

Audited
Financial
Statements

June 30,
2017

Hanover Public School District



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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, 2017, 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, 2017, 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 4 to 12, the budgetary comparison schedule – general fund on page 55, schedule of School District's proportionate share of the net pension liability – PSERS on page 56, schedule of School District's contributions – PSERS on page 57 and the OPEB schedule of funding progress on page 58 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018, 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.

Hanover, Pennsylvania
January 3, 2018

Smith & Elliott Beams Company, LLC

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2017

The discussion and analysis of Hanover Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School 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 School 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 School District's financial status declined during the 2016-17 fiscal year. Total net position decreased 5% over the course of the year.
- Overall general revenues and net transfers were \$ 25,854,647, which represents \$ 452,486 less than net program expenses.
- The net position of business-type activities – food services – decreased 4% this year. Revenues increased 5% to \$ 965,432 (including transfers), while expenses increased 7% to \$ 993,066.
- At the end of the current fiscal year, the fund balance of the General Fund was \$ 1,345,780 compared to \$ 1,049,042 in the prior year. A decrease was anticipated in the budget process as fund balance was expected to be used to balance the budget but because of revenues exceeding budget more than expenses, the general fund had a positive change in fund balance during the year.

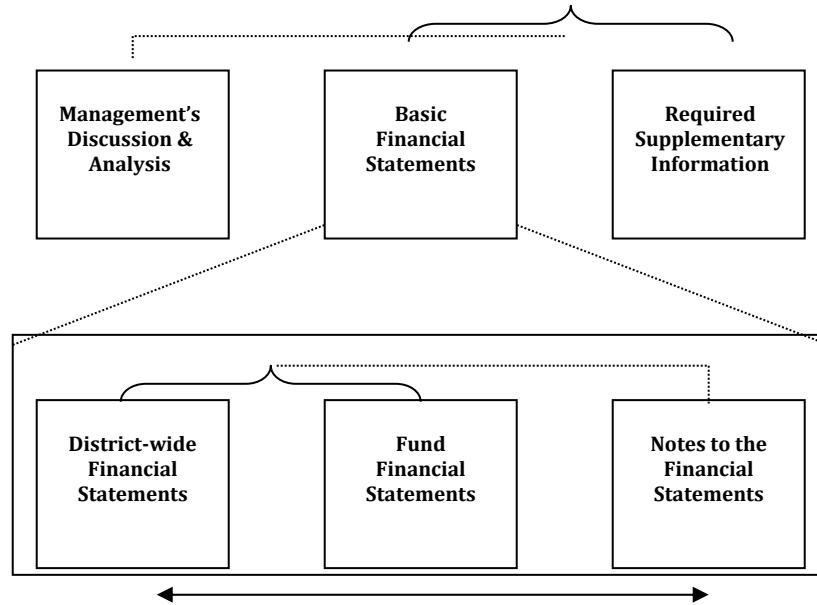
OVERVIEW OF THE FINANCIAL STATEMENTS

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 School District. The first two statements are **Government-wide financial statements** that provide both *short-term* and *long-term* information about the School District's overall financial status. The remaining statements are **fund financial statements** that focus on *individual parts* of the School District, reporting the School 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 School District operates *like a business*, such as food services. *Fiduciary funds* statements provide information about the financial relationships in which the School 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, 2017**

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 School 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, 2017

Figure A-2 summarizes the major features of the School District’s financial statements, including the portion of the School 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 School District (except fiduciary funds)	Activities of the School District that is not proprietary or fiduciary, such as general operating and capital projects.	Activities the School District operates similar to private businesses, such as food service.	Instances in which the School 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
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GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the School 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 School District's net position and how they have changed. Net position, the difference between the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, are one way to measure the School District's financial health or position.

- Over time, increases or decreases in the School District's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School 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 School District are divided into two categories:

- ***Governmental activities*** – Most of the School 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 School 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 School District's funds. These statements focus on the School District's most significant or "major" funds – not on the School District as a whole. Funds are accounting components that the School 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 School District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The School District has three types of funds as follows:

Governmental funds – Most of the School 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 School 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 School 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 School 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 School District charges customers for services it provides – whether to outside customers or to other units in the School District – these services are generally reported in proprietary funds. The Food Service Fund is the School 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 School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The School 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 School District excludes these activities from the School District's government-wide financial statements because the School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The School District's combined net position was smaller on June 30, 2017 when compared to the prior fiscal year. Total net position decreased 5% during the year. (See Figure A-1) The downturn in the School District's financial position came from its governmental and business-type activities. Governmental net position decreased 2% from prior year. The net position of the School District's business-type activities decreased 4% from prior year.

Table A-1
June 30, 2017 and 2016
Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 6,160,476	\$ 6,342,831	\$ 37,842	\$ 74,026	\$ 6,198,318	\$ 6,416,857
Capital assets	29,862,840	28,728,096	64,060	49,874	29,926,900	28,777,970
Total Assets	36,023,316	35,070,927	101,902	123,900	36,125,218	35,194,827
Deferred outflows of resources	4,370,443	9,339,115	105,888	216,794	4,476,331	9,555,909
Total deferred outflows of resources	4,370,443	9,339,115	105,888	216,794	4,476,331	9,555,909
Current and other liabilities	5,232,899	6,091,741	20,625	17,473	5,253,524	6,109,214
Long-term liabilities	60,037,428	64,178,619	842,240	968,858	60,879,668	65,147,477
Total liabilities	65,270,327	70,270,360	862,865	986,331	66,133,192	71,256,691
Deferred inflows of resources	301,613	462,054	5,153	42,225	306,766	504,279
Total deferred inflows of resources	301,613	462,054	5,153	42,225	306,766	504,279
Net Position						
Net investment in capital assets	12,517,007	13,535,403	64,060	49,874	12,581,067	13,585,277
Restricted	1,946,690	1,674,840	-	-	1,946,690	1,674,840
Unrestricted	(39,641,878)	(41,532,615)	(724,288)	(737,736)	(40,366,166)	(42,270,351)
Total net position	\$ (25,178,181)	\$ (26,322,372)	\$ (660,228)	\$ (687,862)	\$ (25,838,409)	\$ (27,010,234)

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

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Required Supplementary Information
June 30, 2017

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 School District's activities that are supported by other general revenues. The two largest general revenues are the local taxes assessed to community taxpayers and the Basic Education Subsidy provided by the State of Pennsylvania.

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 School District.

