

Audited
Financial
Statement

June 30
2013

Hanover Public School District



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HANOVER PUBLIC SCHOOL DISTRICT

List of Report Distribution

June 30, 2013

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

1 Report - Special Audit Services Division
Forum Place – 8th Floor
555 Walnut Street
Harrisburg, PA 17101
(Submitted Electronically)



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hanover Public School District
Hanover, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hanover Public School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Board of Directors
Hanover Public School District

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As described in Note 1, the School District has implemented a reporting model to account for deferred inflows, deferred outflows, net position and items previously recorded as assets and liabilities required by the provisions of the Government Accounting Standards Board ("GASB") Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14, the budgetary comparison schedule on page 50 and the OPEB Schedule of Funding Progress on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hanover Public School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.



Board of Directors
Hanover Public School District

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hanover Public School District's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 24, 2014

HANOVER PUBLIC SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A)

Required Supplementary Information

June 30, 2013

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, 2013. 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 declined during the 2012-13 fiscal year. Total net position decreased 6.67% over the course of the year.
- Overall general revenues and transfers were \$23,114,679, which represents \$1,171,770 less than net program expenses.
- The net position of business-type activities – food services – decreased 6.60% this year to \$128,743. Revenues increased 2.88% to \$717,554, while expenses increased 0.17% to \$726,659.
- At the end of the current fiscal year, the fund balance of the General Fund was \$1,951,150 compared to \$4,130,388 in the prior year. A decrease was anticipated in the budget process as fund balance was used to balance the budget. A decrease in fund balance was realized due to a \$750,000 payment on debt principal made during the refinancing of a current bond obligation along with payment of a tax appeal in the amount of approximately \$157,000 and expenses that exceeded budget in the areas of charter schools, special education, legal expenses and transportation.

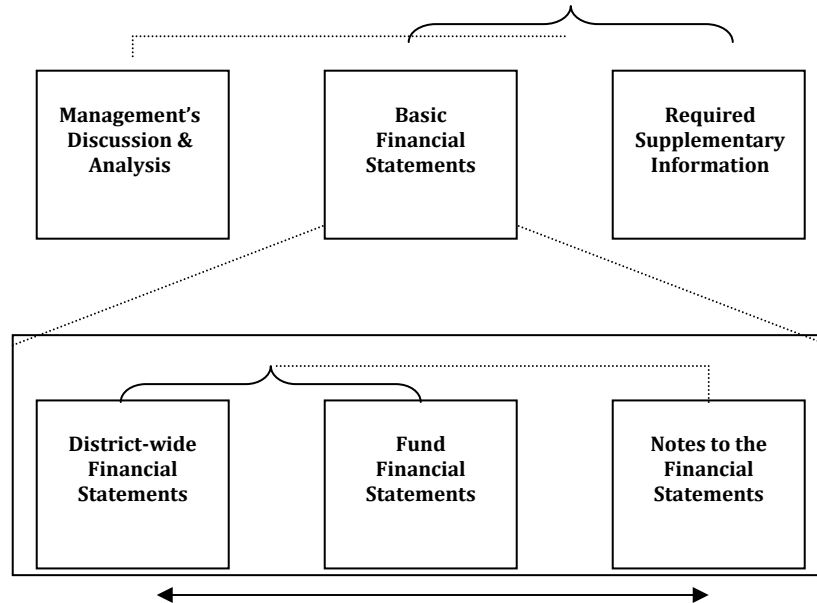
OVERVIEW OF THE FINANCIAL STATEMENTS

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.

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2013

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



HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2013

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

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

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities of the District that is not proprietary or fiduciary, such as general operating and capital projects.	Activities the District operates similar to private businesses, such as food service.	Instances in which the District administers resources on behalf of someone else, such as scholarship and student activities programs.
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • 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 Position • Statement of Revenues, Expenditures, and Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
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.

HANOVER PUBLIC SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A)

Required Supplementary Information

June 30, 2013

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 Position* includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
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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 position was smaller on June 30, 2013 when compared to the prior fiscal year. Total net position decreased 6.67% during the year from \$17,557,911 to \$16,386,141. (See Figure A-1) The downturn in the District's financial position came from its governmental activities. Governmental net position decreased \$1,162,665 to \$16,257,398, a decrease of 6.67%. The net position of the District's business-type activities decreased \$9,105 to \$128,743. This represents a decrease of 6.60% from the prior year.

Table A-1
Fiscal Years ended June 30, 2013 and 2012
Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and other assets	\$ 10,617,313	\$ 8,163,660	\$ 27,327	\$ 35,314	\$ 10,644,640	\$ 8,198,974
Capital assets	<u>36,116,589</u>	<u>34,549,407</u>	<u>141,078</u>	<u>127,914</u>	<u>36,257,667</u>	<u>34,677,321</u>
Total Assets	\$ 46,733,902	\$ 42,713,067	\$ 168,405	\$ 163,228	\$ 46,902,307	\$ 42,876,295
Deferred outflows of resources	\$ 795,259	\$ 935,913	\$ -	\$ -	\$ 795,259	\$ 935,913
Total Deferred outflows of resources	\$ 795,259	\$ 935,913	\$ -	\$ -	\$ 795,259	\$ 935,913
Current and other liabilities	\$ 4,413,466	\$ 4,509,291	\$ 26,159	\$ 27,207	\$ 4,439,625	\$ 4,536,498
Long-term liabilities	<u>25,695,631</u>	<u>22,882,291</u>	<u>4,398</u>	<u>7,278</u>	<u>25,700,029</u>	<u>22,889,569</u>
Total Liabilities	\$ 30,109,097	\$ 27,391,582	\$ 30,557	\$ 34,485	\$ 30,139,654	\$ 27,426,067
Net Position						
Net investment						
in capital assets	\$ 9,934,303	\$ 11,054,154	\$ 141,078	\$ 127,914	\$ 10,075,381	\$ 11,182,068
Restricted	2,865,192	2,531,366	-	-	2,865,192	2,531,366
Unrestricted	<u>4,620,569</u>	<u>2,671,878</u>	<u>(3,230)</u>	<u>829</u>	<u>4,617,339</u>	<u>2,672,707</u>
Total Net Position	\$ 17,420,064	\$ 16,257,398	\$ 137,848	\$ 128,743	\$ 17,557,912	\$ 16,386,141

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2013

Most of the District's net position are invested in capital assets (buildings, land, and equipment). The remaining net position 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, 2013 and 2012
Changes in Net position

