

Audited
Financial
Statements

June 30,
2014

Hanover Public School District



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HANOVER PUBLIC SCHOOL DISTRICT
List of Report Distribution
June 30, 2014

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 Hanover Public School District, as of and for the year ended June 30, 2014, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 presentation of the financial statements.

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



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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14, the budgetary comparison schedule on page 49, and the OPEB Schedule of Funding Progress on page 50 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 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.

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



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015, 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 7, 2015

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2014

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, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

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

FINANCIAL HIGHLIGHTS

- The District's financial status declined during the 2013-14 fiscal year. Total net position decreased 3% over the course of the year.
- Overall general revenues and transfers were \$23,467,204, which represents \$618,936 less than net program expenses.
- The net position of business-type activities – food services – decreased 15% this year to \$108,367. Revenues increased 11% to \$796,845, while expenses increased 11% to \$811,770.
- At the end of the current fiscal year, the fund balance of the General Fund was \$1,302,131 compared to \$1,951,150 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 in large part to the increased retirement contribution rate and also the general increase in salaries based on current contracts.

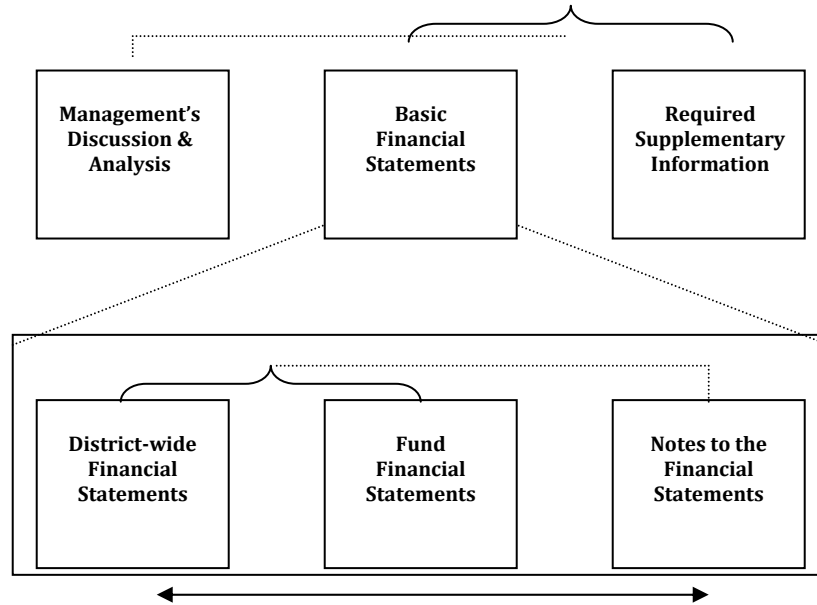
OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2014

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, 2014

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, 2014

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)
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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, 2014 when compared to the prior fiscal year. Total net position decreased 3% during the year from \$16,386,141 to \$15,746,829. (See Figure A-1) The downturn in the District's financial position came from its governmental activities. Governmental net position decreased \$618,936 to \$15,638,462, a decrease of 3%. The net position of the District's business-type activities decreased \$20,376 to \$108,367. This represents a decrease of 15% from the prior year.

Table A-1
Fiscal Years ended June 30, 2014 and 2013
Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$ 8,163,660	\$ 7,753,361	\$ 35,314	\$ 25,335	\$ 8,198,974	\$ 7,778,696
Capital assets	34,549,407	32,864,044	127,914	113,404	34,677,321	32,977,448
Total Assets	\$ 42,713,067	\$ 40,617,405	\$ 163,228	\$ 138,739	\$ 42,876,295	\$ 40,756,144
Deferred outflows of resources	\$ 935,913	\$ 841,248	\$ -	\$ -	\$ 935,913	\$ 841,248
Total Deferred outflows of resources	\$ 935,913	\$ 841,248	\$ -	\$ -	\$ 935,913	\$ 841,248
Current and other liabilities	\$ 4,509,291	\$ 5,055,845	\$ 27,207	\$ 26,567	\$ 4,536,498	\$ 5,082,412
Long-term liabilities	22,882,291	20,764,346	7,278	3,805	22,889,569	20,768,151
Total Liabilities	\$ 27,391,582	\$ 25,820,191	\$ 34,485	\$ 30,372	\$ 27,426,067	\$ 25,850,563
Net Position						
Net investment						
in capital assets	\$ 11,054,154	\$ 11,386,931	\$ 127,914	\$ 113,404	\$ 11,182,068	\$ 11,500,335
Restricted	2,531,366	2,350,119	-	-	2,531,366	2,350,119
Unrestricted	2,671,878	1,901,412	829	(5,037)	2,672,707	1,896,375
Total Net Position	\$ 16,257,398	\$ 15,638,462	\$ 128,743	\$ 108,367	\$ 16,386,141	\$ 15,746,829

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2014

Most of the District's net position are invested in capital assets (buildings, land, and equipment). The remaining net position consists 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, 2014 and 2013
Changes in Net position

