax Claim Bureau for 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, 2008:

| | | |
|--|----|-------------------|
| Real estate | \$ | 552,906 |
| Per capita | | 214,362 |
| Earned income | | 340,280 |
| Realty transfer | | 36,832 |
| Allowance for uncollectible accounts | | <u>(115,000)</u> |
| | | 1,029,380 |
| | | |
| Taxes collected within sixty days, recorded as revenues in governmental funds | | <u>(271,106)</u> |
| | | |
| Taxes estimated to be collected after sixty days, recorded as deferred revenue in governmental funds | \$ | <u>758,274</u> |

Note 5. Interfund Receivable and Payables and Transfers

Due from/to other funds consist of the following as June 30, 2008:

| Funds | Due from Other Funds | Due to Other Funds |
|---------------------|-------------------------|-----------------------|
| Governmental Funds: | | |
| General Fund | \$ 433,773 | \$ 0 |
| Capital Projects | 0 | 632 |
| Athletic Fund | 0 | 2,333 |
| Enterprise Funds: | | |
| Food Service Fund | 0 | 430,808 |
| | <u>\$ 433,773</u> | <u>\$ 433,773</u> |

Interfund transfers consist of the following for the year ended June 30, 2008:

| Funds | Transfers In | Transfers Out |
|-------------------|-------------------|-------------------|
| General | \$ 0 | \$ 391,329 |
| Capital Reserve | 190,000 | 0 |
| Athletic Fund | 134,000 | 0 |
| Food Service Fund | 67,329 | 0 |
| | <u>\$ 391,329</u> | <u>\$ 391,329</u> |

The School District typically transfers a budgeted dollar amount from the general fund to cover operating deficiencies in the food service fund and the athletic fund. The due to/due from amounts are a result of the School District's system of processing transactions. Many transactions, such as payroll, are done through the general fund resulting in a due to/due from between the general fund and the respective other fund.

Note 6. Intergovernmental Receivables

Intergovernmental receivables at June 30, 2008 consist of the following:

| | | | |
|----------|-------------------------|----|----------------|
| Local: | Various | \$ | 0 |
| State: | Social Security subsidy | | 44,845 |
| | Retirement subsidy | | 141,060 |
| | Other | | 1,850 |
| Federal: | Various | | <u>63,897</u> |
| | | \$ | <u>251,652</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, 2008:

| | <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 | 864,459 | 30,660 | 0 | 895,119 |
| Site improvements | 1,096,097 | 0 | 0 | 1,096,097 |
| Buildings and improvements | 31,443,064 | 17,124 | 0 | 31,460,188 |
| Furniture, fixtures and equipment | <u>3,992,513</u> | <u>284,770</u> | <u>0</u> | <u>4,277,283</u> |
| Total cost | <u>37,806,733</u> | <u>332,554</u> | <u>0</u> | <u>38,139,287</u> |
| Less accumulated depreciation: | | | | |
| Site improvements | (945,755) | (38,830) | 0 | (984,585) |
| Buildings and improvements | (9,624,452) | (993,995) | 0 | (10,618,447) |
| Furniture, fixtures and equipment | <u>(2,539,466)</u> | <u>(282,157)</u> | <u>0</u> | <u>(2,821,623)</u> |
| Total accumulated depreciation | <u>(13,109,673)</u> | <u>(1,314,982)</u> | <u>0</u> | <u>(14,424,655)</u> |
| Capital assets, net | <u>\$ 24,697,060</u> | <u>(\$ 982,428)</u> | <u>\$ 0</u> | <u>\$23,714,632</u> |
| Business-Type Activities: | | | | |
| Cost: | | | | |
| Machinery and equipment | \$ 444,010 | \$ 1,813 | \$ 0 | \$ 445,823 |
| Less accumulated depreciation: | | | | |
| Machinery and equipment | <u>(189,039)</u> | <u>(27,279)</u> | <u>0</u> | <u>(216,318)</u> |
| Capital assets, net | <u>\$ 254,971</u> | <u>(\$ 25,466)</u> | <u>\$ 0</u> | <u>\$ 229,505</u> |

Note 7. Capital Assets (Continued)