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Revenues						
Program revenues						
Charges for services	\$ 206,618	\$ 244,596	\$ 224,011	\$ 184,968	\$ 430,629	\$ 429,564
Operating grants and contributions	3,158,601	3,433,962	418,628	524,152	3,577,229	3,958,114
Capital grants and contributions	474,965	440,668	-	-	474,965	440,668
General revenues						
Property and wage taxes	19,789,780	20,012,037	-	-	19,789,780	20,012,037
Unrestricted grants, subsidies and contributions	3,313,062	2,962,695	1,094	7,920	3,314,156	2,970,615
Other	125,930	131,513	13,195	514	139,125	132,027
Total Revenues	\$ 27,068,956	\$ 27,225,471	\$ 656,928	\$ 717,554	\$ 27,725,884	\$ 27,943,025
Expenses						
Instruction	\$ 17,518,525	\$ 19,125,317	\$ -	\$ -	\$ 17,518,525	\$ 19,125,317
Instructional student support	1,748,711	2,054,368	-	-	1,748,711	2,054,368
Administrative and financial support	2,390,618	2,509,040	-	-	2,390,618	2,509,040
Operation and maintenance of plant	2,365,069	2,392,741	-	-	2,365,069	2,392,741
Pupil transportation	545,167	716,296	-	-	545,167	716,296
Student activities	493,319	500,884	-	-	493,319	500,884
Community services	95,449	99,487	-	-	95,449	99,487
Interest on long-term debt	1,081,158	990,003	-	-	1,081,158	990,003
Food Services	-	-	725,359	726,659	725,359	726,659
Total Expenses	\$ 26,238,016	\$ 28,388,136	\$ 725,359	\$ 726,659	\$ 26,963,375	\$ 29,114,795
Transfers (out) in	(41,502)	-	41,502	-	-	-
Increase (Decrease) in Net Position	\$ 789,438	\$ (1,162,665)	\$ (26,929)	\$ (9,105)	\$ 762,509	\$ (1,171,770)

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2013

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, 2013 and 2012
Governmental Activities

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2012	2013	2012-2013	2012	2013	2012-2013
Instruction	\$ 17,518,525	\$ 19,125,317	9.17%	\$ 14,676,594	\$ 16,025,869	9.19%
Instructional student support	1,748,711	2,054,368	17.48%	1,546,700	1,832,580	18.48%
Administrative and financial support	2,390,618	2,509,040	4.95%	2,296,597	2,390,684	4.10%
Operation and maintenance of plant	2,365,069	2,392,741	1.17%	2,260,922	2,286,140	1.12%
Pupil transportation	545,167	716,296	31.39%	525,685	702,137	33.57%
Student activities	493,319	500,884	1.53%	441,097	438,714	(0.54%)
Facilities acquisition	95,449	99,487	4.23%	44,044	43,451	(1.35%)
Interest on long-term debt	1,081,158	990,003	(8.43%)	606,193	549,335	(9.38%)
Total governmental activities	<u>\$ 26,238,016</u>	<u>\$ 28,388,136</u>	<u>8.19%</u>	<u>\$ 22,397,832</u>	<u>\$ 24,268,910</u>	<u>8.35%</u>

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, 2013 and 2012
Business-type Activities

Functions/Programs	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2012	2013	2012-2013	2012	2013	2012-2013
Food services	<u>\$ 725,359</u>	<u>\$ 726,659</u>	<u>0.18%</u>	<u>\$ 82,720</u>	<u>\$ 17,539</u>	<u>(78.80%)</u>

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

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2013, the District's governmental funds reported a combined fund balance of \$4,482,516, which is a decrease of \$2,513,137. The major changes in fund balance occurred in three funds:

General Fund

The General Fund had a decrease in fund balance of \$2,179,238. A \$750,000 payment on debt principal was made during the refinancing of a current bond obligation. In addition, approximately \$157,000 was paid out on a tax appeal and expenses exceeded budget in the areas of charter schools, special education, legal expenses and transportation.

Capital Reserve Fund

The \$333,826 decrease in fund balance was due to the utilization of capital reserve monies to make payments on normal maintenance projects throughout the District.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the Board of School Directors (The Board), through the Budget and Finance Committee, 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 2012-2013 budget for the general fund projected that expenditures would exceed revenues by approximately \$794,000. The actual results for the year showed expenditures exceeding revenues by approximately \$2,200,000.

- Actual revenues were \$277,443 higher than expected, due largely to state sources of income in the areas of debt reimbursement and the Accountability Block Grant and additional federal sources of income relating to Title I monies.
- Actual expenditures were over budget by approximately \$1,662,312 due largely to the \$750,000 pay down of debt using existing cash reserves and approximately \$157,000 was paid for a tax appeal and expenses exceeded budget in the areas of charter schools, special education, legal expenses and transportation.

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$34,677,321 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 \$1,580,346, or 4.35% from last year. Total depreciation expense for the year was \$1,918,758, while building and site improvements and additions to equipment and furniture totaled \$338,412.

DEBT ADMINISTRATION

As of July 1, 2012, the District had total outstanding bond principal of \$27,105,000. During the year, the District refunded its Series of 2004 and Series of 2005 A bonds and paid an additional \$750,000 in principal to reduce the amount of borrowing needed for the Series of 2013 bonds and made payments against principal of \$1,980,000 resulting in ending outstanding debt as of June 30, 2013 of \$22,850,000:

Table A-5
Outstanding Debt

	2012	2013
General Obligation Bonds		
Series 2004	\$ 9,040,000	\$ -
Series 2005 A	8,700,000	-
Series 2012	9,365,000	8,765,000
Series 2013	-	14,085,000
Bond (Discounts)/Premium - net	(127,381)	1,581,166
Total	\$ 26,977,619	\$ 24,431,166

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

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FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The retirement system (PSERS) is projected to have rate spikes of 21.40% in 2014-2015, 25.84% in 2015-2016, 29.27% in 2016-2017, and 30.25% in 2017-2018, which will have a significant impact on the expenses of the District. The 2013-2014 enacted rate is 16.93%. Beginning in 2018-2019 the projected rates are to plateau at the 30% level for eighteen years.
- The current economy impacts the District on the revenue side as the District is seeing locally lower receipts in real estate transfer taxes and investment earnings. Limited state basic education subsidy dollars are anticipated over the next several years which could impact the District. In addition, the current state Act 1 Index allowance on the amount of millage that can be increased in any one year impacts the District's ability to generate revenue.
- The District is due approximately \$800,000 in Plan Con Construction reimbursement monies from the state of Pennsylvania in relation to the renovations/additions of Hanover Street and Washington Elementary schools. These monies are approved to be received but the timetable is uncertain at this time depending upon future state budgets.
- The District projects that at the completion of the retirement spike at the end of the 2016-2017 fiscal year that 2% to 5% of total expenses will be maintained in fund balance.