Table A-2
Fiscal Years ended June 30, 2017 and 2016
Changes in Net position

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Revenues						
Program revenues						
Charges for services	\$ 209,695	\$ 119,164	\$ 167,650	\$ 148,141	\$ 377,345	\$ 267,305
Operating grants and contributions	4,799,721	4,920,103	702,843	744,687	5,502,564	5,664,790
Capital grants and contributions	481,582	345,457	-	-	481,582	345,457
General revenues					-	-
Property and wage taxes	21,540,499	22,268,547	-	-	21,540,499	22,268,547
Unrestricted grants, subsidies and contributions	3,268,399	3,555,339	-	7,599	3,268,399	3,562,938
Other	96,971	98,557	3,066	16,241	100,037	114,798
Total Revenues	\$ 30,396,867	\$ 31,307,167	\$ 873,559	\$ 916,668	\$ 31,270,426	\$ 32,223,835
Expenses						
Instruction	\$ 20,665,070	\$ 22,170,361	\$ -	\$ -	\$ 20,665,070	\$ 22,170,361
Instructional student support	2,538,449	2,572,814	-	-	2,538,449	2,572,814
Administrative and financial support	2,861,479	3,082,531	-	-	2,861,479	3,082,531
Operation and maintenance of plant	2,316,281	2,232,019	-	-	2,316,281	2,232,019
Pupil transportation	1,703,570	1,225,360	-	-	1,703,570	1,225,360
Student activities	548,047	615,183	-	-	548,047	615,183
Community services	22,746	21,518	-	-	22,746	21,518
Interest on long-term debt	543,607	482,808	-	-	543,607	482,808
Food services	-	-	924,878	993,066	924,878	993,066
Total Expenses	\$ 31,199,249	\$ 32,402,594	\$ 924,878	\$ 993,066	\$ 32,124,127	\$ 33,395,660
Transfers (out) in	(23,980)	(48,764)	23,980	48,764	-	-
Increase (Decrease) in Net Position	\$ (826,362)	\$ (1,144,191)	\$ (27,339)	\$ (27,634)	\$ (853,701)	\$ (1,171,825)

Table A-3 shows the School 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 School District's taxpayers by each of these functions.

HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
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June 30, 2017

Table A-3
Fiscal Years ended June 30, 2017 and 2016
Governmental Activities

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2016	2017	2016-2017	2016	2017	2016-2017
Instruction	\$ 20,665,070	\$ 22,170,361	7.28%	\$ 16,857,700	\$ 18,142,940	7.62%
Instructional student support	2,538,449	2,572,814	1.35%	2,220,470	2,215,966	(0.20%)
Administrative and financial support	2,861,479	3,082,531	7.73%	2,606,801	2,784,106	6.80%
Operation and maintenance of plant	2,316,281	2,232,019	(3.64%)	2,162,846	2,078,765	(3.89%)
Pupil transportation	1,703,570	1,225,360	(28.07%)	1,325,600	1,106,964	(16.49%)
Student activities	548,047	615,183	12.25%	464,158	543,848	17.17%
Facilities acquisition	22,746	21,518	(5.40%)	8,651	7,930	(8.33%)
Interest on long-term debt	543,607	482,808	(11.18%)	62,025	137,351	121.44%
Total governmental activities	\$ 31,199,249	\$ 32,402,594	3.86%	\$ 25,708,251	\$ 27,017,870	5.09%

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

Table A-4
Fiscal Years ended June 30, 2017 and 2016
Business-type Activities

Functions/Programs	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2016	2017	2015-2016	2016	2017	2015-2016
Food services	\$ 924,878	\$ 993,066	7.37%	\$ 54,385	\$ 100,238	84.31%

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

At June 30, 2017, the School District's governmental funds reported a combined fund balance of \$ 3,020,620, which is an increase of \$ 50,400. The major changes in fund balance occurred in two funds:

General Fund

The General Fund had an increase in fund balance of \$ 296,738, despite the anticipated budgeted use of fund balance of \$ 212,390. This was the result of tax revenue being higher than budgeted, an increase in the state basic education formula that benefited the District and additional federal revenues.

Capital Reserve Fund

The \$ 246,338 decrease in fund balance was due to the utilization of capital reserve monies to make payments on maintenance projects throughout the School District.

**HANOVER PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
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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 School 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 School District's original and final budget amounts compared with amounts actually paid and received is shown in the financial statements.

The School District's 2016-2017 budget for the general fund projected that expenditures would exceed revenues by approximately \$ 212,390. The actual results for the year showed revenues exceeding expenditures by approximately \$296,738.

- Actual revenues were \$ 732,262 higher than expected, due to additional tax collections of \$ 203,175, additional basic education funding state revenue of \$ 337,500 due to a change in the state basic education funding formula, and additional federal revenue of \$ 137,000.
- Actual expenditures were higher than budget by \$ 212,856, or less than 1 percent of total expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the School District had \$ 28,777,970 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 \$ 1,148,930, or 4% from last year. Total depreciation expense for the year was \$ 1,671,865, while building and site improvements and additions to equipment and furniture totaled \$ 567,767.

DEBT ADMINISTRATION

As of July 1, 2016, the School District had total outstanding bond principal of \$ 16,905,000. The School District made payments against principal of \$ 2,085,000 resulting in ending outstanding bond principal as of June 30, 2017 of \$ 14,820,000:

**Table A-5
Outstanding Debt**

	2016	2017
General Obligation Bonds		
Series 2012	\$ 6,795,000	\$ 6,105,000
Series 2013	10,110,000	8,715,000
Bond (discounts)/premium - net	1,092,751	929,946
Total	\$ 17,997,751	\$ 15,749,946

Other long-term obligations include accrued vacation pay and sick leave for specific employees of the School District, as well as certain other postemployment benefits (OPEB) and pension liabilities. 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)
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CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

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

- The retirement system (PSERS) is to have rate increases to 33.43% of wages in 2018-2019, and projected future yearly rate increases at slightly higher levels, however at a more level amount. The 2017-2018 enacted rate is 32.57%. The School District at the completion of the retirement spike has been able to maintain 3% to 6% of total expenses in fund balance as previously projected.
- The current state Act 1 Index allowance on the amount of millage that can be increased in any one year impacts the School District's ability to generate revenue.
- The School District is reducing the use of fund balance to balance the budget. For 2017-2018 the budgeted use of fund balance is zero.
- The School District is considering a new bond issue, while maintaining annual debt payments at the current levels, through 2026-2027 and reduced and eliminated in 2027-2028.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School 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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,075,269	\$ 326,252	\$ 1,401,521
Investments	2,538,502	-	2,538,502
Receivables:			
Taxes - net	1,127,900	-	1,127,900
Intergovernmental	1,063,325	-	1,063,325
Other	266,703	253	266,956
Internal balances	263,406	(263,406)	-
Inventories	-	10,927	10,927
Prepaid expenses	7,726	-	7,726
Total current assets	<u>6,342,831</u>	<u>74,026</u>	<u>6,416,857</u>
Noncurrent Assets			
Capital assets not being depreciated:			
Land	410,600	-	410,600
Capital assets, net:			
Site improvements	3,444,855	-	3,444,855
Buildings and improvements	23,846,697	-	23,846,697
Furniture, fixtures and equipment	1,025,944	49,874	1,075,818
Total noncurrent assets	<u>28,728,096</u>	<u>49,874</u>	<u>28,777,970</u>
Total Assets	<u>35,070,927</u>	<u>123,900</u>	<u>35,194,827</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension liability	8,781,862	216,794	8,998,656
Deferred charge on bond refunding	557,253	-	557,253
Total deferred outflows of resources	<u>9,339,115</u>	<u>216,794</u>	<u>9,555,909</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 44,410,042</u>	<u>\$ 340,694</u>	<u>\$ 44,750,736</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,190,406	\$ 13,278	\$ 1,203,684
Accrued salaries and benefits/withholdings	2,256,054	220	2,256,274
Accrued interest	130,476	-	130,476
Portion due or payable within one year:			
General obligation bonds payable	2,292,805	-	2,292,805
Compensated absences	222,000	3,975	225,975
Total current liabilities	<u>6,091,741</u>	<u>17,473</u>	<u>6,109,214</u>
Noncurrent Liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	13,457,141	-	13,457,141
Compensated absences	268,200	7,794	275,994
Net pension obligation	49,735,570	961,064	50,696,634
OPEB Liability	717,708	-	717,708
Total noncurrent liabilities	<u>64,178,619</u>	<u>968,858</u>	<u>65,147,477</u>
Total Liabilities	<u>70,270,360</u>	<u>986,331</u>	<u>71,256,691</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension liability	462,054	42,225	504,279
NET POSITION			
Net investment in capital assets	13,535,403	49,874	13,585,277
Restricted	1,674,840	-	1,674,840
Unrestricted	(41,532,615)	(737,736)	(42,270,351)
Total Net Position	<u>(26,322,372)</u>	<u>(687,862)</u>	<u>(27,010,234)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 44,410,042</u>	<u>\$ 340,694</u>	<u>\$ 44,750,736</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2017