Depreciation expense for the year ended June 30, 2008 was charged to governmental functions as follows:

| | |
|---|---------------------|
| Instruction | \$ 1,066,772 |
| Instructional student support | 196,075 |
| Administrative and financial support services | 8,881 |
| Operation and maintenance of plant services | 38,412 |
| Student activities | 4,842 |
| | <u>\$ 1,314,982</u> |

Construction in Process:

Though no construction contracts have been signed or awarded, the School District has expended \$ 895,119 for architectural fees, consultant and legal fees; of this amount \$ 225,802 has been expended for the Hanover Street elementary renovation project, \$ 601,364 for the Washington elementary school construction project, and \$ 67,953 for the athletic field project.

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits consist of the following as of June 30, 2008:

| | |
|--------------------|-------------------|
| General Fund: | |
| Accrued salaries | \$ 739,768 |
| Retirement | 52,710 |
| Social Security | 56,592 |
| | <u>\$ 849,070</u> |
| Food service fund: | <u>\$ 1,769</u> |

Note 9. Long-term Liabilities

The changes in long-term liabilities during the year ended June 30, 2008 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion | Long-term Portion |
|------------------------------------|-----------------------------|--------------------------|-------------------------------|-----------------------------|----------------------------|-----------------------------|
| Governmental Activities: | | | | | | |
| General obligation bonds payable: | | | | | | |
| (A) Series of 2004 | \$ 13,400,000 | \$ 0 | (\$ 1,055,000) | \$ 12,345,000 | \$ 1,110,000 | \$ 11,235,000 |
| (B) Series of 2005 | 13,135,000 | 0 | (490,000) | 12,645,000 | 510,000 | 12,135,000 |
| (C) Series of 2005A | 10,480,000 | 0 | (25,000) | 10,455,000 | 55,000 | 10,400,000 |
| Bond discounts - net | (375,474) | 0 | 23,701 | (351,773) | (23,701) | (328,072) |
| Bond loss - net | (988,559) | 0 | 64,957 | (923,602) | (64,957) | (858,645) |
| Subtotal - bonds | <u>35,650,967</u> | <u>0</u> | <u>(1,481,342)</u> | <u>34,169,625</u> | <u>1,586,342</u> | <u>32,583,283</u> |
| Compensated absences: | | | | | | |
| Sick leave | 390,507 | 86,800 | (98,279) | 379,028 | 34,560 | 344,468 |
| Personal leave | 70,681 | 155,966 | (155,473) | 71,174 | 0 | 71,174 |
| Vacation pay | 132,835 | 100,900 | (112,708) | 121,027 | 12,440 | 108,587 |
| Subtotal - compensated absences | <u>594,023</u> | <u>343,666</u> | <u>(366,460)</u> | <u>571,229</u> | <u>47,000</u> | <u>524,229</u> |
| Total long-term liabilities | <u>\$ 36,244,990</u> | <u>\$ 343,666</u> | <u>(\$ 1,847,802)</u> | <u>\$ 34,740,854</u> | <u>\$ 1,633,342</u> | <u>\$ 33,107,512</u> |
| Business-Type Activities: | | | | | | |
| Compensated absences: | | | | | | |
| Sick leave | \$ 27,763 | \$ 6,924 | (\$ 15,567) | \$ 19,120 | \$ 2,600 | \$ 16,520 |
| Vacation pay | 937 | 3,568 | (4,505) | 0 | 0 | 0 |
| Personal leave | 0 | 3,005 | (1,194) | 1,811 | 0 | 1,811 |
| Total long-term liabilities | <u>\$ 28,700</u> | <u>\$ 13,497</u> | <u>(\$ 21,266)</u> | <u>\$ 20,931</u> | <u>\$ 2,600</u> | <u>\$ 18,331</u> |

Bonds

The bonds 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.
- (B) The Series of 2005 bonds dated May 2, 2005 were issued in the amount of \$ 14,000,000 at a variable interest rate which is determined weekly by a remarketing agent. The maximum rate is 25% and was 1.7% at June 30, 2008. These bonds were issued to provide funds for the costs of construction and renovations to the Hanover and Washington Street elementary schools and sports complex and to pay all of the costs and expenses incident to the issuance and sale of the Series 2005 bonds.
- (C) The Refunding 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 to pay all costs and expenses incident to the issuance and sale of the Refunding Series of the 2002 bonds.