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 Position

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,184,383	\$ 172,620	\$ 1,357,003
Investments	4,000,000	-	4,000,000
Receivables:			
Taxes - net	1,132,844	-	1,132,844
Intergovernmental	1,448,360	-	1,448,360
Other	149,253	71,052	220,305
Internal balances	236,778	(236,778)	-
Prepaid expenses	12,042	-	12,042
Inventories	-	28,420	28,420
Total current assets	<u>8,163,660</u>	<u>35,314</u>	<u>8,198,974</u>
Noncurrent Assets			
Capital assets not being depreciated:			
Land	410,600	-	410,600
Capital assets, net:			
Site improvements	4,151,905	-	4,151,905
Buildings and improvements	28,703,632	-	28,703,632
Furniture, fixtures and equipment	1,283,270	127,914	1,411,184
Total capital assets	<u>34,549,407</u>	<u>127,914</u>	<u>34,677,321</u>
Total noncurrent assets	<u>34,549,407</u>	<u>127,914</u>	<u>34,677,321</u>
TOTAL ASSETS	<u>42,713,067</u>	<u>163,228</u>	<u>42,876,295</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	<u>935,913</u>	<u>-</u>	<u>935,913</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 43,648,980</u>	<u>\$ 163,228</u>	<u>\$ 43,812,208</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 714,566	\$ 12,569	\$ 727,135
Accrued salaries and benefits	837,814	2,444	840,258
Payroll taxes and withholdings	512,620	-	512,620
Accrued interest	186,306	-	186,306
Unearned revenue	7,080	7,194	14,274
Portion due or payable within one year:			
General obligation bonds payable	2,067,805	-	2,067,805
Compensated absences	183,100	5,000	188,100
Total current liabilities	<u>4,509,291</u>	<u>27,207</u>	<u>4,536,498</u>
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	22,363,361	-	22,363,361
Compensated absences	209,946	7,278	217,224
OPEB Liability	308,984	-	308,984
Total noncurrent liabilities	<u>22,882,291</u>	<u>7,278</u>	<u>22,889,569</u>
TOTAL LIABILITIES	<u>27,391,582</u>	<u>34,485</u>	<u>27,426,067</u>
NET POSITION			
Net investment in capital assets	11,054,154	127,914	11,182,068
Restricted	2,531,366	-	2,531,366
Unrestricted	2,671,878	829	2,672,707
TOTAL NET POSITION	<u>16,257,398</u>	<u>128,743</u>	<u>16,386,141</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 43,648,980</u>	<u>\$ 163,228</u>	<u>\$ 43,812,208</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 19,125,317	\$ 132,135	\$ 2,967,313	\$ -	\$ (16,025,869)	\$ -	\$ (16,025,869)
Instructional student support	2,054,368	-	221,788	-	(1,832,580)	-	(1,832,580)
Administration and financial support services	2,509,040	-	118,356	-	(2,390,684)	-	(2,390,684)
Operation and maintenance of plant services	2,392,741	26,266	80,335	-	(2,286,140)	-	(2,286,140)
Pupil transportation	716,296	-	14,159	-	(702,137)	-	(702,137)
Student activities	500,884	38,499	23,671	-	(438,714)	-	(438,714)
Community services	99,487	47,696	8,340	-	(43,451)	-	(43,451)
Interest and amortization	990,003	-	-	440,668	(549,335)	-	(549,335)
Total governmental activities	<u>28,388,136</u>	<u>244,596</u>	<u>3,433,962</u>	<u>440,668</u>	<u>(24,268,910)</u>	<u>-</u>	<u>(24,268,910)</u>
Business-type activities:							
Food services	<u>726,659</u>	<u>184,968</u>	<u>524,152</u>	<u>-</u>	<u>-</u>	<u>(17,539)</u>	<u>(17,539)</u>
Total primary government	<u>\$ 29,114,795</u>	<u>\$ 429,564</u>	<u>\$ 3,958,114</u>	<u>\$ 440,668</u>	<u>\$ (24,268,910)</u>	<u>\$ (17,539)</u>	<u>\$ (24,286,449)</u>
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax					\$ 20,012,037	\$ -	\$ 20,012,037
Grants, subsidies and contributions not restricted					2,962,695	7,920	2,970,615
Investment earnings					24,535	514	25,049
Miscellaneous income					106,978	-	106,978
Transfers					-	-	-
Total general revenues and transfers					<u>23,106,245</u>	<u>8,434</u>	<u>23,114,679</u>
Change in net position					(1,162,665)	(9,105)	(1,171,770)
Net position - beginning					<u>17,420,063</u>	<u>137,848</u>	<u>17,557,911</u>
Net position - ending					<u>\$ 16,257,398</u>	<u>\$ 128,743</u>	<u>\$ 16,386,141</u>

HANOVER PUBLIC SCHOOL DISTRICT

Balance Sheet - Governmental Funds

June 30, 2013

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 158,468	\$ 1,025,915	\$ -	\$ 1,184,383
Investments	2,500,000	1,500,000	-	4,000,000
Receivables:				
Taxes - net	1,132,844	-	-	1,132,844
Intergovernmental	648,360	-	-	648,360
Due from other funds	231,327	5,451	-	236,778
Other receivables	149,253	-	-	149,253
Prepaid expenses	12,042	-	-	12,042
Total assets	<u>\$ 4,832,294</u>	<u>\$ 2,531,366</u>	<u>\$ -</u>	<u>\$ 7,363,660</u>
LIABILITIES				
Accounts payable	\$ 714,566	\$ -	\$ -	\$ 714,566
Accrued salaries and benefits	837,814	-	-	837,814
Payroll taxes and withholdings	512,620	-	-	512,620
Unearned revenue	7,080	-	-	7,080
Total liabilities	<u>2,072,080</u>	<u>-</u>	<u>-</u>	<u>2,072,080</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable tax revenue	809,064	-	-	809,064
Total deferred inflows of resources	<u>809,064</u>	<u>-</u>	<u>-</u>	<u>809,064</u>
FUND BALANCES				
Nonspendable	12,042	-	-	12,042
Restricted	-	2,531,366	-	2,531,366
Committed	280,000	-	-	280,000
Assigned	1,007,315	-	-	1,007,315
Unassigned	651,793	-	-	651,793
Total fund balances	<u>1,951,150</u>	<u>2,531,366</u>	<u>-</u>	<u>4,482,516</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,832,294</u>	<u>\$ 2,531,366</u>	<u>\$ -</u>	<u>\$ 7,363,660</u>

HANOVER PUBLIC SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2013

Total fund balances - governmental funds \$ 4,482,516

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.

Cost of assets	56,217,025	
Accumulated depreciation	<u>(21,667,618)</u>	34,549,407

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 unavailable in the fund financial statements. 809,064

Estimated State subsidies receivable for debt payments will be collected in the future, but are not available soon enough to pay for the current period's expenditures, and therefore are excluded from the fund financial statements. 800,000

Deferred charges on bond refundings are reported as deferred outflows of resources in the statement of net position. 935,913

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

Bonds and notes payable, net of discount and premium	(24,431,166)	
Accrued interest on bonds	(186,306)	
OPEB liability	(308,984)	
Compensated absences	<u>(393,046)</u>	<u>(25,319,502)</u>

Net position of governmental activities in the Statement of Net Position \$ 16,257,398

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds
Year Ended June 30, 2013

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local revenues				
Taxes	\$ 19,961,471	\$ -	\$ -	\$ 19,961,471
Investment income	18,861	5,674	-	24,535
Federal revenue from intermediary sources	311,197	-	-	311,197
Other	358,953	-	-	358,953
State sources	5,611,857	-	-	5,611,857
Federal sources	806,892	-	-	806,892
Total revenues	<u>27,069,231</u>	<u>5,674</u>	<u>-</u>	<u>27,074,905</u>
EXPENDITURES				
Instruction	17,749,502	-	-	17,749,502
Support services	7,057,272	-	-	7,057,272
Operation of noninstructional services	582,817	-	-	582,817
Facilities acquisition, construction and improvements	-	354,587	-	354,587
Refund of prior year receipts	157,021	-	-	157,021
Debt service:				
Principal	1,980,000	-	-	1,980,000
Interest	962,390	-	-	962,390
Debt issue costs/discount	<u>168,115</u>	<u>-</u>	<u>-</u>	<u>168,115</u>
Total expenditures	<u>28,657,117</u>	<u>354,587</u>	<u>-</u>	<u>29,011,704</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term debt	14,085,000	-	-	14,085,000
Payments to refund bonds	(16,360,000)	-	-	(16,360,000)
Bond Premium	1,698,662	-	-	1,698,662
Interfund transfers, net	<u>(15,014)</u>	<u>15,087</u>	<u>(73)</u>	<u>-</u>
Total other financing sources and uses	<u>(591,352)</u>	<u>15,087</u>	<u>(73)</u>	<u>(576,338)</u>
Net change in fund balances	<u>(2,179,238)</u>	<u>(333,826)</u>	<u>(73)</u>	<u>(2,513,137)</u>
Fund balances - beginning	<u>4,130,388</u>	<u>2,865,192</u>	<u>73</u>	<u>6,995,653</u>
Fund balances - ending	<u>\$ 1,951,150</u>	<u>\$ 2,531,366</u>	<u>\$ -</u>	<u>\$ 4,482,516</u>

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, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,513,137)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.

Depreciation expense	(1,892,577)	
Capital outlays	<u>325,395</u>	(1,567,182)

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. Unavailable tax revenues increased by this amount this year. 50,566

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,980,000

Governmental funds report prepaid bond insurance, 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. (130,142)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This is the additional interest accrued in the statement of activities over the amount due. 102,529

The issuance of general obligation bonds provides current financial resources to governmental funds, but has no effect on net position. Likewise, the payment to refund bonds uses current financial resources, but also has no effect on net position. Governmental funds report prepaid insurance, discounts, and other similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance of revenue note	(14,085,000)	
Payment to currently refund bonds	16,360,000	
Bond premium, net of discount	<u>(1,575,418)</u>	699,582

In the statement of activities, the change in OPEB liability is recorded as an expense. However, since this does not require the use of current financial resources, this is not reported as an expenditure in the (42,340)

In the statement of activities, state reimbursements receivable for debt payments which will not be received by the District for an indeterminable period after the school's fiscal year ends, are not considered "available" revenues in the governmental funds. 100,000

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. 157,459

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,162,665)

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2013

	<u>Food Service</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 172,620
Receivables	6,849
Intergovernmental receivables	64,203
Inventory	<u>28,420</u>
Total current assets	<u>272,092</u>
Noncurrent Assets	
Machinery and equipment - net	<u>127,914</u>
Total noncurrent assets	<u>127,914</u>
Total assets	<u>\$ 400,006</u>
LIABILITIES	
Current Liabilities	
Unearned revenue	\$ 7,194
Accounts payable	12,569
Accrued wages	2,444
Due to other funds	236,778
Current portion of compensated absences	<u>5,000</u>
Total current liabilities	<u>263,985</u>
Noncurrent Liabilities	
Compensated absences payable	<u>7,278</u>
Total noncurrent liabilities	<u>7,278</u>
Total liabilities	<u>271,263</u>
NET POSITION	
Net investment in capital assets	127,914
Unrestricted	<u>829</u>
Total net position	<u>128,743</u>
Total liabilities and net position	<u>\$ 400,006</u>

HANOVER PUBLIC SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund Year Ended June 30, 2013

	Food Service
OPERATING REVENUE	
Food service revenues	\$ 192,888
Total operating revenues	<u>192,888</u>
OPERATING EXPENSES	
Food and milk purchases	399,282
Salaries	213,195
Employee benefits	66,855
Supplies	18,951
Depreciation	26,181
Travel	62
Repairs and Maintenance	<u>2,133</u>
Total operating expenses	<u>726,659</u>
Operating (loss)	<u>(533,771)</u>
NON-OPERATING REVENUES (EXPENSES)	
State subsidies	44,824
Federal subsidies	479,328
Investment earnings	<u>514</u>
Total non-operating revenue (expenses)	<u>524,666</u>
Change in net position	<u>(9,105)</u>
Total net position - beginning	<u>137,848</u>
Total net position - ending	<u>\$ 128,743</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2013

	Food Service
Cash flows from operating activities:	
Cash received from food sales	\$ 195,653
Cash payments to suppliers for goods	(391,620)
Cash payments to and on behalf of employees	(269,638)
Cash payments for services	<u>(2,133)</u>
Net cash (used) by operating activities	<u>(467,738)</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(13,017)</u>
Cash flows from noncapital financing activities:	
Federal subsidies	381,673
State subsidies	<u>44,993</u>
Net cash provided by noncapital financing activities	<u>426,666</u>
Cash flows from investing activities:	
Earnings on investments	<u>514</u>
Net (decrease) in cash and cash equivalents	(53,575)
Cash and cash equivalents - beginning	<u>226,195</u>
Cash and cash equivalents - ending	<u>\$ 172,620</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities	
Cash flows from operating activities:	
Operating loss	\$ (533,771)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	26,181
Donated food used	33,283
(Increase) decrease in:	
Accounts receivable	2,513
Interfund Receivable	-
Inventory	(4,571)
Increase (decrease) in:	
Due to other funds	4,699
Accrued wages	385
Compensated absences payable	5,580
Accounts payable/unearned revenue	<u>(2,037)</u>
Total adjustments	<u>66,033</u>
Net cash (used) by operating activities	<u>\$ (467,738)</u>

HANOVER PUBLIC SCHOOL DISTRICT

Statement of Fiduciary Net Position

June 30, 2013

	Private Purpose	
	Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 455,901	\$ 70,617
Total assets	<u>\$ 455,901</u>	<u>\$ 70,617</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 15,255	\$ 3,422
Due to student groups	-	67,195
Total liabilities	<u>15,255</u>	<u>70,617</u>
NET POSITION		
Net position held in trust for others	<u>440,646</u>	<u>-</u>
Total net position	<u>440,646</u>	<u>-</u>
Total liabilities and net position	<u>\$ 455,901</u>	<u>\$ 70,617</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2013

	Private Purpose Trust Fund
ADDITIONS	
Interest income	\$ 803
Contributions	<u>39,120</u>
Total additions	<u>39,923</u>
DEDUCTIONS	
Scholarships and awards/grants	24,345
Other operating expenses	<u>300</u>
Total deductions	<u>24,645</u>
Change in net position	15,278
Net position - beginning	<u>425,368</u>
Net position - ending	<u>\$ 440,646</u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

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 most significant of the School District's accounting policies are described below.

Reporting Entity

The Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable; and (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

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

See Note 12 for additional information on joint ventures.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

1. Governmental Funds

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

The School District reports the following major governmental funds:

General Fund

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

Capital Reserve Fund

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

Capital Projects Funds

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

2. Proprietary Funds

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

Food Service Fund

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

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

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

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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.

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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

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 position (total assets plus total deferred outflows of resources less total liabilities plus deferred inflows of resources) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

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 liabilities until earned. If time eligibility requirements are not met, a deferred inflow of resources would be recorded. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Cash, Cash Equivalents, and Investments

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

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

Inventories

Inventory in the Food Service Fund consists of expendable supplies held for consumption and food (valued at cost) and government donated commodities (valued at estimated fair value). The expendable supplies are recorded as an expenditure when used. The costs of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements, and the asset (valued at cost) is offset by nonspendable fund balance. There were no significant governmental fund supplies inventories at June 30, 2013.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

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 position 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 position and in the respective fund.

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

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

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

Interfund Activity

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

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

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

1. The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:
2. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
3. 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.
4. 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.
5. 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.
6. Capital budgets are implemented for capital improvements and capital projects in the Capital Reserve Fund and approved by the Board.