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	\$ 22,170,361	\$ 42,675	\$ 3,984,746	\$ -	\$ (18,142,940)	\$ -	\$ (18,142,940)
Instructional student support	2,572,814	-	356,848	-	(2,215,966)	-	(2,215,966)
Administration and financial support services	3,082,531	-	298,425	-	(2,784,106)	-	(2,784,106)
Operation and maintenance of plant services	2,232,019	21,508	131,746	-	(2,078,765)	-	(2,078,765)
Pupil transportation	1,225,360	-	118,396	-	(1,106,964)	-	(1,106,964)
Student activities	615,183	44,886	26,449	-	(543,848)	-	(543,848)
Community services	21,518	10,095	3,493	-	(7,930)	-	(7,930)
Interest and amortization	482,808	-	-	345,457	(137,351)	-	(137,351)
Total governmental activities	<u>32,402,594</u>	<u>119,164</u>	<u>4,920,103</u>	<u>345,457</u>	<u>(27,017,870)</u>	<u>-</u>	<u>(27,017,870)</u>
Business-type activities:							
Food services	<u>993,066</u>	<u>148,141</u>	<u>744,687</u>	<u>-</u>	<u>-</u>	<u>(100,238)</u>	<u>(100,238)</u>
Total primary government	<u>\$ 33,395,660</u>	<u>\$ 267,305</u>	<u>\$ 5,664,790</u>	<u>\$ 345,457</u>	<u>\$ (27,017,870)</u>	<u>\$ (100,238)</u>	<u>\$ (27,118,108)</u>
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax					\$ 22,268,547	\$ -	\$ 22,268,547
Grants, subsidies and contributions not restricted					3,555,339	7,599	3,562,938
Investment earnings					41,217	28	41,245
Miscellaneous income					57,340	16,213	73,553
Transfers					(48,764)	48,764	-
Total general revenues and transfers					<u>25,873,679</u>	<u>72,604</u>	<u>25,946,283</u>
Change in net position					(1,144,191)	(27,634)	(1,171,825)
Net position - beginning					<u>(25,178,181)</u>	<u>(660,228)</u>	<u>(25,838,409)</u>
Net position - ending					<u>\$ (26,322,372)</u>	<u>\$ (687,862)</u>	<u>\$ (27,010,234)</u>

HANOVER PUBLIC SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Capital Reserve Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 909,975	\$ 165,294	\$ 1,075,269
Investments	1,000,000	1,538,502	2,538,502
Receivables:			
Taxes - net	1,127,900	-	1,127,900
Intergovernmental	1,063,325	-	1,063,325
Other receivables	266,703	-	266,703
Due from other funds	263,406	-	263,406
Prepaid expenditures	<u>7,726</u>	<u>-</u>	<u>7,726</u>
Total assets	<u>\$ 4,639,035</u>	<u>\$ 1,703,796</u>	<u>\$ 6,342,831</u>
LIABILITIES			
Accounts payable	\$ 444,233	\$ 28,956	\$ 473,189
Accrued salaries and benefits	<u>2,256,054</u>	<u>-</u>	<u>2,256,054</u>
Total liabilities	<u>2,700,287</u>	<u>28,956</u>	<u>2,729,243</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax revenue	<u>592,968</u>	<u>-</u>	<u>592,968</u>
Total deferred inflows of resources	<u>592,968</u>	<u>-</u>	<u>592,968</u>
FUND BALANCES			
Nonspendable	7,726	-	7,726
Restricted	-	1,674,840	1,674,840
Unassigned	<u>1,338,054</u>	<u>-</u>	<u>1,338,054</u>
Total fund balances	<u>1,345,780</u>	<u>1,674,840</u>	<u>3,020,620</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,639,035</u>	<u>\$ 1,703,796</u>	<u>\$ 6,342,831</u>

HANOVER PUBLIC SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2017

Total fund balances - governmental funds \$ 3,020,620

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	57,523,785	
Accumulated depreciation	<u>(28,795,689)</u>	28,728,096

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. 592,968

Deferred charges on bond refundings are reported as deferred outflows of resources in the statement of net position. 557,253

Claims and judgments that are not due and payable in the current period are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position (717,217)

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	(15,749,946)	
Accrued interest on bonds	(130,476)	
OPEB liability	(717,708)	
Net pension liability	(49,735,570)	
Deferred outflows related to pension liability	8,781,862	
Deferred inflows related to pension liability	(462,054)	
Compensated absences	<u>(490,200)</u>	<u>(58,504,092)</u>

Net position of governmental activities in the Statement of Net Position \$ (26,322,372)

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds
Year Ended June 30, 2017

	General Fund	Capital Reserve Fund	Total Governmental Funds
REVENUES			
Local revenues			
Taxes	\$ 22,232,805	\$ -	\$ 22,232,805
Investment income	27,366	13,851	41,217
Federal revenue from intermediate sources	355,559	-	355,559
Other	275,949	-	275,949
State sources	7,643,353	-	7,643,353
Federal sources	<u>722,542</u>	<u>-</u>	<u>722,542</u>
Total revenues	<u>31,257,574</u>	<u>13,851</u>	<u>31,271,425</u>
EXPENDITURES			
Instruction	19,182,341	-	19,182,341
Support services	8,517,585	-	8,517,585
Operation of noninstructional services	599,576	-	599,576
Facilities acquisition, construction and improvements	-	278,911	278,911
Debt service:			
Principal	2,085,000	-	2,085,000
Interest	<u>566,056</u>	<u>-</u>	<u>566,056</u>
Total expenditures	<u>30,950,558</u>	<u>278,911</u>	<u>31,229,469</u>
OTHER FINANCING SOURCES (USES)			
Refund of prior year revenue	57,208	-	57,208
Interfund transfers, net	<u>(67,486)</u>	<u>18,722</u>	<u>(48,764)</u>
Total other financing sources and uses	<u>(10,278)</u>	<u>18,722</u>	<u>8,444</u>
Net change in fund balances	<u>296,738</u>	<u>(246,338)</u>	<u>50,400</u>
Fund balances - beginning	<u>1,049,042</u>	<u>1,921,178</u>	<u>2,970,220</u>
Fund balances - ending	<u>\$ 1,345,780</u>	<u>\$ 1,674,840</u>	<u>\$ 3,020,620</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, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 50,400

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	(1,671,865)	
Capital outlays	<u>537,121</u>	(1,134,744)

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.

16,710

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

2,085,000

Governmental funds report prepaid bond insurance, deferred charge on bond refunding and discounts and premiums 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.

15,108

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.

(179,674)

In the statement of activities, net pension activity represents future estimated obligations that do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(1,359,012)

In the statement of activities, claims and judgments are recorded as expense. However, since this does not require the use of current financial resources, they are not reported as expenditures in the governmental funds.

(691,705)

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.

(14,414)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,144,191)

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2017

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 326,252
Accounts receivable	253
Inventory	<u>10,927</u>
Total current assets	<u>337,432</u>
Noncurrent Assets	
Machinery and equipment - net	<u>49,874</u>
Total noncurrent assets	<u>49,874</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension liability	<u>216,794</u>
Total assets and deferred outflows of resources	<u><u>\$ 604,100</u></u>
LIABILITIES	
Current Liabilities	
Unearned revenue	\$ 13,278
Accrued wages	220
Due to other funds	263,406
Current portion of compensated absences	<u>3,975</u>
Total current liabilities	<u>280,879</u>
Noncurrent Liabilities	
Compensated absences payable	7,794
Net pension obligation	<u>961,064</u>
Total noncurrent liabilities	<u>968,858</u>
Total liabilities	<u>1,249,737</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension liability	<u>42,225</u>
NET POSITION	
Net investment in capital assets	49,874
Unrestricted	<u>(737,736)</u>
Total net position	<u>(687,862)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 604,100</u></u>

HANOVER PUBLIC SCHOOL DISTRICT**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2017**

	Food Service
OPERATING REVENUE	
Food service revenues	\$ 162,651
Total operating revenues	<u>162,651</u>
OPERATING EXPENSES	
Food and milk purchases	518,596
Salaries	259,253
Employee benefits	149,486
Supplies	30,350
Depreciation	27,634
Professional services	5,922
Repairs and maintenance	871
Travel	954
Total operating expenses	<u>993,066</u>
Operating (loss)	<u>(830,415)</u>
NON-OPERATING REVENUES (EXPENSES)	
State subsidies	77,123
Federal subsidies	667,564
Capital contribution	9,302
Investment earnings	28
Total non-operating revenue (expenses)	<u>754,017</u>
TRANSFERS	
Transfers in (out)	<u>48,764</u>
Change in net position	<u>(27,634)</u>
Total net position - beginning	<u>(660,228)</u>
Total net position - ending	<u>\$ (687,862)</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2017

	Food Service
Cash flows from operating activities:	
Cash received from food sales	\$ 163,837
Cash payments to suppliers for goods	(491,995)
Cash payments to and on behalf of employees	<u>(331,178)</u>
Net cash (used) by operating activities	<u>(659,336)</u>
Cash flows from capital financing activities:	
Purchase of capital assets	<u>(4,146)</u>
Net cash (used) by capital financing activities	<u>(4,146)</u>
Cash flows from noncapital financing activities:	
Federal subsidies	608,427
State subsidies	<u>77,123</u>
Net cash provided by noncapital financing activities	<u>685,550</u>
Cash flows from investing activities:	
Earnings on investments	<u>28</u>
Net increase in cash and cash equivalents	22,096
Cash and cash equivalents - beginning	<u>304,156</u>
Cash and cash equivalents - ending	<u>\$ 326,252</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities	
Cash flows from operating activities:	
Operating loss	\$ (830,415)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	27,634
Donated food used	62,469
(Increase) decrease in:	
Accounts receivable	(253)
Prepaid expense	200
Inventory	2,816
Increase (decrease) in:	
Due to other funds	28,581
Accrued wages	(1,140)
Compensated absences payable	2,228
Accounts payable/unearned revenue	(787)
Net pension liability and related deferred inflows/outflows	<u>49,331</u>
Total adjustments	<u>171,079</u>
Net cash (used) by operating activities	<u>\$ (659,336)</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose	
	Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 552,433	\$ 60,408
Accounts receivable	9,000	2,515
Total assets	<u>\$ 561,433</u>	<u>\$ 62,923</u>
LIABILITIES		
Accounts payable and other liabilities	\$ 30,384	\$ 1,057
Due to student groups	-	61,866
Total liabilities	<u>30,384</u>	<u>62,923</u>
NET POSITION		
Net position held in trust for others	<u>531,049</u>	-
Total net position	<u>531,049</u>	-
Total liabilities and net position	<u>\$ 561,433</u>	<u>\$ 62,923</u>

HANOVER PUBLIC SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Private Purpose Trust Fund
<hr/>	
ADDITIONS	
Interest income	\$ 2,937
Contributions	<u>113,028</u>
Total additions	<u>115,965</u>
DEDUCTIONS	
Scholarships and awards/grants	53,119
Other operating expenses	<u>250</u>
Total deductions	<u>53,369</u>
Change in net position	62,596
Net position - beginning	<u>468,453</u>
Net position - ending	<u>\$ 531,049</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

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 School District is not a component unit of any other entities. Based on the above criteria, the School District has no component units.

Joint Ventures

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 – The School District is one of fourteen member school districts participating in the operation of the York County School of Technology. The School is operated, administered, and managed by a joint operating committee consisting of board members from the fourteen member school districts. These members are elected by their individual school district board of directors. The School District's share of annual operating and capital costs for York County School of Technology are reflected as intergovernmental expenditures of the General Fund.

Lincoln Intermediate Unit #12 – This is a separate legal entity organized by constituent school districts in York, Adams and Franklin counties to provide services to the school districts. Each of the member school districts 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 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, known as 53 PS 1432, and accounts for monies transferred during any fiscal year from appropriations, or from surplus monies in the General Fund, to be used for future capital improvements.

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 food service 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.

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. Non-major 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 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) is 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 related grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred and are available, which is generally 60 days; 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 food 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

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

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 2016-2017, 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 and Cash Equivalents

Cash consists of cash on hand and checking, savings, and money market account balances.

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

Investments

The School District has limited authority as to the types of allowable investments. The School District invests funds with an external investment pool, The Pennsylvania School District Liquid Asset Fund (PSDLAF). PSDLAF operates and is authorized under the Intergovernmental Cooperation Act of 1972. Investments in these funds are valued at amortized cost which approximates market value.

These funds invest in federal securities backed by the full faith and credit of the United States Government, in agencies, instrumentalities and subdivisions of the Commonwealth of Pennsylvania and backed by the full faith and credit of the Commonwealth, and certificates of deposit which are insured by the Federal Deposit Insurance Corporation or which are collateralized as provided by law of Act 72 of 1971.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Food Service Fund food inventory consists of expendable supplies held for consumption and federal government donated commodities that are valued at estimated fair market value. The expendable supplies are recorded as an expense when used. The cost of governmental fund inventories are recorded as expenditures when purchased rather than when consumed. The value of governmental fund inventories is not significant at June 30, 2017.

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 financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition 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 except land 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources and 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, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The deferred charge on bond refunding is reported as deferred outflows of resources and amortized over the life of the remaining debt. Prepaid bond insurance is reported as an asset and amortized over the term of the related debt. Other bond issuance costs are expensed at the time debt is issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and original issue discounts or premiums are reported as other financing uses or sources. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plans (Continued)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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. Retired employees have the ability to participate in the employee health plan at the same premium rate, albeit 100% paid by the retirees, thus the School District is providing an implicit rate subsidy to its retirees. These benefits are detailed in Note 11 and are financed on a pay-as-you-go basis.

In addition to the other postemployment benefit detailed above, the Public School Employees' Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees, which is a cost-sharing multiple employer defined benefit plan.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 School District has several items that qualify for reporting in this category, including the deferred charge on bond refunding and various items related to pension liabilities. These amounts will be amortized in future periods.

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District's deferred inflows of resources on the statement of net position consist of various items related to pension liabilities (on the statement of net position). The School District also reports unavailable tax revenue on the governmental fund balance sheet as deferred inflows of resources.

Net Position

In the government-wide financial statements and proprietary fund 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 year-end, 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 are included in this component of net position.

Restricted Net Position: This component consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

As of June 30, 2017, restricted net position in government activities consist of the following:

Restricted for future capital projects	\$	1,674,840
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Unrestricted Net Position: This component is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption: Sometimes the School District 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 School District's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund* that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the finance committee has the authority 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds (Continued)

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 School District will strive to maintain an unassigned fund balance level in the general fund of not less than three percent (3%) and not more than eight percent (8%) of budgeted expenditures for that fiscal year.

The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed eight percent (8%). If the assigned and unassigned portion of fund balance exceeds twenty percent (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 School 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 and Act 10 of 2016 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 time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund 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 therefore shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the respective government entity.
- Shares of an investment company restricted under the Investment Company Act of 1940.
- Obligations, participations or other instruments of any Federal agency, instrumentality, or United States government-sponsored enterprise if the debt obligations are rated at least “A” or its equivalent.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity.
- Negotiable certificates of deposit or other evidence of deposit, with a remaining maturity of three years or less.

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, 2017, \$ 2,604,167 of the School District's bank balance of \$ 3,354,167 was exposed to credit risk. All of the \$ 2,604,167 was uninsured and collateralized with securities held by the pledging bank's trust department, but not in the School District's name.

Pennsylvania Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledger of the assets. Based on the standards outlined in Act 72, the various banks utilized by the District have pledged collateral on a pooled basis on behalf of the District and all other governmental depositors in the respective financial institutions.

Custodial Credit Risk – Investments

Included in cash and cash equivalents on the statement of net position are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of \$ 20,055. 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.

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 invested \$1,000,000 in PSDLAF's full flex investment pool which have weekly liquidity and are collateralized at 102% of the principal deposit. The School District also has one CD totaling \$ 1,538,502 at an individual bank.

The School District has a repurchase sweep account in place that transfers a balance in excess of an agreed upon amount into a sweep account at the end of each day. The bank uses the funds to purchase Government Securities in the name of the School District. These funds are therefore no longer covered under the bank's FDIC insurance levels. The balance in this repurchase account included in investments at June 30 was \$ 545,457.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk – Investments

Investments in PSDLAF are subject to income, market and credit risk related to the potential for (1) decline in current income, (2) decline in market value and (3) that an issuer of securities held in the investment portfolios of the fund would fail to make timely payments of principal and interest.

The School District does not have a formal written investment policy that limits its investment choices to certain credit ratings. As of June 30, 2017, the School District's investments were rated as:

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

Policies Followed at PSDLAF

Regulatory Oversight

The operation of PSDLAF is governed by an eleven member Board of Trustees, nine of whom are elected and two of whom serve ex officio. The Trustees have full, exclusive, and absolute control and authority over the business of the Fund and its assets, subject to rights of the Settlers, as provided in the Declaration of Trust.

PSDLAF is not registered with the Securities and Exchange Commission (SEC); however, PSDLAF follows investment procedures similar to those followed by SEC registered money market funds.

Valuation of Investments

In accordance with the Government Accounting Standards Board, portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment.

The School District has no limitations or restrictions on withdrawals on accounts held at PSDLAF.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 3 TAXES

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

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

Discount	July 1 – September 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, 2017:

Real estate	\$ 691,285
Per capita	126,605
Earned income	355,389
Realty transfer	<u>36,934</u>
	1,210,213
Reserve for uncollectible accounts	<u>(82,313)</u>
Taxes receivable, net	1,127,900
Taxes collected within sixty days, recorded as revenues in governmental funds	<u>(534,932)</u>
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources in governmental funds	<u><u>\$ 592,968</u></u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 5 INTERFUND RECEIVABLE AND PAYABLES AND TRANSFERS

Due from/to other funds consist of the following as June 30, 2017:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 263,406	\$ -
Enterprise Funds:		
Food Service Fund	-	263,406
	<u>\$ 263,406</u>	<u>\$ 263,406</u>

The interfund receivable/payable results from the general fund paying for food service fund expenses, mainly payroll, which the food service fund expects to reimburse in the next fiscal year.