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program revenues						
Charges for services	\$ 244,596	\$ 257,659	\$ 184,968	\$ 186,012	\$ 429,564	\$ 443,671
Operating grants and contributions	3,433,962	4,009,492	524,152	607,994	3,958,114	4,617,486
Capital grants and contributions	440,668	341,501	-	-	440,668	341,501
General revenues						
Property and wage taxes	20,012,037	20,338,690	-	-	20,012,037	20,338,690
Unrestricted grants, subsidies and contributions	2,962,695	3,048,688	7,920	2,375	2,970,615	3,051,063
Other	131,513	74,375	514	464	132,027	74,839
Total Revenues	\$ 27,225,471	\$ 28,070,405	\$ 717,554	\$ 796,845	\$ 27,943,025	\$ 28,867,250
Expenses						
Instruction	\$ 19,125,317	\$ 19,956,442	\$ -	\$ -	\$ 19,125,317	\$ 19,956,442
Instructional student support	2,054,368	2,111,820	-	-	2,054,368	2,111,820
Administrative and financial support	2,509,040	2,433,108	-	-	2,509,040	2,433,108
Operation and maintenance of plant	2,392,741	2,244,735	-	-	2,392,741	2,244,735
Pupil transportation	716,296	720,993	-	-	716,296	720,993
Student activities	500,884	516,807	-	-	500,884	516,807
Community services	99,487	96,980	-	-	99,487	96,980
Interest on long-term debt	990,003	613,907	-	-	990,003	613,907
Food Services	-	-	726,659	811,770	726,659	811,770
Total Expenses	\$ 28,388,136	\$ 28,694,792	\$ 726,659	\$ 811,770	\$ 29,114,795	\$ 29,506,562
Transfers (out) in	-	5,451	-	(5,451)	-	-
Increase (Decrease) in Net Position	\$ (1,162,665)	\$ (618,936)	\$ (9,105)	\$ (20,376)	\$ (1,171,770)	\$ (639,312)

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

Table A-3
Fiscal Years ended June 30, 2014 and 2013
Governmental Activities

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2013	2014	2013-2014	2013	2014	2013-2014
Instruction	\$ 19,125,317	\$ 19,956,442	4.35%	\$ 16,025,869	\$ 16,395,790	2.31%
Instructional student support	2,054,368	2,111,820	2.80%	1,832,580	1,860,109	1.50%
Administrative and financial support	2,509,040	2,433,108	(3.03%)	2,390,684	2,276,621	(4.77%)
Operation and maintenance of plant	2,392,741	2,244,735	(6.19%)	2,286,140	2,119,440	(7.29%)
Pupil transportation	716,296	720,993	0.66%	702,137	677,194	(3.55%)
Student activities	500,884	516,807	3.18%	438,714	445,594	1.57%
Facilities acquisition	99,487	96,980	(2.52%)	43,451	38,986	(10.28%)
Interest on long-term debt	990,003	613,907	(37.99%)	549,335	272,406	(50.41%)
Total governmental activities	\$ 28,388,136	\$ 28,694,792	1.08%	\$ 24,268,910	\$ 24,086,140	(0.75%)

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, 2014 and 2013
Business-type Activities

Functions/Programs	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2013	2014	2013-2014	2013	2014	2013-2014
Food services	\$ 726,659	\$ 811,770	11.71%	\$ 17,539	\$ 17,764	1.28%

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, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$3,652,250, which is a decrease of \$830,266. The major changes in fund balance occurred in two funds:

General Fund

The General Fund had a decrease in fund balance of \$649,019. The district incurred higher costs due to the increase in retirement contribution rate as well as contracted increases in salaries and also saw continued increases in its special education costs.

Capital Reserve Fund

The \$181,247 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 2013-2014 budget for the general fund projected that expenditures would exceed revenues by approximately \$1,007,315. The actual results for the year showed expenditures exceeding revenues by \$649,019.

- Actual revenues were \$372,039 higher than expected, due largely to additional federal sources of income relating to Title I monies.
- Actual expenditures were over budget by \$14,021 which is a minimal difference from expected.
- Interfund transfers, net were less than \$300 different from budget.

**HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$32,977,448 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 \$1,699,873, or 4% from last year. Total depreciation expense for the year was \$1,886,767, while building and site improvements and additions to equipment and furniture totaled \$186,894.

DEBT ADMINISTRATION

As of July 1, 2013, the District had total outstanding bond principal of \$22,850,000. The District made payments against principal of \$1,950,000 resulting in ending outstanding debt as of June 30, 2014 of \$20,900,000:

**Table A-5
Outstanding Debt**

	2013	2014
General Obligation Bonds		
Series 2012	\$ 8,765,000	\$ 8,120,000
Series 2013	14,085,000	12,780,000
Bond (Discounts)/Premium - net	<u>1,581,166</u>	<u>1,418,361</u>
Total	<u>\$ 24,431,166</u>	<u>\$ 22,318,361</u>