During 2012-2013, the School District overspent the budgeted expenditures of the general fund, which is a violation of the Pennsylvania School Code, but is not expected to result in any negative implications for the School District.

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.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

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 position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts 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. The deferred charge on bond refunding is reported as deferred outflows of resources and amortized over the life of the remaining debt. Prepaid bond insurance is reported as an asset and amortized over the term of the related debt. Other bond issuance costs are expensed at the time debt is issued.

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 and original issue discounts or premiums are reported as other financing uses or sources. Issue costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Retirement Plans

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

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of GASB. These provisions require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable. Utilizing the vesting method, 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.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements, and are expensed as incurred.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

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

Deferred Outflows and Inflows of Resources

In March 2012, the GASB issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category, which is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable tax revenue on the governmental fund balance sheet as deferred inflows of resources.

Net Position

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of net position. This standard establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effects on a government's net position. This reporting of deferred inflows and outflows also applies to the fund financial statements. The financial statements incorporate the changes required by Statement No. 63.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

In the government-wide financial statements, net position is classified in the following category:

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

Restricted Net Position: This category of net position has constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

As of June 30, 2013, restricted net position in government activities consist of the following:

Restricted for future capital projects	<u>\$ 2,531,366</u>
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Unrestricted Net Position: This component consists of all other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption: Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance – Governmental Funds

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

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

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Balance – Governmental Funds

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

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

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

Minimum Fund Balance Policy

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

Policy Regarding Order of Spending

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 2 Cash and Investments

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

- U.S. Treasury Bills
- Short term obligations of the U.S. Government or its agencies
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$ 1,931,254 of the School District's bank balance of \$ 6,186,849 was exposed to credit risk. All of the \$ 1,931,254 was uninsured and collateralized with securities held by the pledging bank's trust department, but not in the School District's name.

Included in cash and cash equivalents on the balance sheet are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 162,025. All these funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of \$1 per share. PSDLAF deposits are invested by PSDLAF directly in portfolios of securities held by a third party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool. The School District is exposed to custodial credit risk because the collateral securities held by PSDLAF agents are not in the School District name.

Interest Rate Risk

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

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

Credit Risk - Investments

The School District does not have a formal written investment policy that limits its investment choices to certain credit ratings. As of June 30, 2013, the School District's investments were rated as:

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 2 Cash and Investments

Concentration of Credit Risk

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

Note 3 Taxes

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

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

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

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

Note 4 Taxes Receivable and Deferred Inflows of Resources

Taxes receivable and deferred inflows of resources in the fund financial statements consist of the following as of June 30, 2013:

Real estate	\$	1,081,253
Per capita		100,118
Earned income		173,693
Realty transfer		<u>33,735</u>
		1,388,799
Reserve for uncollectible accounts		<u>(255,955)</u>
Taxes receivable, net		1,132,844
Taxes collected within sixty days, recorded as revenues in governmental funds		<u>(323,780)</u>
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources in governmental funds	\$	<u><u>809,064</u></u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 5 Interfund Receivable and Payables and Transfers

Due from/to other funds consist of the following as June 30, 2013:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 231,327	\$ -
Capital Reserve Fund	5,451	-
Enterprise Funds:		
Food Service Fund	-	236,778
	<u>\$ 236,778</u>	<u>\$ 236,778</u>

The general fund due from cafeteria fund results from the general fund paying for cafeteria fund expenses, mainly payroll, that the cafeteria fund will pay back in the subsequent fiscal year. The capital reserve fund due from food service fund is for the purchase of a capital asset.

Interfund transfers consist of the following for the year ended June 30, 2013:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 15,014
Capital Reserve	15,087	-
Capital Projects	-	73
	<u>\$ 15,087</u>	<u>\$ 15,087</u>

The transfer from general fund to capital reserve fund was to cover project expenses that were paid out of that fund. The transfer from capital projects fund to capital reserve fund was to transfer out the final cash balance of the closed projects into the capital reserve fund to be used for future capital expenditures.

Note 6 Intergovernmental Receivables

Intergovernmental receivables at June 30, 2013 consist of the following:

State:	Social Security subsidy	\$ 23,146
	Retirement subsidy	284,576
	Other	75,829
Federal:	Various	<u>264,809</u>
Governmental Funds		648,360
State:	Estimated reimbursement for debt payments	(A) <u>800,000</u>
Governmental Activities		<u>\$ 1,448,360</u>

(A) The School District records a receivable from the Commonwealth of Pennsylvania for estimated reimbursements of long-term debt payments made in the current and prior years. The final reimbursement percentage has not been approved through the State's PlanCon process.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 7 Capital Assets

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2013:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Cost:				
Land	\$ 410,600	\$ -	\$ -	\$ 410,600
Construction in process	-	-	-	-
Site improvements	5,568,563	-	-	5,568,563
Buildings and improvements	44,574,015	150,504	-	44,724,519
Furniture, fixtures and equipment	5,352,452	174,891	(14,000)	5,513,343
	<u>55,905,630</u>	<u>325,395</u>	<u>(14,000)</u>	<u>56,217,025</u>
Total cost				
	<u>55,905,630</u>	<u>325,395</u>	<u>(14,000)</u>	<u>56,217,025</u>
Less accumulated depreciation:				
Site improvements	(1,189,420)	(227,238)	-	(1,416,658)
Buildings and improvements	(14,649,691)	(1,371,196)	-	(16,020,887)
Furniture, fixtures and equipment	(3,949,930)	(294,143)	14,000	(4,230,073)
	<u>(19,789,041)</u>	<u>(1,892,577)</u>	<u>14,000</u>	<u>(21,667,618)</u>
Total accumulated depreciation				
	<u>(19,789,041)</u>	<u>(1,892,577)</u>	<u>14,000</u>	<u>(21,667,618)</u>
Capital assets, net	<u>\$ 36,116,589</u>	<u>\$ (1,567,182)</u>	<u>\$ -</u>	<u>\$ 34,549,407</u>
Business-Type Activities:				
Cost:				
Machinery and equipment	\$ 463,181	\$ 13,017	\$ -	\$ 476,198
Less accumulated depreciation:				
Machinery and equipment	(322,103)	(26,181)	-	(348,284)
	<u>(322,103)</u>	<u>(26,181)</u>	<u>-</u>	<u>(348,284)</u>
Total accumulated depreciation				
	<u>(322,103)</u>	<u>(26,181)</u>	<u>-</u>	<u>(348,284)</u>
Capital assets, net	<u>\$ 141,078</u>	<u>\$ (13,164)</u>	<u>\$ -</u>	<u>\$ 127,914</u>

Depreciation expense for the year ended June 30, 2013 was charged to governmental functions as follows:

Instruction	\$ 1,393,743
Instructional student support	161
Instructional technical support	185,913
Administrative and financial support services	6,705
Health services	14,843
Business services	567
Operation and maintenance of plant services	269,917
Student activities	20,728
	<u>\$ 1,892,577</u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 8 Accrued Salaries and Benefits

Accrued salaries and benefits consist of the following as of June 30, 2013:

General Fund:	
Salaries	\$ 700,818
Retirement	84,765
Social Security	<u>52,231</u>
	<u>\$ 837,814</u>
Food Service Fund:	<u>\$ 2,444</u>