Note 9. Long-term Liabilities (Continued)

The annual principal and interest requirements for future general obligation bonds as of June 30, 2008 are as follows:

| | Series of 2004 | | Series of 2005 | | Series of 2005A | | Totals | | Total |
|-----------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| #NAME? | \$ 1,110,000 | \$ 466,393 | \$ 510,000 | \$ 569,025 | \$ 55,000 | \$ 407,100 | \$ 1,675,000 | \$ 1,442,518 | \$ 3,117,518 |
| #NAME? | 750,000 | 433,093 | 535,000 | 546,075 | 510,000 | 405,450 | 1,795,000 | 1,384,618 | 3,179,618 |
| #NAME? | 710,000 | 406,843 | 560,000 | 522,000 | 585,000 | 389,385 | 1,855,000 | 1,318,228 | 3,173,228 |
| #NAME? | 735,000 | 384,833 | 585,000 | 496,800 | 605,000 | 370,080 | 1,925,000 | 1,251,713 | 3,176,713 |
| #NAME? | 755,000 | 360,210 | 610,000 | 470,475 | 625,000 | 349,510 | 1,990,000 | 1,180,195 | 3,170,195 |
| #NAME? | 4,240,000 | 1,361,578 | 3,480,000 | 1,915,875 | 3,485,000 | 1,384,513 | 11,205,000 | 4,661,966 | 15,866,966 |
| #NAME? | 4,045,000 | 436,913 | 4,340,000 | 1,058,400 | 4,590,000 | 614,195 | 12,975,000 | 2,109,508 | 15,084,508 |
| 2024-2026 | 0 | 0 | 2,025,000 | 137,700 | 0 | 0 | 2,025,000 | 137,700 | 2,162,700 |
| | <u>\$ 12,345,000</u> | <u>\$ 3,849,863</u> | <u>\$ 12,645,000</u> | <u>\$ 5,716,350</u> | <u>\$ 10,455,000</u> | <u>\$ 3,920,233</u> | <u>\$ 35,445,000</u> | <u>\$ 13,486,446</u> | <u>\$ 48,931,446</u> |

(1)

(1) The series of 2005 Bonds are variable interest rate bonds as described in (B) above. The future maturities shown for interest are based on an estimated average rate of 4.50%

Leases

Operating Leases:

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

| | |
|------------------------------|-------------------|
| 2009 | \$ 45,179 |
| 2010 | 43,293 |
| 2011 | 23,394 |
| 2012 | 15,233 |
| 2013 | <u>2,229</u> |
| Total minimum lease payments | <u>\$ 129,328</u> |

The total rent for all operating leases for the year June 30, 2008 was \$ 88,142.

Note 10. Pension Plan

Plan Descriptions: School districts in the Commonwealth participate in The Public School Employees' Retirement System (PSERS), a State-administered, governmental cost sharing multiple-employer defined benefit plan established under legislative authority. Established by the Authority of Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended) (24Pa. C.S. 8101-8535), contributions are made by each of three parties: the School District, the Commonwealth, and the employee. The plan provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. All of the School District's full-time employees, part-time employees salaried over eighty days, and hourly employees working more than 500 hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

Note 10. Pension Plan (Continued)

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: Active members who joined the system prior to July 22, 1983 contribute at 5.25% (membership Class TC) or at 6.50% (membership Class TD) of the member's qualifying compensation. Members joining 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 TC) or at 7.50% (membership Class TD) of the member's qualifying compensation. Members who joined the system after June 30, 2001 contribute at 7.50% (automatic membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2008, the rate of employer contribution was 7.13% of covered payroll, which is composed of a pension contribution rate of 6.44% for pension benefits and .69% for healthcare insurance premium assistance.

The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available at www.psers.state.pa.us.

Various ten-year historical trend information may be found in PSERS' *Comprehensive Annual Financial Report*, for information on progress made in accumulating sufficient assets to pay benefits when due.