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

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The retirement system (PSERS) is projected to have rate spikes of 25.84% in 2015-2016, 29.27% in 2016-2017, 30.25% in 2017-2018 and 31.28% in 2018-2019, which will have a significant impact on the expenses of the District. The 2014-2015 enacted rate is 21.40%. Beginning in 2019-2020 the projected rates are to plateau at 32% level for sixteen years.
- 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 \$900,000 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 current District support staff contract will expire on June 30, 2015 and the current District professional staff contract will expire on June 30, 2016.
- The District projects that at the completion of the retirement spike at the end of the 2016-2017 fiscal year that 3% to 6% 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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,690,540	\$ 263,701	\$ 1,954,241
Investments	3,000,000	-	3,000,000
Receivables:			
Taxes - net	1,071,310	-	1,071,310
Intergovernmental	1,439,465	-	1,439,465
Other	280,125	15,927	296,052
Internal balances	271,921	(271,921)	-
Inventories	-	17,628	17,628
Total current assets	<u>7,753,361</u>	<u>25,335</u>	<u>7,778,696</u>
Noncurrent Assets			
Capital assets not being depreciated:			
Land	410,600	-	410,600
Capital assets, net:			
Site improvements	3,924,727	-	3,924,727
Buildings and improvements	27,437,907	-	27,437,907
Furniture, fixtures and equipment	1,090,810	113,404	1,204,214
Total capital assets	<u>32,864,044</u>	<u>113,404</u>	<u>32,977,448</u>
Total noncurrent assets	<u>32,864,044</u>	<u>113,404</u>	<u>32,977,448</u>
TOTAL ASSETS	<u>40,617,405</u>	<u>138,739</u>	<u>40,756,144</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	<u>841,248</u>	<u>-</u>	<u>841,248</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 41,458,653</u>	<u>\$ 138,739</u>	<u>\$ 41,597,392</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 371,076	\$ 9,940	\$ 381,016
Accrued salaries and benefits/withholdings	2,177,237	1,931	2,179,168
Accrued interest	170,212	-	170,212
Unearned revenue	4,515	9,696	14,211
Portion due or payable within one year:			
General obligation bonds payable	2,137,805	-	2,137,805
Compensated absences	195,000	5,000	200,000
Total current liabilities	<u>5,055,845</u>	<u>26,567</u>	<u>5,082,412</u>
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	20,180,556	-	20,180,556
Compensated absences	203,428	3,805	207,233
OPEB Liability	380,362	-	380,362
Total noncurrent liabilities	<u>20,764,346</u>	<u>3,805</u>	<u>20,768,151</u>
TOTAL LIABILITIES	<u>25,820,191</u>	<u>30,372</u>	<u>25,850,563</u>
NET POSITION			
Net investment in capital assets	11,386,931	113,404	11,500,335
Restricted	2,350,119	-	2,350,119
Unrestricted	1,901,412	(5,037)	1,896,375
TOTAL NET POSITION	<u>15,638,462</u>	<u>108,367</u>	<u>15,746,829</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 41,458,653</u>	<u>\$ 138,739</u>	<u>\$ 41,597,392</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2014

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	\$ 19,956,442	\$ 135,087	\$ 3,425,565	\$ -	\$ (16,395,790)	\$ -	\$ (16,395,790)
Instructional student support	2,111,820	-	251,711	-	(1,860,109)	-	(1,860,109)
Administration and financial support services	2,433,108	-	156,487	-	(2,276,621)	-	(2,276,621)
Operation and maintenance of plant services	2,244,735	35,255	90,040	-	(2,119,440)	-	(2,119,440)
Pupil transportation	720,993	-	43,799	-	(677,194)	-	(677,194)
Student activities	516,807	38,436	31,137	-	(447,234)	-	(447,234)
Community services	96,980	47,241	10,753	-	(38,986)	-	(38,986)
Interest and amortization	613,907	-	-	341,501	(272,406)	-	(272,406)
Total governmental activities	<u>28,694,792</u>	<u>256,019</u>	<u>4,009,492</u>	<u>341,501</u>	<u>(24,087,780)</u>	<u>-</u>	<u>(24,087,780)</u>
Business-type activities:							
Food services	<u>811,770</u>	<u>186,012</u>	<u>607,994</u>	<u>-</u>	<u>-</u>	<u>(17,764)</u>	<u>(17,764)</u>
Total primary government	<u>\$ 29,506,562</u>	<u>\$ 442,031</u>	<u>\$ 4,617,486</u>	<u>\$ 341,501</u>	<u>\$ (24,087,780)</u>	<u>\$ (17,764)</u>	<u>\$ (24,105,544)</u>
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax					\$ 20,338,690	\$ -	\$ 20,338,690
Grants, subsidies and contributions not restricted					3,048,688	2,375	3,051,063
Investment earnings					24,779	464	25,243
Miscellaneous income					51,236	-	51,236
Transfers					5,451	(5,451)	-
Total general revenues and transfers					<u>23,468,844</u>	<u>(2,612)</u>	<u>23,466,232</u>
Change in net position					(618,936)	(20,376)	(639,312)
Net position - beginning					<u>16,257,398</u>	<u>128,743</u>	<u>16,386,141</u>
Net position - ending					<u>\$ 15,638,462</u>	<u>\$ 108,367</u>	<u>\$ 15,746,829</u>

HANOVER PUBLIC SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Capital Reserve Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 840,089	\$ 850,451	\$ 1,690,540
Investments	1,500,000	1,500,000	3,000,000
Receivables:			
Taxes - net	1,071,310	-	1,071,310
Intergovernmental	539,465	-	539,465
Due from other funds	271,921	-	271,921
Other receivables	280,125	-	280,125
Total assets	<u>\$ 4,502,910</u>	<u>\$ 2,350,451</u>	<u>\$ 6,853,361</u>
LIABILITIES			
Accounts payable	\$ 370,744	\$ 332	\$ 371,076
Accrued salaries and benefits	2,177,237	-	2,177,237
Unearned revenue	4,515	-	4,515
Total liabilities	<u>2,552,496</u>	<u>332</u>	<u>2,552,828</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax revenue	648,283	-	648,283
Total deferred inflows of resources	<u>648,283</u>	<u>-</u>	<u>648,283</u>
FUND BALANCES			
Restricted	-	2,350,119	2,350,119
Assigned	339,084	-	339,084
Unassigned	963,047	-	963,047
Total fund balances	<u>1,302,131</u>	<u>2,350,119</u>	<u>3,652,250</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,502,910</u>	<u>\$ 2,350,451</u>	<u>\$ 6,853,361</u>

HANOVER PUBLIC SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds \$ 3,652,250

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	56,391,604	
Accumulated depreciation	<u>(23,527,560)</u>	32,864,044

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. 648,283

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. 900,000

Deferred charges on bond refundings are reported as deferred outflows of resources in the statement of net position. 841,248

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	(22,318,361)	
Accrued interest on bonds	(170,212)	
OPEB liability	(380,362)	
Compensated absences	<u>(398,428)</u>	<u>(23,267,363)</u>

Net position of governmental activities in the Statement of Net Position \$ 15,638,462