Note 9 Long-term Liabilities

The changes in long-term liabilities during the year ended June 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Short-term Portion	Long-term Portion
Governmental Activities:						
General obligation bonds/notes payable:						
(A) Series of 2004	\$ 9,040,000	\$ -	\$ (9,040,000)	\$ -	\$ -	\$ -
(B) Series of 2005A	8,700,000	-	(8,700,000)	-	-	-
(C) Series of 2012	9,365,000	-	(600,000)	8,765,000	600,000	8,165,000
(D) Series of 2013	-	14,085,000	-	14,085,000	1,305,000	12,780,000
Bond (discounts)/premium - net	<u>(127,381)</u>	<u>1,758,872</u>	<u>(50,325)</u>	<u>1,581,166</u>	<u>162,805</u>	<u>1,418,361</u>
Subtotal - bonds/notes	<u>26,977,619</u>	<u>15,843,872</u>	<u>(18,390,325)</u>	<u>24,431,166</u>	<u>2,067,805</u>	<u>22,363,361</u>
Compensated absences:						
Sick leave	270,625	92,139	(166,761)	196,003	40,500	155,503
Personal leave	103,554	168,700	(168,527)	103,727	72,600	31,127
Vacation pay	<u>176,326</u>	<u>118,548</u>	<u>(201,558)</u>	<u>93,316</u>	<u>70,000</u>	<u>23,316</u>
Subtotal - compensated absences	<u>550,505</u>	<u>379,387</u>	<u>(536,846)</u>	<u>393,046</u>	<u>183,100</u>	<u>209,946</u>
Total long-term liabilities	<u>\$ 27,528,124</u>	<u>\$ 16,223,259</u>	<u>\$ (18,927,171)</u>	<u>\$ 24,824,212</u>	<u>\$ 2,250,905</u>	<u>\$ 22,573,307</u>
Business-Type Activities:						
Compensated absences:						
Sick leave	\$ 5,303	\$ 4,725	\$ (2,117)	\$ 7,911	\$ 2,200	\$ 5,711
Vacation pay	591	3,579	(949)	3,221	2,000	1,221
Personal leave	<u>804</u>	<u>1,528</u>	<u>(1,186)</u>	<u>1,146</u>	<u>800</u>	<u>346</u>
Total long-term liabilities	<u>\$ 6,698</u>	<u>\$ 9,832</u>	<u>\$ (4,252)</u>	<u>\$ 12,278</u>	<u>\$ 5,000</u>	<u>\$ 7,278</u>

Bonds and Notes

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

- (A) The Refunding Series of 2004 bonds dated December 15, 2004 were issued in the amount of \$ 16,195,000. Interest rates range from 1.75% to 4.30%. Those bonds were issued to provide funds to refund the School District's Series 1999 and 2001 bonds and to pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2004 bonds. This bond issue was refunded during the 2013 fiscal year.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 9 Long-term Liabilities (Continued)

Bonds and Notes (Continued)

- (B) The Series of 2005A bonds dated August 15, 2005 were issued in the amount of \$ 10,505,000. Interest rates range from 2.80% to 4.25%. These bonds were issued to provide funds to advance refund the School District's Series of 2002 Bonds and pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2005A bonds. This bond issue was refunded during the 2013 fiscal year.
- (C) The Refunding Series of 2012 bonds dated March 27, 2012 were issued in the amount of \$ 9,365,000. Interest rates range from 1.00% to 3.00%. Those bonds were issued to provide funds to refund the School District's Series 2011 bonds and to pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2012 bonds.
- (D) The Refunding Series of 2013 bonds dated February 20, 2013 were issued in the amount of \$ 14,085,000. Interest rates range from 0.35% to 4.50%. Those bonds were issued to provide funds to refund the School District's Series 2014 and 2005A bonds and to pay all costs and expenses incident to the issuance and sale of the Refunding Series of 2013 bonds. The district used \$750,000 of cash reserves towards the payoff of the Series of 2004 and 2005A bonds in order to reduce the amount of funds necessary to borrow with Series of 2013 bonds and subsequently reduce future interest expense.

As a result of this refunding, the School District was able to recognize the following:

(1)	Cash flow gain	\$2,010,130
(2)	Economic gain	\$2,014,699

- (1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
- (2) Represents the difference in present values of the old debt and the new debt, less bond issue costs.

The annual principal and interest requirements for future general obligation bonds and notes as of June 30, 2013 are as follows:

	Series of 2012		Series of 2013		Totals		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 645,000	\$ 208,531	\$ 1,305,000	\$ 489,609	\$ 1,950,000	\$ 698,140	\$ 2,648,140
2015	655,000	195,631	1,320,000	470,525	1,975,000	666,156	2,641,156
2016	670,000	182,531	1,350,000	444,125	2,020,000	626,656	2,646,656
2017	690,000	162,431	1,395,000	403,625	2,085,000	566,056	2,651,056
2018	705,000	145,431	1,425,000	361,775	2,130,000	507,206	2,637,206
2019-2023	3,765,000	489,506	7,290,000	894,925	11,055,000	1,384,431	12,439,431
2024-2028	1,635,000	66,783	-	-	1,635,000	66,783	1,701,783
	<u>\$ 8,765,000</u>	<u>\$ 1,450,844</u>	<u>\$ 14,085,000</u>	<u>\$ 3,064,584</u>	<u>\$ 22,850,000</u>	<u>\$ 4,515,428</u>	<u>\$ 27,365,428</u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 9 Long-term Liabilities (Continued)

Leases

Operating Leases:

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

2014	\$	40,367
2015		40,367
2016		24,525
2017		2,346
2018		<u>1,173</u>

Total minimum lease payments \$ 108,778

The total rent for all operating leases for the year ended June 30, 2013 was \$ 40,353.

Note 10 Pension Plan

Plan description:

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

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

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

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

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

Funding Policy

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

Contribution rates:

Member contributions –

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 10 Pension Plan (Continued)

Funding Policy

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

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

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

Employer Contributions -

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and .86% for healthcare insurance premium assistance.

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

	Contribution Required	Actual Contribution as a Percentage
June 30, 2013	1,606,408	100%
June 30, 2012	1,055,196	100%
June 30, 2011	666,256	100%

For the year ended June 30, 2013, the Commonwealth of Pennsylvania reimbursed the School District for one-half of its retirement expense.

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 11 Postemployment Healthcare Plan

Plan Description

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

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

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School District. For fiscal year 2013, the School District contributed \$ 104,349 in the form of estimated additional premiums for active employees based on implicit rates for retired employees in the plan. Plan members receiving benefits also contributed \$ 163,170, or 100% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution (ARC)	\$ 151,060
Interest on net OPEB obligation	11,999
Adjustment to ARC	<u>(16,370)</u>
Annual OPEB cost	146,689
Employer contributions made - estimated	<u>(104,349)</u>
Increase in net OPEB obligation	42,340
Net OPEB obligation - beginning of the year	<u>266,644</u>
Net OPEB obligation - end of the year	<u>\$ 308,984</u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 11 Postemployment Healthcare Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 146,689	71%	\$ 308,984
2012	180,024	64%	266,644
2011	181,039	66%	202,626

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/12	\$ -	\$ 1,167,228	\$ 1,167,228	0.00%	\$ 11,487,207	10.16%

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

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point.