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

| | Contribution Required | Actual Contribution as a Percentage |
|---------------|----------------------------------|--|
| June 30, 2008 | \$ 802,254 | 100% |
| June 30, 2007 | 681,493 | 100% |
| June 30, 2006 | 494,828 | 100% |

For the year ended June 30, 2008, the Commonwealth of Pennsylvania reimbursed the School District for one-half of its retirement expense.

Note 11. 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, 2008:

| | |
|----------------------------------|---------------------|
| York County School of Technology | <u>\$ 367,633</u> |
| Lincoln Intermediate Unit No. 12 | <u>\$ 1,558,103</u> |

Note 12. Fund Balance/Net Assets

Unreserved -- designated fund balance on the governmental funds balance sheet includes the following:

| | |
|--|--------------|
| Designated for future capital projects | |
| Capital Reserve Fund | \$ 2,879,459 |
| Capital Projects Fund | 15,096,678 |
| Designated for future interest expense (interest rate stabilization) | |
| General Fund | 131,000 |

Note 13. Commitments and Contingencies

Grant Programs

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

In the normal course of operations, the School District is involved in various civil disputes. Management is of the opinion that any unfavorable outcome resulting from these actions would not have a material effect on the School District's financial position.

Note 14. 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 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 which will 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 \$ 100,000 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 14. 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, 2008:

| | |
|-----------------------------------|-------------------|
| Net assets - July 1, 2007 | \$ 240,761 |
| Contributions and interest income | 2,698,434 |
| Minipool reimbursement | 113,693 |
| Claims paid | (2,465,554) |
| Stop-loss insurance | (187,159) |
| Minipool premium | (7,710) |
| Administrative fees | (123,613) |
| Other | (4,330) |
| Net assets - June 30, 2008 | <u>\$ 264,522</u> |

Overall, the Lincoln Benefit Trust had net assets of \$ 32,162,309 as of June 30, 2008, and showed an increase in net assets of \$ 9,256,880 for the year then ended. Financial statements of the Trust are available at the School District.

Required Supplementary Information

HANOVER PUBLIC SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2008**

| | BUDGET | | ACTUAL | VARIANCE |
|--|---------------------|---------------------|----------------------------|--|
| | ORIGINAL | FINAL | (BUDGETARY/ GAAP BASIS) | WITH FINAL BUDGET POSITIVE (NEGATIVE) |
| REVENUES | | | | |
| Local Sources | | | | |
| Taxes | 18,138,596 | 18,138,596 | \$ 18,585,838 | \$ 447,242 |
| Investment earnings | 250,000 | 250,000 | 392,024 | 142,024 |
| Federal revenue from intermediate sources | 272,000 | 272,000 | 347,000 | 75,000 |
| Other | 153,191 | 153,191 | 326,057 | 172,866 |
| State sources | 4,511,146 | 4,511,146 | 4,379,950 | (131,196) |
| Federal sources | 526,000 | 526,000 | 626,358 | 100,358 |
| Total revenues | <u>23,850,933</u> | <u>23,850,933</u> | <u>24,657,227</u> | <u>806,294</u> |
| EXPENDITURES | | | | |
| Instruction | 13,918,029 | 14,281,429 | 14,275,945 | 5,484 |
| Support services | 6,494,329 | 6,298,479 | 6,296,759 | 1,720 |
| Operation of noninstructional services | 396,993 | 395,343 | 387,741 | 7,602 |
| Debt service: | | | | |
| Principal | 1,570,000 | 1,570,000 | 1,570,000 | 0 |
| Interest | 1,532,493 | 1,366,593 | 1,366,533 | 60 |
| Total expenditures | <u>23,911,844</u> | <u>23,911,844</u> | <u>23,896,978</u> | <u>14,866</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers in/(out) | (239,553) | (239,553) | (391,329) | (151,776) |
| Budgetary reserve | (240,000) | (240,000) | 0 | 240,000 |
| Total other financing sources and (uses) | <u>(479,553)</u> | <u>(479,553)</u> | <u>(391,329)</u> | <u>88,224</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses | (540,464) | (540,464) | 368,920 | 909,384 |
| Fund balance - beginning | <u>2,326,126</u> | <u>2,326,126</u> | <u>3,187,903</u> | <u>861,777</u> |
| Fund balance - ending | <u>\$ 1,785,662</u> | <u>\$ 1,785,662</u> | <u>\$ 3,556,823</u> | <u>\$ 1,771,161</u> |