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds
Year Ended June 30, 2014

	General Fund	Capital Reserve Fund	Total Governmental Funds
REVENUES			
Local revenues			
Taxes	\$ 20,499,471	\$ -	\$ 20,499,471
Investment income	16,394	8,385	24,779
Federal revenue from intermediate sources	289,805	-	289,805
Other	325,830	-	325,830
State sources	6,034,135	-	6,034,135
Federal sources	957,166	-	957,166
Total revenues	<u>28,122,801</u>	<u>8,385</u>	<u>28,131,186</u>
EXPENDITURES			
Instruction	18,521,768	-	18,521,768
Support services	7,002,562	-	7,002,562
Operation of noninstructional services	597,127	-	597,127
Facilities acquisition, construction and improvements	-	197,305	197,305
Debt service:			
Principal	1,950,000	-	1,950,000
Interest	698,141	-	698,141
Total expenditures	<u>28,769,598</u>	<u>197,305</u>	<u>28,966,903</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers, net	<u>(2,222)</u>	<u>7,673</u>	<u>5,451</u>
Total other financing sources and uses	<u>(2,222)</u>	<u>7,673</u>	<u>5,451</u>
Net change in fund balances	<u>(649,019)</u>	<u>(181,247)</u>	<u>(830,266)</u>
Fund balances - beginning	<u>1,951,150</u>	<u>2,531,366</u>	<u>4,482,516</u>
Fund balances - ending	<u>\$ 1,302,131</u>	<u>\$ 2,350,119</u>	<u>\$ 3,652,250</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, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (830,266)

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	(1,859,942)	
Capital outlays	<u>174,579</u>	(1,685,363)

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 "available" revenues in the governmental funds. Unavailable tax revenues increased by this amount this year. (160,781)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,950,000

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. 68,140

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. 16,094

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 governmental funds. (71,378)

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. (5,382)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (618,936)

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2014

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 263,701
Receivables	7,225
Intergovernmental receivables	8,702
Inventory	<u>17,628</u>
Total current assets	<u>297,256</u>
Noncurrent Assets	
Machinery and equipment - net	<u>113,404</u>
Total noncurrent assets	<u>113,404</u>
Total assets	<u><u>\$ 410,660</u></u>
LIABILITIES	
Current Liabilities	
Unearned revenue	\$ 9,696
Accounts payable	9,940
Accrued wages	1,931
Due to other funds	271,921
Current portion of compensated absences	<u>5,000</u>
Total current liabilities	<u>298,488</u>
Noncurrent Liabilities	
Compensated absences payable	<u>3,805</u>
Total noncurrent liabilities	<u>3,805</u>
Total liabilities	<u>302,293</u>
NET POSITION	
Net investment in capital assets	113,404
Unrestricted	<u>(5,037)</u>
Total net position	<u>108,367</u>
Total liabilities and net position	<u><u>\$ 410,660</u></u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2014

	Food Service
OPERATING REVENUE	
Food service revenues	\$ 188,387
Total operating revenues	<u>188,387</u>
OPERATING EXPENSES	
Food and milk purchases	471,162
Salaries	213,581
Employee benefits	75,519
Supplies	21,792
Depreciation	26,825
Travel	467
Repairs and maintenance	<u>2,424</u>
Total operating expenses	<u>811,770</u>
Operating (loss)	<u>(623,383)</u>
NON-OPERATING REVENUES (EXPENSES)	
State subsidies	51,883
Federal subsidies	556,111
Investment earnings	<u>464</u>
Total non-operating revenue (expenses)	<u>608,458</u>
Income (loss) before transfers	<u>(14,925)</u>
TRANSFERS	
Transfers in (out)	<u>(5,451)</u>
Change in net position	<u>(20,376)</u>
Total net position - beginning	<u>128,743</u>
Total net position - ending	<u>\$ 108,367</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2014

	Food Service
Cash flows from operating activities:	
Cash received from food sales	\$ 190,513
Cash payments to suppliers for goods	(453,099)
Cash payments to and on behalf of employees	(263,394)
Cash payments for services	<u>(2,424)</u>
Net cash (used) by operating activities	<u>(528,404)</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(12,315)</u>
Cash flows from noncapital financing activities:	
Federal subsidies	579,284
State subsidies	<u>52,052</u>
Net cash provided by noncapital financing activities	<u>631,336</u>
Cash flows from investing activities:	
Earnings on investments	<u>464</u>
Net increase in cash and cash equivalents	91,081
Cash and cash equivalents - beginning	<u>172,620</u>
Cash and cash equivalents - ending	<u>\$ 263,701</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities	
Cash flows from operating activities:	
Operating loss	\$ (623,383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	26,825
Donated food used	32,159
(Increase) decrease in:	
Accounts receivable	(376)
Inventory	10,792
Increase (decrease) in:	
Due to other funds	29,692
Accrued wages	1,989
Compensated absences payable	(3,473)
Accounts payable/unearned revenue	<u>(2,629)</u>
Total adjustments	<u>94,979</u>
Net cash (used) by operating activities	<u>\$ (528,404)</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2014

	Private Purpose	
	Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 497,305	\$ 65,140
Total assets	<u>\$ 497,305</u>	<u>\$ 65,140</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 32,150	\$ 4,220
Due to student groups	<u>-</u>	<u>60,920</u>
Total liabilities	<u>32,150</u>	<u>65,140</u>
NET POSITION		
Net position held in trust for others	<u>465,155</u>	<u>-</u>
Total net position	<u>465,155</u>	<u>-</u>
Total liabilities and net position	<u>\$ 497,305</u>	<u>\$ 65,140</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2014

	Private Purpose Trust Fund
<hr/>	
ADDITIONS	
Interest income	\$ 809
Contributions	<u>65,400</u>
Total additions	<u>66,209</u>
DEDUCTIONS	
Scholarships and awards/grants	41,400
Other operating expenses	<u>300</u>
Total deductions	<u>41,700</u>
Change in net position	24,509
Net position - beginning	<u>440,646</u>
Net position - ending	<u><u>\$ 465,155</u></u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hanover Public School District (School District) operates a public school system which is geographically comprised of the Borough of Hanover in York County, Pennsylvania.

