Chambersburg Area School District
June 30, 2015 Audit Presentation

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

www.sek.com
• 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
2014-2015
Chambersburg Area School District
Audit Presentation

• Summary
  • Unmodified Opinion
  • General Fund had a reduction in fund balance
  • No findings in the current year
  • Implementation of Pension Reporting Standards
    • Significant negative impact on the Government-Wide and Food Service net position.
2014-2015
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
# Governmental Activities — Full Accrual

*(Summary excerpt from financial statements)*

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2014</th>
<th>June 30, 2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td>$35,008,781</td>
<td>$40,764,720</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td>177,397,245</td>
<td>176,556,726</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>212,406,026</td>
<td>217,321,446</td>
<td>2.31%</td>
</tr>
<tr>
<td><strong>Total Deferred Outflows of Resources</strong></td>
<td>2,054,598</td>
<td>19,580,112</td>
<td>852.99%</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td>18,228,795</td>
<td>20,014,190</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td>139,549,887</td>
<td>299,859,270</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>157,778,682</td>
<td>319,873,460</td>
<td>102.74%</td>
</tr>
<tr>
<td><strong>Total Deferred Inflows of Resources</strong></td>
<td>0</td>
<td>10,929,836</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$56,681,942</td>
<td>$(93,901,738)</td>
<td>(265.56%)</td>
</tr>
</tbody>
</table>
Current Assets increased compared to the previous year
  - Cash increased due to unspent bond proceeds from the issuance of the Series of 2015 AA.
Capital Assets decreased slightly compared to the previous year
  - Depreciation expense exceeded additions by approximately $600,000.
Noncurrent Liabilities increased due to the recording of the net pension liability required by GASB 68.
  - Bonds and Notes Payable increased by $8,199,317 due to the issuance of the Series of 2015 AA bonds which will be used to fund the Marion project.
Deferred inflows of resources are new due to the implementation of GASB 68.
## General Fund Analysis
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenues</td>
<td>$ 72,674,512</td>
<td>$ 75,152,819</td>
<td>$ 77,101,346</td>
<td>$(1,948,527)</td>
</tr>
<tr>
<td>State Revenues</td>
<td>35,376,055</td>
<td>37,013,756</td>
<td>39,449,866</td>
<td>(2,436,110)</td>
</tr>
<tr>
<td>Federal Revenues</td>
<td>3,491,288</td>
<td>4,262,020</td>
<td>2,787,220</td>
<td>1,474,800</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>111,541,855</strong></td>
<td><strong>116,428,595</strong></td>
<td><strong>119,339,432</strong></td>
<td><strong>(2,909,837)</strong></td>
</tr>
<tr>
<td>Instruction</td>
<td>69,475,533</td>
<td>71,450,387</td>
<td>74,158,316</td>
<td>2,707,929</td>
</tr>
<tr>
<td>Support Services</td>
<td>33,106,591</td>
<td>35,850,157</td>
<td>35,304,846</td>
<td>(545,311)</td>
</tr>
<tr>
<td>Operation of Noninstructional Services</td>
<td>2,016,352</td>
<td>2,004,605</td>
<td>1,911,716</td>
<td>(92,889)</td>
</tr>
<tr>
<td>Facilities Acquisitions, Construction and Improvement</td>
<td>7,620</td>
<td>20,000</td>
<td>0</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>8,700,035</td>
<td>10,075,829</td>
<td>9,690,187</td>
<td>(385,642)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>113,306,131</strong></td>
<td><strong>119,400,978</strong></td>
<td><strong>121,065,065</strong></td>
<td><strong>1,664,087</strong></td>
</tr>
<tr>
<td>Budgetary reserve</td>
<td>0</td>
<td>0</td>
<td>(4,916,480)</td>
<td>4,916,480</td>
</tr>
<tr>
<td>Proceeds from sale of fixed assets</td>
<td>12,803</td>
<td>20,040</td>
<td>12,264</td>
<td>7,776</td>
</tr>
<tr>
<td>Bond premium</td>
<td>0</td>
<td>3,221,558</td>
<td>0</td>
<td>3,221,558</td>
</tr>
<tr>
<td>Issuance of long term financing</td>
<td>25,939,550</td>
<td>51,120,000</td>
<td>0</td>
<td>51,120,000</td>
</tr>
<tr>
<td>Refinance of existing long term financing</td>
<td>(26,344,538)</td>
<td>(53,583,936)</td>
<td>0</td>
<td>(53,583,936)</td>
</tr>
<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td>(392,185)</td>
<td>777,662</td>
<td>(4,904,216)</td>
<td>5,681,878</td>
</tr>
<tr>
<td><strong>Change in Fund Balance</strong></td>
<td>$(2,156,461)</td>
<td>$(2,194,721)</td>
<td>$(6,630,849)</td>
<td>$(4,436,128)</td>
</tr>
</tbody>
</table>
General Fund Analysis

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

• Federal Revenues increased due to additional Title I funds received during the year

• Expenditures increased compared to last year due to:
  – Increase in salaries (1%)
  – Increase in PSERS rate from 16.93% to 21.40%