Interfund transfers consist of the following for the year ended June 30, 2017:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 67,486
Capital Reserve Fund	18,722	-
Food Service Fund	48,764	-
	<u>\$ 67,486</u>	<u>\$ 67,486</u>

The transfers from the general fund to the capital reserve fund were related to donations originally recorded in the general fund. The transfer from the general fund to the food service fund was related to the net loss in the food service fund.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2017 consist of the following:

State:	Social Security subsidy	\$ 161,477
	Retirement subsidy	661,685
	Rentals - debt service reimbursement	97,157 (A)
	Various	100,863
Federal:	Various	42,143
Total - Governmental Funds		<u>\$ 1,063,325</u>

(A) The School District records a receivable from the Commonwealth of Pennsylvania for estimated reimbursements related to debt service payments made in the current and prior years.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Cost				
Land	\$ 410,600	\$ -	\$ -	\$ 410,600
Construction in progress	14,062	-	(14,062)	-
Site improvements	5,644,955	134,177	-	5,779,132
Buildings and improvements	45,012,671	220,953	-	45,233,624
Furniture, fixtures and equipment	5,904,376	196,053	-	6,100,429
	<u>56,986,664</u>	<u>551,183</u>	<u>(14,062)</u>	<u>57,523,785</u>
Total cost				
	<u>56,986,664</u>	<u>551,183</u>	<u>(14,062)</u>	<u>57,523,785</u>
Less accumulated depreciation				
Site improvements	(2,101,267)	(233,010)	-	(2,334,277)
Buildings and improvements	(20,105,343)	(1,281,584)	-	(21,386,927)
Furniture, fixtures and equipment	(4,917,214)	(157,271)	-	(5,074,485)
	<u>(27,123,824)</u>	<u>(1,671,865)</u>	<u>-</u>	<u>(28,795,689)</u>
Total accumulated depreciation				
	<u>(27,123,824)</u>	<u>(1,671,865)</u>	<u>-</u>	<u>(28,795,689)</u>
Capital assets, net	<u>\$ 29,862,840</u>	<u>\$ (1,120,682)</u>	<u>\$ (14,062)</u>	<u>\$ 28,728,096</u>
Business-Type Activities				
Cost				
Machinery and equipment	\$ 489,428	\$ 16,584	\$ -	\$ 506,012
Less accumulated depreciation				
Machinery and equipment	(425,368)	(30,770)	-	(456,138)
	<u>(425,368)</u>	<u>(30,770)</u>	<u>-</u>	<u>(456,138)</u>
Capital assets, net	<u>\$ 64,060</u>	<u>\$ (14,186)</u>	<u>\$ -</u>	<u>\$ 49,874</u>

Depreciation expense for the year ended June 30, 2017 was charged to governmental functions as follows:

Instruction	\$ 1,264,211
Instructional student support	61,045
Administration and financial support services	13,117
Operation and maintenance of plant services	298,627
Student activities	34,865
	<u>\$ 1,671,865</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 8 ACCRUED SALARIES AND BENEFITS/WITHHOLDINGS

Accrued salaries and benefits/withholdings consist of the following as of June 30, 2017:

	General Fund	Food Service Fund
Salaries	\$ 818,175	\$ 18
Social Security	61,753	41
Retirement	1,303,433	161
Payroll withholdings	<u>72,693</u>	<u>-</u>
	<u>\$ 2,256,054</u>	<u>\$ 220</u>

NOTE 9 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended June 30, 2017 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	\$ 6,795,000	\$ -	\$ (690,000)	\$ 6,105,000	\$ 705,000	\$ 5,400,000
(B) Series of 2013	10,110,000	-	(1,395,000)	8,715,000	1,425,000	7,290,000
Bond (discounts)/premium - net	<u>1,092,751</u>	<u>-</u>	<u>(162,805)</u>	<u>929,946</u>	<u>162,805</u>	<u>767,141</u>
Subtotal - bonds/notes	<u>17,997,751</u>	<u>-</u>	<u>(2,247,805)</u>	<u>15,749,946</u>	<u>2,292,805</u>	<u>13,457,141</u>
Compensated absences:						
Sick leave	257,499	39,100	(31,287)	265,312	125,000	140,312
Personal leave	49,149	81,517	(79,922)	50,744	22,000	28,744
Vacation pay	<u>169,138</u>	<u>171,653</u>	<u>(166,647)</u>	<u>174,144</u>	<u>75,000</u>	<u>99,144</u>
Subtotal - compensated absences	<u>475,786</u>	<u>292,270</u>	<u>(277,856)</u>	<u>490,200</u>	<u>222,000</u>	<u>268,200</u>
Total long-term liabilities	<u>\$ 18,473,537</u>	<u>\$ 292,270</u>	<u>\$ (2,525,661)</u>	<u>\$ 16,240,146</u>	<u>\$ 2,514,805</u>	<u>\$ 13,725,341</u>
Business-Type Activities:						
Compensated absences:						
Sick leave	\$ 1,976	\$ 1,183	\$ (1,629)	\$ 1,530	\$ 475	\$ 1,055
Vacation pay	5,894	3,696	(2,043)	7,547	2,500	5,047
Personal leave	<u>1,671</u>	<u>3,850</u>	<u>(2,829)</u>	<u>2,692</u>	<u>1,000</u>	<u>1,692</u>
Total long-term liabilities	<u>\$ 9,541</u>	<u>\$ 8,729</u>	<u>\$ (6,501)</u>	<u>\$ 11,769</u>	<u>\$ 3,975</u>	<u>\$ 7,794</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

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.
- (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 School 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, 2017 are as follows:

	Series of 2012		Series of 2013		Totals		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
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	735,000	115,156	1,545,000	244,975	2,280,000	360,131	2,640,131
2021	750,000	100,456	1,615,000	183,175	2,365,000	283,631	2,648,631
2022	770,000	82,831	1,670,000	118,575	2,440,000	201,406	2,641,406
2023-2025	<u>2,420,000</u>	<u>130,363</u>	<u>965,000</u>	<u>43,425</u>	<u>3,385,000</u>	<u>173,788</u>	<u>3,558,788</u>
	<u>\$ 6,105,000</u>	<u>\$ 701,719</u>	<u>\$ 8,715,000</u>	<u>\$ 1,256,700</u>	<u>\$ 14,820,000</u>	<u>\$ 1,958,419</u>	<u>\$ 16,778,419</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:

2018	\$ 35,623
2019	34,450
2020	<u>17,225</u>
Total minimum lease payments	<u>\$ 87,298</u>

The total rent for all operating leases for the year ended June 30, 2017 was \$ 84,782.

NOTE 10 PENSION PLAN

General Information About the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the rights to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefits the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

NOTE 10 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Contributions

Member contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (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 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions recognized as revenue by the pension plan from the School District were \$ 3,872,746 for the year ended June 30, 2017.

State Funding:

The Commonwealth of Pennsylvania generally reimburses the School District for 50% of its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the School District's share of these amounts. During the year ended June 30, 2017, the School District recognized revenue of \$ 2,043,038 as reimbursement for its current year pension payments.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the School District reported a liability of \$ 50,696,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016.

The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.1023 percent, which was the same percentage as its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense as follows:

Governmental Activities	\$ 5,166,187
Business-Type Activities	\$ 122,899

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 422,302
Changes in assumptions	1,830,000	-
Net difference between projected and actual investment earnings	2,825,637	-
Changes in proportion - plan	298,130	-
Changes in proportion - fund	81,977	81,977
Difference between employer contributions and proportionate share of total contributions	82,169	-
Contributions subsequent to the measurement date	3,880,743	-
	<u>\$ 8,998,656</u>	<u>\$ 504,279</u>

The \$ 3,880,743 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	962,209
2019		962,209
2020		1,615,010
2021		1,073,742
2022		465
Total	\$	<u>4,613,634</u>

NOTE 10 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Changes in Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- The Investment rate of return was adjusted from 7.50% to 7.25%
- Investment return – 7.50%, includes inflation at 2.75%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 2.50%, to an effective average of 5.00% comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions (Continued)***

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
MLPs/Infrastructure	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	100.0%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ 62,016,000	\$ 50,696,634	\$ 41,185,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

Payables to the Pension Plan

As of June 30, 2017, the School District had \$ 1,303,594 included in accrued benefits liability, of which \$ 1,056,454 is for the contractually required contribution for the second quarter of 2017 and \$ 247,140 is related to the accrued payroll liability for wages incurred as of June 30, 2017.

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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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 2017, the School District contributed \$ 110,379 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 \$ 143,937, or 100% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 298,872
Interest on net OPEB obligation	24,212
Adjustment to ARC	<u>(33,031)</u>
Annual OPEB cost	290,053
Employer contributions made - estimated	<u>(110,379)</u>
Increase in net OPEB obligation	179,674
Net OPEB obligation - beginning of the year	<u>538,034</u>
Net OPEB obligation - end of the year	<u><u>\$ 717,708</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, 2017 and the preceding two years are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2017	\$ 290,053	38%	\$ 717,708
2016	186,698	55%	538,034
2015	187,896	61%	453,472

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funded Status and Funding Progress

As of July 1, 2016, 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
7/1/2016	\$ -	\$ 2,373,151	2,373,151	0.00%	12,495,790	18.99%

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 July 1, 2016 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 increases of 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0.25 percent, and an annual healthcare cost trend rate of 6.5 percent in 2016, decreasing 0.5 percent to an ultimate rate of 5.5% in 2018. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later. The actuarial valuation of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Other Post-employment Benefits – Public School Employee’s Retirement System (PSERS)

In addition to the other post-employment benefit detailed above, the Public School Employee’s Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees who qualify and elect to participate, which is a cost-sharing multiple employer defined benefit plan. The PSERS Retirement Board is established by state law as an independent administrative board of the Commonwealth. The plan benefits and contributions are specified in the Pennsylvania Public School Employee’s Code. Changes in benefit and contribution provisions must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the plan are to be accompanied with an actuarial note prepared by an enrolled actuary from the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change. Under this program, School District contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year.

The PSERS issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained from their website at <http://www.psers.state.pa.us/>.

Participating eligible employees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible employees must obtain their health insurance through the School District. The contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance for the subsequent fiscal year. The portion of the total contribution rate for the School District was 0.83% for the year ended June 30, 2017.

The information below summarizes the required contributions, the percentage of required contribution contributed and the contribution rate for the current year and two preceding years:

Fiscal Year Ended	Required Contribution	Percentage of Required Contribution Contributed	Contribution Rate
2017	\$ 110,081	100%	0.83%
2016	\$ 99,364	100%	0.84%
2015	\$ 116,495	100%	0.90%

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

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, 2017:

York County School of Technology	<u>\$ 561,031</u>
Lincoln Intermediate Unit No. 12	<u>\$ 1,896,273</u>

NOTE 13 FUND BALANCE

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

	General Fund	Capital Reserve Fund	Total Governmental Funds
FUND BALANCES			
Nonspendable for:			
Prepaid expenses	\$ 7,726	\$ -	\$ 7,726
Restricted for:			
Future capital expenditures	-	1,674,840	1,674,840
Unassigned	<u>1,338,054</u>	<u>-</u>	<u>1,338,054</u>
Total Fund Balances	<u>\$ 1,345,780</u>	<u>\$ 1,674,840</u>	<u>\$ 3,020,620</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.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2017 may be impaired. In the opinion of management, 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 financial statements for such contingencies.

NOTE 15 RISK MANAGEMENT

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

Lincoln Benefit Trust

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

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between \$ 100,000 and \$ 300,000 are paid from the Trust minipool. Claims incurred over \$ 300,000 are paid from a stop loss insurance policy purchased by the Trust.

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017

NOTE 15 RISK MANAGEMENT (CONTINUED)

Lincoln Benefit Trust (Continued)

Changes in net position for the School District's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2017:

Net position - July 1, 2016	\$ 2,330,202
Contributions and interest income	2,355,527
Minipool reimbursement	98,017
Claims paid	(2,617,926)
Stop-loss insurance	(230,653)
Minipool premium	(72,613)
Administrative fees	<u>(135,528)</u>
Net position - June 30, 2017	<u>\$ 1,727,026</u>

Overall, the Lincoln Benefit Trust had net position of \$ 95,706,536 as of June 30, 2017, and reported an increase in net position of \$ 5,913,422 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, 2017

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Local Sources				
Taxes	\$ 22,029,630	\$ 22,029,630	\$ 22,232,805	\$ 203,175
Investment earnings	20,000	20,000	27,366	7,366
Federal revenue from intermediate sources	313,000	313,000	355,559	42,559
Other	142,500	142,500	275,949	133,449
State sources	7,434,682	7,434,682	7,643,353	208,671
Federal sources	585,500	585,500	722,542	137,042
Total revenues	<u>30,525,312</u>	<u>30,525,312</u>	<u>31,257,574</u>	<u>732,262</u>
EXPENDITURES				
Instruction	19,057,491	19,057,491	19,182,341	(124,850)
Support services	8,422,923	8,422,923	8,517,585	(94,662)
Operation of noninstructional services	456,232	606,232	599,576	6,656
Debt service:				
Principal	2,085,000	2,085,000	2,085,000	-
Interest	566,056	566,056	566,056	-
Total expenditures	<u>30,587,702</u>	<u>30,737,702</u>	<u>30,950,558</u>	<u>(212,856)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year revenue	-	-	57,208	57,208
Interfund transfers, net	(150,000)	-	(67,486)	(67,486)
Total other financing sources and (uses)	<u>(150,000)</u>	<u>-</u>	<u>(10,278)</u>	<u>(10,278)</u>
Net change in fund balance	<u>\$ (212,390)</u>	<u>\$ (212,390)</u>	296,738	<u>\$ 509,128</u>
Fund balance - beginning			1,049,042	
Fund balance - ending			<u>\$ 1,345,780</u>	

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of School District's Proportionate Share of Net Pension Liability - Public School
Employee's Retirement System
Year Ended June 30, 2017

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered Payroll - measurement period	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.1023%	\$ 50,696,634	\$ 13,253,629	382.51%	50.14%
2016	0.1023%	\$ 44,311,561	\$ 13,161,320	336.68%	54.36%
2015	0.1018%	\$ 40,293,170	\$ 12,986,990	310.26%	57.24%

NOTES

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For PSERS, the measurement period year-end is one year prior to the fiscal year-end.

This schedule will be expanded to show 10 years once information becomes available in the future.