The School District consists of Hanover High School, Hanover Middle School, Clearview, Hanover Street, and Washington Elementary Schools.

The financial statements of the 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.

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.

2. Proprietary Funds

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

Food Service Fund

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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

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

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

3. *Fiduciary Funds*

Fiduciary fund reporting focuses on net 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.

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.

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, 2014

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.

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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, including charges for meals, and the costs of food, salaries and benefits, depreciation and other expenses. Federal and state subsidies are considered non-operating revenue as no exchange transaction occurs.

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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Capital budgets are not implemented for capital improvements in the Capital Reserve Fund. All transactions of the Capital Reserve Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

During 2013-2014, 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.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all demand deposits, petty cash, savings, money market accounts, PSDLAF accounts, and certificates of deposit with an original maturity of less than 90 days owned by the District. Investments include certificates of deposit with an original maturity of greater than 90 days. Investments are stated at cost, which approximates market value.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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, 2014.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

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 Estimated Lives	Business-Type Activities Estimated Lives
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 non-operating revenues/expenses in proprietary funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, deferred charge on bond refunding, as well as prepaid bond insurance costs, are deferred and amortized over the life of the bonds using the straight line 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. Issuance 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, which requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement or termination.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

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.

Other Postemployment Benefits Other Than Pensions

The School District provides continuation of medical benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries until the retired employee reaches Medicare age. See Note 11 for additional information on the School District's other postemployment benefits.

Deferred Outflows and Inflows of Resources

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 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. If there are significant unspent related debt proceeds at yearend, the portion of the debt attributable to the unspent bond proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets or related debt also should be included in this component of net position.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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, 2014, restricted net position in government activities consist of the following:

Restricted for future capital projects	<u>\$ 2,350,119</u>
----------------------------------------	---------------------

Unrestricted Net Position: This component consists of all other net position that does 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.

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

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes.

As detailed in its Fund Balance Policy, the School Board has authorized the finance committee to make assignments of fund balance. Thus these assignments can be made or changed without formal action of the full Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

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

Minimum Fund Balance Policy

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

Policy Regarding Order of Spending

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

NOTE 2 CASH AND INVESTMENTS

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

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

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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, 2014, \$ 3,790,875 of the School District's bank balance of \$ 5,790,875 was exposed to credit risk. All of the \$ 3,790,875 was uninsured and collateralized with securities held by the pledging bank's trust department, but not in the School District's name. This is in accordance with state law concerning public deposits, which allows pooling of public accounts into a single collateral pool.

Included in cash and cash equivalents on the balance sheet are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 11,742. 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.

Included in investments on the statement of net position are certificates of deposits (CDs) all with maturities greater than three months. These are considered deposits for purposes of this disclosure and are included in the custodial credit risk disclosure above. The School District has a CD in the amount of \$ 1,500,000 invested in one individual bank. The School District also has FDIC insured certificates of deposit of \$ 1,500,000 in the custody of a local bank and insured through the Certificate of Deposit Account Registry Service (CDARS). CDARS distributes deposits over banks in its network in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC protection while working with a single participating bank in the network.

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, 2014, 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, 2014

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 July 1 by the Tax Collectors in mid-July and are payable as follows:

Discount	July 1 – September 1
Face	September 2 – November 1
Penalty	November 2 - December 31

Installment payments are available, with one-third of the face value due at September 1, October 1 and November 1. After December 31, the bills are considered delinquent and turned over to 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, 2014:

Real estate	\$ 948,579
Per capita	100,118
Earned income	257,231
Realty transfer	<u>33,808</u>
	1,339,736
Reserve for uncollectible accounts	<u>(268,426)</u>
Taxes receivable, net	1,071,310
Taxes collected within sixty days, recorded as revenues in governmental funds	<u>(423,027)</u>
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources in governmental funds	<u><u>\$ 648,283</u></u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 5 INTERFUND RECEIVABLE AND PAYABLES AND TRANSFERS

Due from/to other funds consist of the following as June 30, 2014:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 271,921	\$ -
Enterprise Funds:		
Food Service Fund	-	271,921
	<u>\$ 271,921</u>	<u>\$ 271,921</u>

The general fund due from food service fund results from the general fund paying for food service fund expenses, mainly payroll, that the food service fund expects to pay back in the next fiscal year.

Interfund transfers consist of the following for the year ended June 30, 2014:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 2,222
Capital Reserve	7,673	-
Food Service	-	5,451
	<u>\$ 7,673</u>	<u>\$ 7,673</u>

The transfer from general fund to capital reserve fund was to cover project expenses that were originally paid out of that fund. The transfer from the food service fund to capital reserve fund was related to the purchase of capital assets.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2014 consist of the following:

State:	Social Security subsidy	\$ 59,567
	Retirement subsidy	405,815
	Other	680
Federal:	Various	<u>73,403</u>
Total - Governmental Funds		539,465
State:	Estimated reimbursement for debt payments (A)	<u>900,000</u>
Total - Governmental Activities		<u>\$ 1,439,465</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, 2014