• Other Financing Sources and Uses
  – Refinancing activity not budgeted
## Capital Projects Fund
**(Summary excerpt from financial statements)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Additions</td>
<td>$ 1,142</td>
<td>$ 338</td>
<td>$ 308</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,342,265</td>
<td>1,023,366</td>
<td>2,556,574</td>
</tr>
<tr>
<td>Bond issuance</td>
<td>0</td>
<td>0</td>
<td>10,838,421</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$ 3,106,026</td>
<td>$ 2,082,998</td>
<td>$ 10,365,153</td>
</tr>
</tbody>
</table>

2014-2015 Expenditures include Marion and other small projects.
## Capital Reserve Fund
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Additions</td>
<td>$ 8,453</td>
<td>$ 5,806</td>
<td>$ 3,047</td>
</tr>
<tr>
<td>Expenditures</td>
<td>2,772,196</td>
<td>6,038,895</td>
<td>2,001,722</td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>1,578,870</td>
<td>3,570,658</td>
<td>0</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$ 6,872,036</td>
<td>$ 4,409,605</td>
<td>$ 2,410,930</td>
</tr>
</tbody>
</table>

2014-2015 Expenditures include New Franklin renovations and various smaller projects.
# Food Service Fund

(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$ 2,177,918</td>
<td>$ 2,187,211</td>
<td>$ 1,852,521</td>
</tr>
<tr>
<td>Non-Operating Revenues/Subsidies</td>
<td>2,730,360</td>
<td>3,017,381</td>
<td>3,414,634</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>4,908,278</td>
<td>5,204,592</td>
<td>5,267,155</td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>2,411,232</td>
<td>2,533,963</td>
<td>2,708,267</td>
</tr>
<tr>
<td>Food and Milk Purchases</td>
<td>2,256,036</td>
<td>2,350,549</td>
<td>2,301,772</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>447,080</td>
<td>492,947</td>
<td>394,223</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>5,114,348</td>
<td>5,377,459</td>
<td>5,404,262</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>$(206,070)</td>
<td>$(172,867)</td>
<td>$(137,107)</td>
</tr>
</tbody>
</table>
Food Service Fund

• Operating Revenues decreased despite an increase in meal prices.
• Subsidies (federal and state) increased due to more free and reduced meals served.
• Expenses increased due to the increase in the PSERS rate and additional expense recorded with the implementation of GASB 68.
Medical Insurance Fund  
(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Insurance Premiums</td>
<td>$ 12,525,172</td>
<td>$ 12,983,800</td>
<td>$ 13,143,936</td>
</tr>
<tr>
<td>Interest Income</td>
<td>6,213</td>
<td>6,028</td>
<td>6,351</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>12,531,385</strong></td>
<td><strong>12,989,828</strong></td>
<td><strong>13,150,287</strong></td>
</tr>
<tr>
<td>Insurance Claims</td>
<td>9,854,068</td>
<td>10,828,913</td>
<td>12,194,812</td>
</tr>
<tr>
<td>Fees and stop loss premium</td>
<td>858,011</td>
<td>830,751</td>
<td>992,123</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>10,712,079</strong></td>
<td><strong>11,659,664</strong></td>
<td><strong>13,186,935</strong></td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>0</td>
<td>(3,570,658)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>1,819,306</td>
<td>(2,240,494)</td>
<td>(36,648)</td>
</tr>
<tr>
<td><strong>Ending Net Position</strong></td>
<td>$ 6,473,221</td>
<td>$ 4,232,727</td>
<td>$ 4,196,079</td>
</tr>
</tbody>
</table>
# Governmental Fund Balance

(Summary excerpt from financial statements)

<table>
<thead>
<tr>
<th>Fund Description</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>$ 276,697</td>
<td>0.23%</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Restricted (External)</td>
<td>244,887</td>
<td>0.21%</td>
<td>10,365,153</td>
<td>2,410,930</td>
</tr>
<tr>
<td>Committed (Board Action Taken)</td>
<td>429,912</td>
<td>0.36%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Assigned (Following Year Budget Deficit)</td>
<td>6,706,237</td>
<td>5.62%</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>$ 7,657,733</strong></td>
<td><strong>$ 10,365,153</strong></td>
<td><strong>$ 2,410,930</strong></td>
<td></td>
</tr>
</tbody>
</table>
General Fund - Fund Balance

- **Restricted Fund Balance consists of:**
  - Tax appeals - $222,230
  - Unspent donation - $22,657

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

- **Assigned Fund Balance consists of:**
  - 2015-2016 budgeted use of fund balance $6,706,237
  - Total 2015-2016 budget deficit $6,747,603; however this exceeds the actual unassigned fund balance.
Graphical Analysis

Governmental Activities
Assets, Liabilities, Net Position

Total Assets
Total Liabilities
Net Position

2011
2012
2013
2014
2015
Graphical Analysis

General Fund Revenue Breakdown

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

Graphical Analysis

Revenue Breakdown -
Chambersburg Area School District
(2013-2014)

- Federal Sources: 3%
- Other: 3%
- State Sources: 31%
- Other Local: 2%
- Taxes: 61%

Revenue Breakdown - LIU Schools
(2013-2014)

- Federal Sources: 2%
- Other: 0%
- State Sources: 34%
- Other Local: 3%
- Taxes: 61%

Revenue Breakdown - Schools with
$76 - $125 Million of Revenue
(2013-2014)

- Federal Sources: 2%
- