Chambersburg Area School District
June 30, 2014 Audit Presentation

• Presentation by Smith Elliott Kearns & Company, LLC
  – Kevin B. Stouffer, CPA
  – Craig E. Witmer, CPA, CGFM

www.sek.com
• Financial Statements have not yet been finalized.
• Information presented is a DRAFT.
• Response needed from one external party.
• Not anticipating any changes to the financial information reported in this presentation or the results of the audit.
2013-2014
Chambersburg Area School District
Audit Presentation

• Please refer to reports for complete details:
  • Chambersburg Area School District Annual Financial Statements
    • Including Independent Auditor’s Report
  • Management Letter
  • Communications with Those Charged with Governance
2013-2014
Chambersburg Area School District
Audit Presentation

• Summary
  • Unmodified Opinion
  • General Fund had a reduction in fund balance
  • No findings in the current year
2013-2014
Chambersburg Area School District
Audit Presentation

• Independent Auditor’s Report:
  - Unmodified Opinion
    - What does this mean?
      - The financial statements are fairly presented in all material respects.
    - What it isn’t
      - This is not an opinion on internal controls.
      - This is not an opinion on results of a fraud investigation.

• Management’s Discussion and Analysis
  - Unaudited information prepared by the District
  - Key Information: 2012-2013 versus 2013-2014 comparisons
Governmental Activities – Full Accrual
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2013</th>
<th>June 30, 2014</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$ 41,170,691</td>
<td>$ 35,008,781</td>
<td></td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>174,774,215</td>
<td>177,397,245</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>215,944,906</strong></td>
<td><strong>212,406,026</strong></td>
<td><strong>(1.64%)</strong></td>
</tr>
<tr>
<td>Deferred Outflows of Resources</td>
<td>822,476</td>
<td>2,054,598</td>
<td>149.81%</td>
</tr>
<tr>
<td><strong>Total Deferred Outflows of Resources</strong></td>
<td><strong>822,476</strong></td>
<td><strong>2,054,598</strong></td>
<td><strong>149.81%</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>16,705,514</td>
<td>18,228,795</td>
<td></td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>141,316,789</td>
<td>139,549,887</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>158,022,303</strong></td>
<td><strong>157,778,682</strong></td>
<td><strong>(0.15%)</strong></td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$ 58,745,079</strong></td>
<td><strong>$ 56,681,942</strong></td>
<td><strong>(3.51%)</strong></td>
</tr>
</tbody>
</table>


Governmental Activities – Full Accrual

• Current Assets decreased compared to the previous year
  – Cash decreased due to paying for the New Franklin renovations.

• Capital Assets increased compared to the previous year
  – Capital Asset additions exceeded depreciation expense by $2,681,418.
  – The New Franklin renovations were still on-going as of June 30, 2014.

• Noncurrent Liabilities decreased due to regular debt payments made during the year.
## General Fund Analysis

**(Summary excerpt from financial statements)**

<table>
<thead>
<tr>
<th></th>
<th>2012-2013</th>
<th>2013-2014</th>
<th>2013-2014 Final Budget</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Revenues</strong></td>
<td>$ 72,027,842</td>
<td>$ 72,674,512</td>
<td>$ 74,608,534</td>
<td>$ (1,934,022)</td>
</tr>
<tr>
<td><strong>State Revenues</strong></td>
<td>33,346,432</td>
<td>35,376,055</td>
<td>35,853,290</td>
<td>(477,235)</td>
</tr>
<tr>
<td><strong>Federal Revenues</strong></td>
<td>4,810,747</td>
<td>3,491,288</td>
<td>2,745,084</td>
<td>746,204</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>110,185,021</strong></td>
<td><strong>111,541,855</strong></td>
<td><strong>113,206,908</strong></td>
<td><strong>(1,665,053)</strong></td>
</tr>
<tr>
<td><strong>Instruction</strong></td>
<td>64,914,663</td>
<td>69,475,533</td>
<td>70,758,498</td>
<td>1,282,965</td>
</tr>
<tr>
<td><strong>Support Services</strong></td>
<td>32,205,258</td>
<td>33,106,591</td>
<td>32,838,556</td>
<td>(268,035)</td>
</tr>
<tr>
<td><strong>Operation of Noninstructional Services</strong></td>
<td>1,902,591</td>
<td>2,016,352</td>
<td>1,728,720</td>
<td>(287,632)</td>
</tr>
<tr>
<td><strong>Facilities Acquisitions, Construction and Improvement</strong></td>
<td>515</td>
<td>7,620</td>
<td>7,620</td>
<td>0</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>10,477,937</td>
<td>8,700,035</td>
<td>9,074,935</td>
<td>374,900</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>109,500,964</strong></td>
<td><strong>113,306,131</strong></td>
<td><strong>114,408,329</strong></td>
<td><strong>1,102,198</strong></td>
</tr>
<tr>
<td><strong>Interfund Transfers</strong></td>
<td>(1,597,846)</td>
<td>0</td>
<td>(524,275)</td>
<td>524,275</td>
</tr>
<tr>
<td><strong>Budgetary reserve</strong></td>
<td>0</td>
<td>0</td>
<td>(3,326,528)</td>
<td>3,326,528</td>
</tr>
<tr>
<td><strong>Proceeds from sale of fixed assets</strong></td>
<td>33,409</td>
<td>12,803</td>
<td>52,224</td>
<td>(39,421)</td>
</tr>
<tr>
<td><strong>Issuance of long term financing</strong></td>
<td>19,160,927</td>
<td>25,939,550</td>
<td>0</td>
<td>25,939,550</td>
</tr>
<tr>
<td><strong>Refinance of existing long term financing</strong></td>
<td>(18,668,936)</td>
<td>(26,344,538)</td>
<td>0</td>
<td>(26,344,538)</td>
</tr>
<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td>(1,072,446)</td>
<td>(392,185)</td>
<td>(3,798,579)</td>
<td>3,406,394</td>
</tr>
<tr>
<td><strong>Change in Fund Balance</strong></td>
<td>$ 2,537,709</td>
<td>$ (2,156,461)</td>
<td>$ (5,000,000)</td>
<td>$ 2,843,539</td>
</tr>
</tbody>
</table>
General Fund Analysis