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2014:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Cost				
Land	\$ 410,600	\$ -	\$ -	\$ 410,600
Site improvements	5,568,563	-	-	5,568,563
Buildings and improvements	44,724,519	110,916	-	44,835,435
Furniture, fixtures and equipment	5,513,343	63,663	-	5,577,006
Total cost	<u>56,217,025</u>	<u>174,579</u>	<u>-</u>	<u>56,391,604</u>
Less accumulated depreciation				
Site improvements	(1,416,658)	(227,178)	-	(1,643,836)
Buildings and improvements	(16,020,887)	(1,376,641)	-	(17,397,528)
Furniture, fixtures and equipment	(4,230,073)	(256,123)	-	(4,486,196)
Total accumulated depreciation	<u>(21,667,618)</u>	<u>(1,859,942)</u>	<u>-</u>	<u>(23,527,560)</u>
Capital assets, net	<u>\$ 34,549,407</u>	<u>\$ (1,685,363)</u>	<u>\$ -</u>	<u>\$ 32,864,044</u>
Business-Type Activities				
Cost				
Machinery and equipment	\$ 476,198	\$ 12,315	\$ (4,289)	\$ 484,224
Less accumulated depreciation				
Machinery and equipment	(348,284)	(26,825)	4,289	(370,820)
Capital assets, net	<u>\$ 127,914</u>	<u>\$ (14,510)</u>	<u>\$ -</u>	<u>\$ 113,404</u>

Depreciation expense for the year ended June 30, 2014 was charged to governmental functions as follows:

Instruction	\$ 1,387,158
Instructional student support	161
Instructional technical support	147,188
Administrative and financial support services	6,186
Health services	13,070
Business services	461
Operation and maintenance of plant services	284,241
Central	349
Student activities	21,128
	<u>\$ 1,859,942</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 8 ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following as of June 30, 2014:

	General Fund	Food Service Fund
Salaries	\$ 750,104	\$ 1,550
Social Security	55,758	119
Retirement	124,495	262
	<u>\$ 930,357</u>	<u>\$ 1,931</u>

NOTE 9 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended June 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
General obligation bonds/notes payable:						
(A) Series of 2012	\$ 8,765,000	\$ -	\$ (645,000)	\$ 8,120,000	\$ 655,000	\$ 7,465,000
(B) Series of 2013	14,085,000	-	(1,305,000)	12,780,000	1,320,000	11,460,000
Bond (discounts)/premium - net	<u>1,581,166</u>	<u>-</u>	<u>(162,805)</u>	<u>1,418,361</u>	<u>162,805</u>	<u>1,255,556</u>
Subtotal - bonds/notes	<u>24,431,166</u>	<u>-</u>	<u>(2,112,805)</u>	<u>22,318,361</u>	<u>2,137,805</u>	<u>20,180,556</u>
Compensated absences:						
Sick leave	196,003	119,179	(60,575)	254,607	95,000	159,607
Personal leave	103,727	65,796	(127,848)	41,675	30,000	11,675
Vacation pay	<u>93,316</u>	<u>142,582</u>	<u>(133,752)</u>	<u>102,146</u>	<u>70,000</u>	<u>32,146</u>
Subtotal - compensated absences	<u>393,046</u>	<u>327,557</u>	<u>(322,175)</u>	<u>398,428</u>	<u>195,000</u>	<u>203,428</u>
Total long-term liabilities	<u>\$ 24,824,212</u>	<u>\$ 327,557</u>	<u>\$ (2,434,980)</u>	<u>\$ 22,716,789</u>	<u>\$ 2,332,805</u>	<u>\$ 20,383,984</u>
Business-Type Activities:						
Compensated absences:						
Sick leave	\$ 7,911	\$ 3,972	\$ (9,082)	\$ 2,801	\$ 1,500	\$ 1,301
Vacation pay	3,221	4,124	(2,869)	4,476	2,400	2,076
Personal leave	<u>1,146</u>	<u>1,683</u>	<u>(1,301)</u>	<u>1,528</u>	<u>1,100</u>	<u>428</u>
Total long-term liabilities	<u>\$ 12,278</u>	<u>\$ 9,779</u>	<u>\$ (13,252)</u>	<u>\$ 8,805</u>	<u>\$ 5,000</u>	<u>\$ 3,805</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 2012 bonds 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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

(B) The Refunding Series of 2013 bonds 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 2004 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.

The annual principal and interest requirements for future general obligation bonds and notes as of June 30, 2014 are as follows:

	Series of 2012		Series of 2013		Totals		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
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	725,000	127,481	1,495,000	304,775	2,220,000	432,256	2,652,256
2020-2024	3,845,000	405,981	5,795,000	590,150	9,640,000	996,131	10,636,131
2025-2029	830,000	22,825	-	-	830,000	22,825	852,825
	<u>\$ 8,120,000</u>	<u>\$ 1,242,311</u>	<u>\$ 12,780,000</u>	<u>\$ 2,574,975</u>	<u>\$ 20,900,000</u>	<u>\$ 3,817,286</u>	<u>\$ 24,717,286</u>

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:

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

Total minimum lease payments \$ 68,411

The total rent for all operating leases for the year ended June 30, 2014 was \$ 78,616.

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.

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%.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 10 PENSION PLAN (CONTINUED)

Employer Contributions –

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and .93% 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, 2014	2,166,325	100%
June 30, 2013	1,606,408	100%
June 30, 2012	1,055,196	100%

For the year ended June 30, 2014, the Commonwealth of Pennsylvania reimbursed the School District for one-half of its retirement expense.