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 11 Postemployment Healthcare Plan (Continued)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), annual salary increase of 4.25 to 7%, and an annual healthcare cost trend rate of 7.5 percent in 2012, decreasing by 0.5 percent per year to 5.5% in 2016 and gradually decreasing to 4.2% in 2089. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Note 12 Joint Ventures

Expenditures paid to the following joint ventures are reflected as instruction expenditures in the General Fund and consist of the following for the year ended June 30, 2013:

York County School of Technology	<u>\$ 360,927</u>
Lincoln Intermediate Unit No. 12	<u>\$ 1,716,658</u>

Note 13 Fund Balance

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

	General Fund	Capital Reserve Fund	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Prepays	\$ 12,042	\$ -	\$ 12,042
Restricted for:			
Future capital expenditures		2,531,366	2,531,366
Committed for:			
Future retirement expense increases	280,000	-	280,000
Assigned for:			
Subsequent year budget deficit	1,007,315	-	1,007,315
Unassigned	<u>651,793</u>	<u>-</u>	<u>651,793</u>
Total Fund Balances	<u>\$ 1,951,150</u>	<u>\$ 2,531,366</u>	<u>\$ 4,482,516</u>

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 14 Commitments and Contingencies

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

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

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2013 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note 15 Risk Management

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

Lincoln Benefit Trust

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

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

HANOVER PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

Note 15 Risk Management (Continued)

Changes in net position 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, 2013:

Net position - July 1, 2012	\$	2,137,964
Contributions and interest income		3,049,977
Minipool reimbursement		189,206
Claims paid		(2,583,812)
Stop-loss insurance		(40,690)
Minipool premium		(163,931)
Administrative fees		(105,399)
Other		<u>(4,735)</u>
Net position - June 30, 2013	\$	<u>2,478,580</u>

Overall, the Lincoln Benefit Trust had net position of \$ 70,145,957 as of June 30, 2013, and showed an increase in net position of \$ 5,956,849 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 - General Fund
Year Ended June 30, 2013

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Local Sources				
Taxes	\$ 19,868,705	\$ 19,868,705	\$ 19,961,471	\$ 92,766
Investment earnings	80,000	80,000	18,861	(61,139)
Federal revenue from intermediate sources	500,000	500,000	311,197	(188,803)
Other	185,000	185,000	358,953	173,953
State sources	5,473,083	5,473,083	5,611,857	138,774
Federal sources	685,000	685,000	806,892	121,892
Total revenues	<u>26,791,788</u>	<u>26,791,788</u>	<u>27,069,231</u>	<u>277,443</u>
EXPENDITURES				
Instruction	16,831,165	17,166,165	17,749,502	(583,337)
Support services	7,246,365	6,911,365	7,057,272	(145,907)
Operation of noninstructional services	417,237	533,237	582,817	(49,580)
Refund of prior year receipts	-	-	157,021	(157,021)
Debt service:				
Principal	1,980,000	1,980,000	1,980,000	-
Interest	962,390	962,390	962,390	-
Debt issue costs/discounts	-	-	168,115	(168,115)
Total expenditures	<u>27,437,157</u>	<u>27,553,157</u>	<u>28,657,117</u>	<u>(1,103,960)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term debt	-	-	14,085,000	14,085,000
Payments to refund bond	-	-	(16,360,000)	(16,360,000)
Bond premium	-	-	1,698,662	1,698,662
Interfund transfers in/(out)	(149,000)	(33,000)	(15,014)	17,986
Total other financing sources and (uses)	<u>(149,000)</u>	<u>(33,000)</u>	<u>(591,352)</u>	<u>(558,352)</u>
Net change in fund balance	(794,369)	(794,369)	(2,179,238)	(1,384,869)
Fund balance - beginning	<u>3,522,113</u>	<u>3,522,113</u>	<u>4,130,388</u>	<u>608,275</u>
Fund balance - ending	<u>\$ 2,727,744</u>	<u>\$ 2,727,744</u>	<u>\$ 1,951,150</u>	<u>\$ (776,594)</u>

HANOVER PUBLIC SCHOOL DISTRICT
OPEB (Other Post Employment Benefit Plan)
Unaudited Required Schedule of Funding Progress
Year Ended June 30, 2013

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/12	\$ -	\$ 1,167,228	\$ 1,167,228	0.00%	\$ 11,487,207	10.16%
01/01/10	\$ -	\$ 1,397,373	\$ 1,397,373	0.00%	\$ 11,153,677	12.53%
01/01/08	\$ -	\$ 1,347,401	\$ 1,347,401	0.00%	\$ 10,867,978	12.40%

OTHER SUPPLEMENTARY INFORMATION

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Period	Program or award Amount	Total Received for the Year	Receivable (Payable) July 1, 2012	Revenue Recognized	Expenditures Recognized	Receivable (Payable) June 30, 2013
U.S. DEPARTMENT OF EDUCATION									
Federal Direct Loans	84.268	22766	07/01/12-06/30/13	N/A	\$ 206,689	\$ -	\$ 206,689	\$ 206,689	\$ -
Pell Grant Program	84.063	16084	07/01/12-06/30/13	N/A	95,605	-	95,605	95,605	-
Total direct funds					302,294	-	302,294	302,294	-
Passed Through Pennsylvania Department of Education									
ESEA Title I	84.010	013-12-0181	07/01/11-09/30/12	301,013	(6,820)	(6,820)	-	-	-
ESEA Title I	84.010	013-12-0181	07/01/12-09/30/13	385,616	140,953	-	385,616	385,616	244,663
School Improvement	84.010	042-12-0181	08/04/12-09/30/13	68,436	68,436	-	68,436	68,436	-
ESEA Title II	84.367	020-12-0181	07/01/11-09/30/12	73,675	36,595	36,595	-	-	-
ESEA Title II	84.367	020-12-0181	07/01/12-09/30/13	73,578	26,821	-	20,141	20,141	(6,680)
ESEA Title III	84.365	010-11-0181	07/01/10-06/30/11	41,538	41,538	41,538	-	-	-
ESEA Title III	84.365	010-12-0181	07/01/11-06/30/12	38,508	8,509	8,509	-	-	-
ESEA Title III	84.365	010-12-0181	07/01/12-06/30/13	27,702	7,555	-	27,702	27,702	20,147
ARRA - Education Jobs Fund	84.410	140-13-9173	07/01/11-06/30/12	2,704	2,704	2,704	-	-	-
Total passed through Pennsylvania Department of Education					326,291	82,526	501,895	501,895	258,130
Passed through Lincoln Intermediate Unit #12									
IDEA Part B	84.027	N/A	07/01/12-06/30/13	283,376	283,376	-	283,376	283,376	-
Total passed through Lincoln Intermediate Unit #12					283,376	-	283,376	283,376	-
Total U.S. Department of Education					911,961	82,526	1,087,565	1,087,565	258,130
U.S. DEPARTMENT OF AGRICULTURE									
Passed through the Pennsylvania Department of Education									
National School Lunch Program	10.555	362	07/01/12-06/30/13	N/A	294,786	-	344,539	344,539	49,753
Breakfast	10.553	365 & 367	07/01/12-06/30/13	N/A	59,928	-	70,980	70,980	11,052
Summer Food	10.559	264	07/01/12-06/30/13	N/A	30,525	-	30,525	30,525	-
Total passed through Pennsylvania Department of Education					385,239	-	446,044	446,044	60,805
Passed through the Pennsylvania Department of Agriculture									
National School Lunch Program (commodities)	10.555	N/A	07/01/12-06/30/13	N/A (B)	33,283	-	33,283	33,283	-
Total U.S. Department of Agriculture					418,522	-	479,327	479,327	60,805
Total Federal Expenditures					\$ 1,330,483	\$ 82,526	\$ 1,566,892	\$ 1,566,892	\$ 318,935