• Revenues were more than last year due to:
  – Increased reimbursement from the State (retirement)

• Federal Revenues decreased due to additional Impact Aid funds received during the previous year

• Expenditures increased compared to last year due to:
  – Increase in salaries (3%)
  – Increase in PSERS rate (37%)

• Other Financing Sources and Uses
  – Refinancing activity not budgeted

• Change in Fund Balance
  – Excluding the bond refinancing activity, the change in fund balance would have been $1,031,267
## Capital Projects Fund
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Additions</td>
<td>$ 2,223</td>
<td>$ 1,142</td>
<td>$ 338</td>
</tr>
<tr>
<td>Expenditures</td>
<td>8,227,062</td>
<td>1,342,265</td>
<td>1,023,366</td>
</tr>
<tr>
<td>Bond issuance</td>
<td>10,356,912</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$ 4,447,149</td>
<td>$ 3,106,026</td>
<td>$ 2,082,998</td>
</tr>
</tbody>
</table>

2013-2014 Expenditures include HVAC upgrades at CAMS South.
# Capital Reserve Fund
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Additions</td>
<td>$ 20,368</td>
<td>$ 8,453</td>
<td>$ 5,806</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,629,488</td>
<td>2,772,196</td>
<td>6,038,895</td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>3,297,644</td>
<td>1,578,870</td>
<td>3,570,658</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$ 8,056,909</td>
<td>$ 6,872,036</td>
<td>$ 4,409,605</td>
</tr>
</tbody>
</table>

2013-2014 Expenditures include New Franklin renovations, purchase of buses, and various smaller projects.
# Food Service Fund

**Summary excerpt from financial statements**

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$ 2,108,744</td>
<td>$ 2,177,918</td>
<td>$ 2,187,211</td>
</tr>
<tr>
<td>Non-Operating Revenues/Subsidies</td>
<td>2,483,094</td>
<td>2,730,360</td>
<td>3,017,381</td>
</tr>
<tr>
<td>Transfers In (Out)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Revenues &amp; Transfers</strong></td>
<td><strong>4,591,838</strong></td>
<td><strong>4,908,278</strong></td>
<td><strong>5,204,592</strong></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>2,122,731</td>
<td>2,411,232</td>
<td>2,533,963</td>
</tr>
<tr>
<td>Food and Milk Purchases</td>
<td>2,086,418</td>
<td>2,256,036</td>
<td>2,350,549</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>398,862</td>
<td>447,080</td>
<td>492,947</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>4,608,011</strong></td>
<td><strong>5,114,348</strong></td>
<td><strong>5,377,459</strong></td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td><strong>$ (16,173)</strong></td>
<td><strong>$ (206,070)</strong></td>
<td><strong>$ (172,867)</strong></td>
</tr>
</tbody>
</table>
Food Service Fund

• Operating Revenues increased minimally compared to the previous year despite an increase in meal prices.
• Subsidies (federal and state) increased due to more free and reduced meals served.
• Expenses increased due to higher prices to purchase food and milk as well as the increase in the PSERS rate.
## Medical Insurance Fund
**(Summary excerpt from financial statements)**

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Insurance Premiums</td>
<td>$11,539,964</td>
<td>$12,525,172</td>
<td>$12,983,800</td>
</tr>
<tr>
<td>Interest Income</td>
<td>24,621</td>
<td>6,213</td>
<td>6,028</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>11,564,585</strong></td>
<td><strong>12,531,385</strong></td>
<td><strong>12,989,828</strong></td>
</tr>
<tr>
<td>Insurance Claims</td>
<td>10,344,982</td>
<td>9,854,068</td>
<td>10,828,913</td>
</tr>
<tr>
<td>Fees and stop loss premium</td>
<td>757,560</td>
<td>858,011</td>
<td>830,751</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>11,102,542</strong></td>
<td><strong>10,712,079</strong></td>
<td><strong>11,659,664</strong></td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>(3,420)</td>
<td>0</td>
<td>(3,570,658)</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>458,623</td>
<td>1,819,306</td>
<td>(2,240,494)</td>
</tr>
<tr>
<td><strong>Ending Net Position</strong></td>
<td>$4,653,915</td>
<td>$6,473,221</td>
<td>$4,232,727</td>
</tr>
</tbody>
</table>
## Governmental Fund Balance
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Percentage of Annual Expenditures</th>
<th>Capital Projects Fund</th>
<th>Capital Reserve Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonspendable (Inventories and Prepaids)</td>
<td>282,181</td>
<td>0.25%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Restricted (External)</td>
<td>222,577</td>
<td>0.20%</td>
<td>2,082,998</td>
<td>4,409,605</td>
</tr>
<tr>
<td>Committed (Board Action Taken)</td>
<td>429,912</td>
<td>0.38%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Assigned (2014-2015 Budget Deficit and Business Manager)</td>
<td>8,917,784</td>
<td>7.87%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unassigned (Residual Fund Balance)</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 9,852,454</strong></td>
<td></td>
<td><strong>$ 2,082,998</strong></td>
<td><strong>$ 4,409,605</strong></td>
</tr>
</tbody>
</table>
General Fund - Fund Balance

• Restricted Fund Balance consists of:
  – Tax appeals - $222,230
  – Unspent donation - $347

• Committed Fund Balance consists of:
  – Future property tax relief - $429,912

• Assigned Fund Balance consists of:
  – Future increases in retirement contributions - $1,461,552
  – Future property tax assessment appeals - $777,770
  – ROTC - $41,213
  – Act 93 iPad bank - $6,400
# Fund Balance/Net Position Comparison

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>12,320,414</td>
<td>11,932,025</td>
<td>9,852,545</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>4,447,149</td>
<td>3,106,026</td>
<td>2,082,998</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>8,056,909</td>
<td>6,872,036</td>
<td>4,409,605</td>
</tr>
<tr>
<td>Food Service</td>
<td>1,806,708</td>
<td>1,600,638</td>
<td>1,427,771</td>
</tr>
<tr>
<td>Medical Insurance</td>
<td>4,653,915</td>
<td>6,473,221</td>
<td>4,232,727</td>
</tr>
</tbody>
</table>
Graphical Analysis

Governmental Activities
Assets, Liabilities, Net Position

![Bar graph showing total assets, liabilities, and net position for different years.](image-url)
Graphical Analysis

General Fund Revenue Breakdown

Taxes, Investment Income, Other Local, State Sources, Federal Sources

Revenue Breakdown Chambersburg Area School District (2012-2013)

- **Taxes**: 63%
- **Other Local**: 5%
- **State Sources**: 30%
- **Federal Sources**: 2%
- **Other**: 0%

Revenue Breakdown - LIU Schools (2012-2013)

- **Taxes**: 62%
- **Other Local**: 3%
- **State Sources**: 33%
- **Other**: 0%

Revenue Breakdown - Schools with $125 Million or More of Revenue (2012-2013)

- **Taxes**: 53%
- **Other Local**: 0%
- **State Sources**: 36%
- **Other**: 8%
Graphical Analysis

General Fund Expenditure Object Comparison (excluding refinancings)
Graphical Analysis

Expenditure Breakdown - Chambersburg Area School District (2012-2013)
- Salaries: 44%
- Benefits: 23%
- Purchased Professional and Technical Services: 2%
- Purchased Property Services: 10%
- Other Purchased Services: 7%
- Supplies: 10%
- Property: 9%
- Debt Interest, Other: 3%
- Debt Principal, Transfers: 2%
- Expenditure Breakdown - LIU Schools (2012-2013)
- Salaries: 19%
- Benefits: 11%
- Purchased Professional and Technical Services: 8%
- Purchased Property Services: 7%
- Other Purchased Services: 2%
- Supplies: 13%
- Property: 3%
- Debt Interest, Other: 3%
- Debt Principal, Transfers: 2%