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

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

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

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School District. For fiscal year 2014, the School District contributed \$ 74,617 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 \$ 185,381, or 100% of the total premiums.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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	13,904
Adjustment to ARC	<u>(18,969)</u>
Annual OPEB cost	145,995
Employer contributions made - estimated	<u>(74,617)</u>
Increase in net OPEB obligation	71,378
Net OPEB obligation - beginning of the year	<u>308,984</u>
Net OPEB obligation - end of the year	<u><u>\$ 380,362</u></u>

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, 2014 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 145,995	51%	\$ 380,362
2013	146,689	71%	308,984
2012	180,024	64%	266,644

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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, presents multiyear trend information 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.

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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

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, 2014:

York County School of Technology	<u>\$ 394,790</u>
Lincoln Intermediate Unit No. 12	<u>\$ 2,021,284</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			
Restricted for:			
Future capital expenditures	\$ -	\$ 2,350,119	\$ 2,350,119
Assigned for:			
Subsequent year budget deficit	339,084	-	339,084
Unassigned	<u>963,047</u>	<u>-</u>	<u>963,047</u>
Total Fund Balances	<u>\$ 1,302,131</u>	<u>\$ 2,350,119</u>	<u>\$ 3,652,250</u>

NOTE 14 COMMITMENTS AND CONTINGENCIES

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

At times 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.

At times 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, 2014 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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

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.

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, 2014:

Net position - July 1, 2013	\$ 2,478,580
Contributions and interest income	3,024,651
Minipool reimbursement	234,220
Claims paid	(2,849,041)
Stop-loss insurance	(32,758)
Minipool premium	(175,208)
Administrative fees	(104,439)
Other	<u>(8,835)</u>
Net position - June 30, 2014	<u>\$ 2,567,170</u>

Overall, the Lincoln Benefit Trust had net position of \$ 77,470,194 as of June 30, 2014, and showed an increase in net position of \$ 7,324,237 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, 2014

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Local Sources				
Taxes	\$ 20,464,971	\$ 20,464,971	\$ 20,499,471	\$ 34,500
Investment earnings	35,000	35,000	16,394	(18,606)
Federal revenue from intermediate sources	375,000	375,000	289,805	(85,195)
Other	179,552	179,552	325,830	146,278
State sources	5,939,343	5,939,343	6,034,135	94,792
Federal sources	756,896	756,896	957,166	200,270
Total revenues	<u>27,750,762</u>	<u>27,750,762</u>	<u>28,122,801</u>	<u>372,039</u>
EXPENDITURES				
Instruction	18,676,809	18,510,809	18,521,768	(10,959)
Support services	6,894,262	7,001,262	7,002,562	(1,300)
Operation of noninstructional services	422,128	595,128	597,127	(1,999)
Debt service:				
Principal	1,950,000	1,950,765	1,950,000	765
Interest	639,378	697,613	698,141	(528)
Debt issue costs/discounts	-	-	-	-
Total expenditures	<u>28,582,577</u>	<u>28,755,577</u>	<u>28,769,598</u>	<u>(14,021)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers, net	<u>(175,500)</u>	<u>(2,500)</u>	<u>(2,222)</u>	<u>278</u>
Total other financing sources and (uses)	<u>(175,500)</u>	<u>(2,500)</u>	<u>(2,222)</u>	<u>278</u>
Net change in fund balance	(1,007,315)	(1,007,315)	(649,019)	358,296
Fund balance - beginning	<u>3,031,484</u>	<u>3,031,484</u>	<u>1,951,150</u>	<u>(1,080,334)</u>
Fund balance - ending	<u>\$ 2,024,169</u>	<u>\$ 2,024,169</u>	<u>\$ 1,302,131</u>	<u>\$ (722,038)</u>

HANOVER PUBLIC SCHOOL DISTRICT
OPEB (Other Post Employment Benefit Plan)
Unaudited Required Schedule of Funding Progress
Year Ended June 30, 2014