HANOVER PUBLIC SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Note 1 Reference to Schedule of Expenditures of Federal Awards

(B) Based on USDA valuation

Note 2 Federal Awards by CFDA Number/Cluster

	CFDA No.	Expenditures	Percent
Child Nutrition Cluster:			
National School Lunch Program (cash)	10.555	\$ 344,539	
National School Lunch Program (commodities)	10.555	33,283	
School Breakfast Program	10.553	70,980	
Summer Food Service Program for Children	10.559	<u>30,525</u>	
		479,327	30.6%
Student Financial Assistance Cluster:			
Federal Direct Loans	84.268	206,689	
Pell Grant Program	84.063	<u>95,605</u>	
		302,294	19.3%
I.D.E.A. Part B	84.027	283,376	18.1%
ESEA Title I	84.010	454,052	29.0%
Title II - Improving Teacher Quality	84.367	20,141	1.3%
ESEA Title III	84.365	<u>27,702</u>	<u>1.8%</u>
		<u>\$ 1,566,892</u>	<u>100.0%</u>

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. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as a liability or a receivable, respectively.



**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hanover Public School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hanover Public School District's basic financial statements and have issued our report thereon dated January 24, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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



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*.

PURPOSE OF THIS REPORT

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

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 24, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Hanover Public School District
Hanover, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Hanover Public School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hanover Public School District's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hanover Public School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Hanover Public School District's compliance.



Board of Directors
Hanover Public School District

Basis for Qualified Opinion on Title I

As described in the accompanying schedule of findings and questioned costs, the Hanover Public School District did not comply with requirements regarding CFDA 84.010 Title I as described in finding number 2013-003 for Procurement. Compliance with such requirement is necessary, in our opinion, for Hanover Public School District to comply with the requirements applicable to that program.

Qualified Opinion on Title I

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Hanover Public School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title I program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Hanover Public School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

Hanover Public School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hanover Public School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Hanover Public School District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered Hanover Public School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hanover Public School District's internal control over compliance.



Board of Directors
Hanover Public School District

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, not important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002 and 2013-003 to be material weaknesses.

Hanover Public School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hanover Public School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Hanover, Pennsylvania
January 24, 2014

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified: Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be a material weakness(es)? Yes None Reported

Type of auditor's report issued on compliance for the major programs: Qualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
84.268	Student Financial Assistance Cluster:
84.063	Federal Direct Loans
	PELL grant program
84.010	Title I
Dollar threshold used to distinguish between type A and type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Section II - Financial Statement Findings

A. Significant Deficiencies or Material Weaknesses in Internal Control

None noted

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

Section III – Federal Award Findings and Questioned Costs

A. Internal Control Over Major Programs Findings

Finding Reference:	2013-001 - Suspension and Debarment
Federal Agency:	U.S. Department of Education
Federal Program:	Title I - CFDA 84.010
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Material Weakness in Internal Control Over Compliance and Noncompliance

Condition: The School District paid vendors for Title I supplies without ensuring the vendors were not suspended or debarred from receiving federal funds. The School District did not have a written certification of suspension and debarment for vendors under this program and did not perform any other procedures, such as checking the federal excluded parties list or including a clause in its vendor contracts, to ensure compliance with suspension and debarment requirements.

Criteria: Recipients of federal grants are prohibited from contracting with parties suspended or debarred from doing business with the federal government. Federal regulations require grant recipients to ensure vendors that receive more than \$25,000 in federal funds are not suspended or debarred from doing business with the federal government. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), obtaining a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

Cause: The School District was not aware of the suspension and debarment requirement and did not have adequate internal controls to ensure that certifications were obtained for all vendors paid with Title I funds.

Effect: Without adequate internal controls over suspension and debarment requirements, the School District cannot ensure federal funds are paid only to eligible vendors. Payments to ineligible parties are unallowable and subject to recovery by the grantor.

The School District is not in compliance with federal suspension and debarment requirements for procurement contracts of goods and services.

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs (Continued)

Questioned costs: The vendors in question were not suspended or debarred; therefore, there are no questioned costs.

Recommendation: We recommend the School District enhance its policies and procedures to ensure the required suspension and debarment verifications are performed for vendors with contracts that are expected to equal or exceed the \$25,000 threshold.

Auditee response: The Hanover Public School District will require documentation, website print out or vendor supplied certificate, for each Federally Funded purchase in excess of \$ 25,000. The purchase can be an individual purchase or a signed contract with purchases spread over a period of time. The documentation will be attached to the purchase order or executed contract and filed in the Business Office.

Finding Reference:	2013-002 - Reporting
Federal Agency:	U.S. Department of Education
Federal Program:	Title I - CFDA 84.010
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness in Internal Control Over Compliance

Condition: The quarterly reports filed by the District to document amounts spent in the Title I program are generated and submitted by the same person with no review of these forms for accuracy by someone other than the person preparing the forms.

Criteria: The District should have a procedure in place to review these reports generated comparing the information to actual data recorded in the software system. This will ensure their accuracy before reports are submitted.

Cause: The School District did not perform a review of the forms before they were submitted.

Effect: The forms could include incorrect information which would result in delayed funding and if selected for audit by the state, could jeopardize the District's award amount in future periods.

Questioned costs: None

Recommendation: We recommend the School District assign the task of reviewing these reports after they are generated but before they are submitted, to someone other than the individual preparing the reports. This review should be documented by including a signature or initials of the person performing the review.

Auditee response: The Title I program director will review the reports before they are submitted to ensure accuracy in the filing.

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Finding Reference:	2013-003 - Procurement
Federal Agency:	U.S. Department of Education
Federal Program:	Title I - CFDA 84.010
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Material Weakness in Internal Control Over Compliance and Noncompliance

Condition: One of the compliance requirements applicable to the Title I program relates to Procurement, Suspension and Debarment. This requirement ensures the District is following state bidding requirements for certain purchases for amounts exceeding a threshold set by state statutes.

Criteria: The school code requires solicitation of three (3) written or telephone quotes on purchases ranging from \$ 10,200 to \$ 18,900. Purchases in excess of \$18,900 require formal bidding which includes advertising for three (3) consecutive weeks in a local newspaper and Board approval.

Cause: The District has proper policies in place to identify the items and situations where a purchase would require bidding procedures, but the policy was not followed.

Effect: The District could face penalties or have funding reduced if proper procedures are not followed.

The District is not in compliance with federal requirements for procurement contracts of goods and services.

Questioned costs: \$ 75,060 for two purchases of equipment that were not properly bid.

Recommendation: The District should ensure all employees working within a federal program understand the purchasing requirements and District policy so they can be properly followed.

Auditee response: The Hanover Public School District will communicate with all employees working within a federal program to ensure purchases are bid according to state requirements and board policy.

B. Compliance Findings

See Finding 2013-001 and 2013-003.

HANOVER PUBLIC SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings Related to Federal Awards
Year Ended June 30, 2013

Findings related to federal awards:

None