Expenditure Breakdown by Object - Schools with $126 Million or more of Expenditures (2012-2013)
- Salaries: 39%
- Benefits: 17%
- Purchased Professional and Technical Services: 8%
- Purchased Property Services: 2%
- Other Purchased Services: 3%
- Supplies: 19%
- Property: 19%
- Debt Interest, Other: 5%
- Debt Principal, Transfers: 1%
Expenditures per Average Daily Membership (2012-2013)

- Chambersburg Area School District: $9,836
- LIU Schools: $12,601
- All PA Schools: $14,588
Graphical Analysis

Unassigned Fund Balance as a Percentage of Expenditures (2012-2013)

- Chambersburg Area School District*: 7.24%
- LIU Schools: 6.57%
- All PA Schools: 6.76%

* - Unassigned fund balance plus budget deficit for following year
Graphical Analysis

Status of Fund Balance - General Fund

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned
- Reserved
- Reserved
- Undesignated
Other Financial Statement Components

• Notes to Financial Statements
  – Note 7 – Capital Assets –
    • Current year net purchases - $7,377,634
    • Overall increase in capital assets - $2,681,418
    • Construction in Process primarily consists of the New Franklin renovations.
Other Financial Statement Components

• Notes to Financial Statements
  – Note 9 – Bonds and Notes Payable –
    • Total outstanding at year end $ 139,820,000
    • This is a decrease compared to last year of $ 1,730,450
    • Regular principal and interest payments made on bonds and note payable during the year
    • Also has details of future debt service requirements (including subsequent event issuance of the Series of 2014AA)
      – Total Principal Outstanding $ 140,400,000
      – Total Interest to be paid $ 74,495,323
Schedule of Expenditures of Federal Awards

• Notes to Schedule of Expenditures of Federal Awards
  – Total Federal Expenditures $ 7,046,665
  – Programs tested under Single Audit:
    • Special Education Cluster (IDEA)
    • Title I
    • Elementary and Secondary School Counseling
    • Impact Aid
Schedule of Findings and Questioned Costs

• Findings – Financial Statement Audit
  – None

• Findings and Questioned Costs – Major Federal Award Programs Audit
  – None
Management Letter

• Purpose of Letter
  – Recommendations that do not warrant a finding
  – Summary of new standards that will affect the School
  – Graphical Analysis
Management Letter

• GASB 68 Accounting and Financial Reporting for Pensions – Effective for 6/30/15 Audit
  – This standard will impact all governmental entities with defined benefit plans.
  – This standard will require governments to report net pension liabilities more prominently in their government-wide statements of net position and additional footnote disclosure.
  – This standard will require immediate recognition of more components of pension expense.
**Management Letter**

- GASB 68 Accounting and Financial Reporting for Pensions – Effective for 6/30/15 Audit
  - Governmental entities will record a net pension liability equal to the difference between the total pension liability and the value of the assets set aside in a pension plan to pay benefits to current employees, retirees and their beneficiaries.
  - Most of the information required for this standard will come from PSERS and the District will record a liability based on the proportionate share of the PSERS liability.
Management Letter

• GASB 68 Accounting and Financial Reporting for Pensions – Effective for 6/30/15 Audit (continued)
  – School District will record 100% of their portion of liability, no receivable from the State will be recorded
  – This liability is only recorded in the Governmental Activities and NOT in the General Fund
  – Projected Contribution Rates to PSERS include:
    • 2014-2015 – 21.40%
    • 2017-2018 – 30.25%
    • Between 2019-2014 the rate is projected between 31% and 32%
    • CONTRIBUTION RATES ARE NOT AFFECTED BY GASB 68
  – PSERS recently released its 6/30/14 financial statements
    • Total pension liability under GASB 67 is $39.5 billion
    • Net pension liability is 310% of covered payroll
    • Based on 1/1/12 covered payroll (latest District OPEB actuarial valuation) of $42.6 million, the liability for Chambersburg Area School District would be approximately $132 million
Management Letter

• Summary of New Standards
  – Uniform Guidance for Federal Awards
  – Uniform Grant Guidance – Changes to Single Audits
  – Government Accounting Standards Board (“GASB”) Technical Plan
  – Internal Controls to Prevent and Detect Fraud and New COSO Framework
Communication with Those Charged with Governance

• Required communications related to the audit
  – Includes the qualitative aspects of accounting practices, a description of any difficulties encountered during the audit, a description of any disagreements with management.
  – Attached to the letter are the adjustments made for the audit, some prepared by management as well as a list of known differences for which adjustments were not made.
  – Also, addresses management representations, management consultations with other independent auditors, and other auditing findings or issues.
Summary

• Unmodified Audit Opinion
• General Fund had a reduction in fund balance
• No findings
• Questions?