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, 2014

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, 2013	Revenue Recognized	Expenditures Recognized	Receivable (Payable) June 30, 2014
U.S. DEPARTMENT OF EDUCATION									
Federal Direct Loans	84.268	22766	07/01/13-06/30/14	N/A	\$ 260,510	\$ -	\$ 260,510	\$ 260,510	\$ -
Pell Grant Program	84.063	16084	07/01/13-06/30/14	N/A	<u>121,293</u>	<u>-</u>	<u>121,293</u>	<u>121,293</u>	<u>-</u>
Total direct funds					381,803	-	381,803	381,803	-
Passed Through Pennsylvania Department of Education									
ESEA Title I	84.010	013-13-0181	07/01/12-09/30/13	385,616	244,663	244,663	-	-	-
ESEA Title I	84.010	013-14-0181	07/01/13-09/30/14	351,145	320,409	-	351,145	351,145	30,736
School Improvement	84.010	042-13-0181	04/08/13-09/30/14	50,403	50,403	-	50,403	50,403	-
ESEA Title II	84.367	020-13-0181	07/01/12-09/30/13	73,578	40,078	(6,680)	53,437	53,437	6,679
ESEA Title II	84.367	020-14-0181	07/01/13-09/30/14	69,892	25,444	-	52,912	52,912	27,468
ESEA Title III	84.365	010-13-0181	07/01/12-06/30/13	27,702	20,147	20,147	-	-	-
ESEA Title III	84.365	010-14-0181	07/01/13-06/30/14	31,241	<u>22,721</u>	<u>-</u>	<u>31,241</u>	<u>31,241</u>	<u>8,520</u>
Total passed through Pennsylvania Department of Education					723,865	258,130	539,138	539,138	73,403
Passed through Lincoln Intermediate Unit #12									
IDEA Part B	84.027	N/A	07/01/13-06/30/14	277,683	277,683	-	277,683	277,683	-
IDEA Section 619	84.173	N/A	07/01/13-06/30/14	5,361	<u>5,361</u>	<u>-</u>	<u>5,361</u>	<u>5,361</u>	<u>-</u>
Total passed through Lincoln Intermediate Unit #12					283,044	-	283,044	283,044	-
Total U.S. Department of Education					<u>1,388,712</u>	<u>258,130</u>	<u>1,203,985</u>	<u>1,203,985</u>	<u>73,403</u>
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	49,753	49,753	-	-	-
National School Lunch Program	10.555	362	07/01/13-06/30/14	N/A	380,118	-	386,810	386,810	6,692
Breakfast	10.553	367	07/01/12-06/30/13	N/A	11,052	11,052	-	-	-
Breakfast	10.553	365	07/01/13-06/30/14	N/A	72,664	-	74,234	74,234	1,570
Fresh Fruits and Vegetables	10.582	362	07/01/13-06/30/14	N/A	28,924	-	28,924	28,924	-
Summer Food	10.559	264	07/01/13-06/30/14	N/A	<u>33,985</u>	<u>-</u>	<u>33,985</u>	<u>33,985</u>	<u>-</u>
Total passed through Pennsylvania Department of Education					576,496	60,805	523,953	523,953	8,262
Passed through the Pennsylvania Department of Agriculture									
National School Lunch Program (commodities)	10.555	N/A	07/01/13-06/30/14	N/A (B)	<u>32,159</u>	<u>-</u>	<u>32,159</u>	<u>32,159</u>	<u>-</u>
Total U.S. Department of Agriculture					<u>608,655</u>	<u>60,805</u>	<u>556,112</u>	<u>556,112</u>	<u>8,262</u>
Passed through Other Governmental Entities									
ACCESS-Admin	93.778	N/A	07/01/13-06/30/14	N/A	<u>36,240</u>	<u>-</u>	<u>36,240</u>	<u>36,240</u>	<u>-</u>
Total Federal Expenditures					<u>\$ 2,033,607</u>	<u>\$ 318,935</u>	<u>\$ 1,796,337</u>	<u>\$ 1,796,337</u>	<u>\$ 81,665</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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	\$ 386,810	
National School Lunch Program (commodities)	10.555	32,159	
School Breakfast Program	10.553	74,234	
Summer Food Service Program for Children	10.559	<u>33,985</u>	
		527,188	29.3%
Student Financial Assistance Cluster:			
Federal Direct Loans	84.268	260,510	
Pell Grant Program	84.063	<u>121,293</u>	
		381,803	21.3%
Special Education Cluster:			
I.D.E.A. Part B	84.027	277,683	
I.D.E.A. Section 619	84.173	<u>5,361</u>	
		283,044	15.8%
ESEA Title I	84.010	401,548	22.4%
Title II - Improving Teacher Quality	84.367	106,349	5.9%
ESEA Title III	84.365	31,241	1.7%
ACCESS Admin	93.778	36,240	2.0%
Fresh Fruit and Vegetables	10.582	<u>28,924</u>	1.6%
		<u>\$ 1,796,337</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, 2014, 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 7, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, 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. Accordingly, we do not express an opinion on the effectiveness of Hanover Public School District's internal control.

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

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



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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 7, 2015



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, 2014. 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.



Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2014.

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 2014-001. 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 compliance 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.

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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.



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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2014-001 and 2014-002 to be significant deficiencies.

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 7, 2015

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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: Unmodified

- 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
10.555	Child Nutrition Cluster:
10.553	National School Lunch Program
10.559	National School Breakfast Program
	Summer Food Service Program for Children
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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Section II - Financial Statement Findings

A. Significant Deficiencies or Material Weaknesses in Internal Control

None noted

B. Compliance Findings

None noted

Section III – Federal Award Findings and Questioned Costs

A. Internal Control Over Major Programs Findings

Finding Reference: 2014-001 - 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: Significant Deficiency 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 until after the fiscal year began and did not have adequate internal controls to ensure that certifications were obtained for all vendors paid with Title I funds until after the fiscal year began and covered transactions were entered into.

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, 2014

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 now requires 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:	2014-002 - Reporting
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Child Nutrition Cluster - CFDA 10.553, 10.555 and 10.559
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency in Internal Control Over Compliance

Condition: The monthly claim forms for reimbursement filed by the School District to document reimbursable meals for the food service 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 School District should have a procedure in place to review the monthly claim forms generated comparing the information to actual data received from the School District's separate cafeteria software system. This will ensure their accuracy before reports are submitted.

Cause: The School District did not perform an independent review of the forms by someone other than the preparer before they were submitted.

Effect: The claim forms could include incorrect information which may result in incorrect reimbursement and if selected for audit by the state, could jeopardize the School District's reimbursement amount in future periods.

Questioned costs: None

Recommendation: We recommend the School District assign the task of reviewing these monthly reports, after they are generated but before they are submitted, to someone other than the preparer of the reports. This review should include documentation of a signature or initials of the person performing the review.

Auditee response: Someone other than the Cafeteria Manager will review the monthly reports before they are submitted to ensure accuracy in the filing.

B. Compliance Findings

See Finding 2014-001.

HANOVER PUBLIC SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings Related to Federal Awards
Year Ended June 30, 2014

Findings related to federal awards:

Finding 2013-001 – Suspension and Debarment

Status: This finding remains in the current year schedule of finding and questioned costs. The School District did not implement a process to ensure compliance with this requirement until after the fiscal year began and covered transactions were entered into.

Finding 2013-002 – Reporting

Status: This finding is removed in the current year schedule of findings and questioned costs. The School District now has a process in place to ensure quarterly report information is reviewed for accuracy before the form is submitted.

Finding 2013-003 – Procurement

Status: This finding is removed in the current year schedule of findings and questioned costs. The School District now has a process in place to ensure required purchases are bid properly.