HANOVER PUBLIC SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

| Grantor Program Title | Federal CFDA Number | Pass Through Grantor's Number | Grant Period Beginning/Ending Date | Program or Award Amount | Total Received for the Year | Accrued or (Deferred) Revenue at July 1, 2007 | Revenue Recognized | Expenditures Recognized | Accrued or (Deferred) Revenue at June 30, 2008 |
|--|---------------------|-------------------------------|------------------------------------|-------------------------|-----------------------------|---|--------------------|-------------------------|--|
| U.S. Department of Education | | | | | | | | | |
| Guaranteed Student Loan Program(PHEAA) | 84.032 | 22766 | 7/1/07 - 6/30/08 | N/A | \$ 197,025 | \$ 0 | \$ 188,613 | \$ 188,613 | \$ (8,412) |
| Pell Grant Program | 84.063 | 16084 | 7/1/07 - 6/30/08 | N/A | 62,116 | 0 | 57,556 | 57,556 | (4,560) |
| Total direct funds | | | | | 259,141 | 0 | 246,169 | 246,169 | (12,972) |
| Passed through the Pennsylvania Department of Education | | | | | | | | | |
| ESEA Title I | 84.010 | 013-08-0181 | 7/1/07 - 9/30/08 | 250,682 | 217,272 | 0 | 250,682 | 250,682 | 33,410 |
| ESEA Title I | 84.010 | 013-07-0181 | 7/1/06 - 9/30/07 | 219,268 | 6,960 | 14,618 | (7,658) | (7,658) | 0 |
| Academic Achievement Award | 84.010 | 077-07-0181 | 7/1/07 - 9/30/08 | 2,076 | 2,076 | 0 | 2,076 | 2,076 | 0 |
| Program Improvement-Set Aside | 84.010 | 042-08-0181 | 7/1/07 - 9/30/08 | 40,000 | 10,000 | 0 | 16,000 | 16,000 | 6,000 |
| ESEA Title V | 84.298 | 011-08-0181 | 7/1/07 - 6/30/08 | 1,628 | 1,628 | 0 | 1,628 | 1,628 | 0 |
| ESEA Title II | 84.281 | 020-08-0181 | 7/1/07 - 6/30/08 | 84,039 | 67,231 | 0 | 84,039 | 84,039 | 16,808 |
| ESEA Title II | 84.281 | 020-07-0181 | 7/1/06 - 6/30/07 | 82,681 | (59) | (59) | 0 | 0 | 0 |
| ESEA Title III | 84.365 | 010-08-0181 | 7/1/07 - 6/30/08 | 33,481 | 29,016 | 0 | 33,481 | 33,481 | 4,465 |
| ESEA Title III | 84.365 | 010-07-0181 | 7/1/06 - 6/30/07 | 17,272 | 6,477 | 6,477 | 0 | 0 | 0 |
| Total passed through Pennsylvania Department of Education | | | | | 340,601 | 21,036 | 380,248 | 380,248 | 60,683 |
| Passed through Lincoln Intermediate Unit | | | | | | | | | |
| I.D.E.A. B | 84.027 | N/A | 7/1/07-6/30/08 | 279,756 | 338,163 | 0 | 338,163 | 338,163 | 0 |
| Drug Free Schools | 84.186 | N/A | 7/1/07-6/30/08 | 4,784 | 1,569 | 0 | 4,784 | 4,784 | 3,215 |
| Drug Free Schools | 84.186 | N/A | 7/1/06-6/30/07 | 4,775 | 4,053 | 0 | 4,053 | 4,053 | 0 |
| Total passed through Lincoln Intermediate Unit | | | | | 343,785 | 0 | 347,000 | 347,000 | 3,215 |
| Total U.S. Department of Education | | | | | 943,527 | 21,036 | 973,417 | 973,417 | 50,926 |
| U.S. Department of Agriculture | | | | | | | | | |
| Value of USDA Donated Commodities | 10.550 | (B) | 7/1/07-6/30/08 | N/A (B) | 35,928 | 0 | 35,928 | 35,928 | 0 |
| Passed through the Pennsylvania Department of Education | | | | | | | | | |
| National School Lunch Prog | 10.555 | (F) | 7/1/07-6/30/08 | N/A (F) | 177,714 | 0 | 206,770 | 206,770 | 29,056 |
| National School Lunch Prog | 10.555 | (F) | 7/1/06-6/30/07 | N/A (F) | 4,359 | 4,359 | 0 | 0 | 0 |
| National School Lunch Prog | N/A | (S) | 7/1/07-6/30/08 | N/A (S) | 19,477 | 0 | 22,487 | 22,487 | 3,010 |
| National School Lunch Prog | N/A | (S) | 7/1/06-6/30/07 | N/A (S) | 445 | 445 | 0 | 0 | 0 |
| Breakfast | 10.553 | (F) | 7/1/07-6/30/08 | N/A (F) | 30,279 | 0 | 36,392 | 36,392 | 6,113 |
| Breakfast | 10.553 | (F) | 7/1/06-6/30/07 | N/A (F) | 794 | 794 | 0 | 0 | 0 |
| Breakfast | N/A | (S) | 7/1/07-6/30/08 | N/A (S) | 2,613 | 0 | 3,138 | 3,138 | 525 |
| Breakfast | N/A | (S) | 7/1/06-6/30/07 | N/A (S) | 68 | 68 | 0 | 0 | 0 |
| Total passed through Pennsylvania Department of Education | | | | | 235,749 | 5,666 | 268,787 | 268,787 | 38,704 |
| Total U.S. Department of Agriculture | | | | | 271,677 | 5,666 | 304,715 | 304,715 | 38,704 |
| Total Federal Expenditures | | | | | \$ 1,215,204 | \$ 26,702 | \$ 1,278,132 | \$ 1,278,132 | \$ 89,630 |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. References to Schedule of Expenditures of Federal Awards

(B) Based on USDA valuation

(F) Represents federal share

(S) Represents state share

Note 2. Determination of Major Programs

| Project Title | CFDA No. | Expenditures | Percent |
|---|----------|---------------------|-------------|
| I.D.E.A. | 84.027 | \$ 338,163 * (A) | 27.0% |
| ESEA Title I | 84.010 | 261,100 | 20.8% |
| School Lunch Program Cluster: | | | |
| National School Lunch | 10.555 | 206,770 | 16.5% |
| Breakfast | 10.553 | 36,392 | 2.9% |
| Guaranteed Student Loan (PHEAA) | 84.032 | 188,613 | 15.1% |
| ESEA Title II | 84.281 | 84,039 | 6.7% |
| Pell Grant Program | 84.063 | 57,556 | 4.6% |
| Donated commodities | 10.550 | 35,928 | 2.9% |
| ESEA Title III | 84.365 | 33,481 | 2.7% |
| ESEA Title V | 84.298 | 1,628 | 0.1% |
| Drug Free | 84.186 | <u>8,837 (A)</u> | <u>0.7%</u> |
| | | 1,252,507 | 100.0% |
| State expenditures | | <u>25,625</u> | |
| Total expenditures reported on Schedule of Federal Financial Assistance | | <u>\$ 1,278,132</u> | |

* Selected for testing as a "major program" under 25% rule for low risk auditees.

(A) Reflected as local revenue from federal sources in statement of revenues, expenditures and changes in fund balances - governmental funds.

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 principles.



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, 2008, which collectively comprise the Hanover Public School District's basic financial statements and have issued our report thereon dated January 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hanover Public School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hanover Public School District's financial statements that is more than inconsequential will not be prevented or detected by Hanover Public School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hanover Public School District's internal control.

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.



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

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, 2009.

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, 2009



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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
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 U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 on 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 are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The 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 *control deficiency* in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in a more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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.

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, 2009

**HANOVER PUBLIC SCHOOL DISTRICT
HANOVER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

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 "Report on Compliance with Requirements Applicable to 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:

| | |
|---------|---------------|
| I.D.E.A | CFDA # 84.027 |
|---------|---------------|
8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. Hanover Public School District did qualify 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
REPORT ON STATUS OF PRIOR YEAR'S COMPLIANCE
FINDINGS AND INTERNAL CONTROL WEAKNESSES
Year Ended June 30, 2008

Findings -- Financial Statement Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

None