Changes in Actuarial Assumptions

The following actuarial assumptions were changed during the 2016/2017 fiscal year:

- The investment rate of return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00% real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combine Disables Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of School District's Contributions - Public School Employee's Retirement
System
Year Ended June 30, 2017

For the Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in relation to the contractually required contribution	Contribution Deficiency (Excess)	Covered Payroll - fiscal year	Contributions as a Percentage of Covered Payroll
2017	\$ 3,872,746	\$ 3,872,746	\$ -	\$ 13,212,578	29.31%
2016	2,957,274	2,957,274	-	13,253,629	22.31%
2015	2,653,496	2,653,496	-	13,161,320	20.16%
2014	2,047,324	2,047,324	-	12,986,990	15.76%
2013	1,494,635	1,494,635	-	12,930,547	11.56%

NOTES

This schedule will be expanded to show 10 years once information becomes available in the future.

HANOVER PUBLIC SCHOOL DISTRICT
OPEB (Other Post Employment Benefit Plan)
Unaudited Required Schedule of Funding Progress
Year Ended June 30, 2017

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
7/1/2016	\$ -	\$ 2,373,151	\$ 2,373,151	0.00%	\$ 12,495,790	18.99%
1/1/2014	\$ -	\$ 1,571,908	\$ 1,571,908	0.00%	\$ 12,239,556	12.84%
1/1/2012	\$ -	\$ 1,167,228	\$ 1,167,228	0.00%	\$ 11,487,207	10.16%

OTHER SUPPLEMENTARY INFORMATION

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Program Period	Program or Award Amount	Total Received for the Year	Receivable (Payable) at July 1, 2016	Revenue Recognized	Expenditures	Receivable (Payable) at June 30, 2017	Total Passed-Through to Subrecipients
DEPARTMENT OF EDUCATION											
Passed through Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-15-0181	7/1/16-9/30/17	480,167	\$ 480,167	\$ -	\$ 480,167	\$ 480,167	\$ -	\$ -
School Improvement	I	84.010	042-16-0181	7/10/15-9/30/16	66,653	11,762	11,762	-	-	-	-
School Improvement	I	84.010	042-17-0181	7/10/16-9/30/17	84,832	84,832	-	84,832	84,832	-	-
	Title I					576,761	11,762	564,999	564,999	-	-
Title II - Improving Teacher Quality	I	84.367	020-16-0181	7/1/15-9/30/16	69,730	18,525	8,641	9,884	9,884	-	-
Title II - Improving Teacher Quality	I	84.367	020-17-0181	7/1/16-9/30/17	68,058	63,580	-	68,058	68,058	4,478	-
	Title II					82,105	8,641	77,942	77,942	4,478	-
Title III	I	84.365	010-16-0181	7/1/15-6/30/16	35,510	2,367	2,367	-	-	-	-
Title III	I	84.365	010-17-0181	7/1/16-6/30/17	37,455	37,455	-	37,455	37,455	-	-
	Title III					39,822	2,367	37,455	37,455	-	-
Passed through Lincoln Intermediate Unit No 12 Special Education Cluster (IDEA)											
IDEA Part B - Special Education	I	84.027	N/A	7/1/16-9/30/17	350,663	350,663	-	350,663	350,663	-	-
IDEA 619 funds - Special Education	I	84.173	N/A	7/1/16-9/30/17	4,896	4,896	-	4,896	4,896	-	-
Total Special Education Cluster						355,559	-	355,559	355,559	-	-
Total Department of Education						1,054,247	22,770	1,035,955	1,035,955	4,478	-
DEPARTMENT OF AGRICULTURE											
Passed through Pennsylvania Department of Education											
Child Nutrition Cluster											
School Breakfast Program	I	10.553	365/367	7/1/16-6/30/17	N/A	118,878	-	118,878	118,878	-	-
Total School Breakfast Program						118,878	-	118,878	118,878	-	-
National School Lunch Program - cash	I	10.555	362	7/1/16-6/30/17	N/A	483,311	-	483,311	483,311	-	-
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program - commodities	I/B	10.555	N/A	7/1/16-6/30/17	N/A	62,469	-	62,469	62,469	-	-
Total National School Lunch Program						545,780	-	545,780	545,780	-	-
Passed through Pennsylvania Department of Education											
Summer Food Service Program for Children	I	10.559	364	7/1/15-6/30/16	N/A	3,332	3,332	-	-	-	-
Summer Food Service Program for Children	I	10.559	364	7/1/16-6/30/17	N/A	2,907	-	2,907	2,907	-	-
Total Summer Food Service Program						6,239	3,332	2,907	2,907	-	-
Total Child Nutrition Cluster						670,897	3,332	667,565	667,565	-	-
Total Department of Agriculture						\$ 670,897	\$ 3,332	\$ 667,565	\$ 667,565	\$ -	\$ -

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Program Period	Program or Award Amount	Total Received for the Year	Receivable (Payable) at July 1, 2016	Revenue Recognized	Expenditures	Receivable (Payable) at June 30, 2017	Total Passed-Through to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES											
Passed through the Commonwealth of Pennsylvania											
ACCESS - Administration	I	93.778	N/A	7/1/15-6/30/16	N/A	\$ 8,585	\$ 8,585	\$ -	\$ -	\$ -	\$ -
ACCESS - Administration	I	93.778	N/A	7/1/16-6/30/17	N/A	<u>7,565</u>	<u>-</u>	<u>14,514</u>	<u>14,514</u>	<u>6,949</u>	<u>-</u>
Total Department of Health and Human Services						<u>16,150</u>	<u>8,585</u>	<u>14,514</u>	<u>14,514</u>	<u>6,949</u>	<u>-</u>
DEPARTMENT OF HOMELAND SECURITY											
Passed through the Pennsylvania Emergency Management Agency											
Disaster grants - Public Assistance	I	97.036	N/A	N/A	9,625	<u>9,625</u>	<u>9,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Department of Homeland Security						<u>9,625</u>	<u>9,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total federal financial assistance						<u>\$ 1,750,919</u>	<u>\$ 44,312</u>	<u>\$ 1,718,034</u>	<u>\$ 1,718,034</u>	<u>\$ 11,427</u>	<u>\$ -</u>

HANOVER PUBLIC SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

NOTE 1 REFERENCE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- (I) Indirect funding
- (B) Based on USDA valuation

NOTE 2 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.

The School District elected not to use a 10% de minimus rate for charging indirect costs to programs.



**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, 2017, 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 3, 2018.

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.

A handwritten signature in black ink that reads "Smith & Elliott Reams & Company, LLC". The signature is written in a cursive, flowing style.

Hanover, Pennsylvania
January 3, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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.

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

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. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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 the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hanover, Pennsylvania
January 3, 2018

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? 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 2 CFR Section 200.516? Yes No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
10.553	Child Nutrition Cluster:
10.555	School Breakfast Program
10.559	National School Lunch Program
	Summer Food Service Program for Children
84.027	Special Education Cluster
84.173	IDEA Part B – Special Education
	IDEA 619 funds – Special Education

Dollar threshold used to distinguish between type A and type B programs **\$ 750,000**

Auditee qualified as low-risk auditee? Yes No

HANOVER PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017

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. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance

None noted

B. Compliance Findings

None noted

HANOVER PUBLIC SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Findings related to financial statements:

None

Findings related to federal awards:

None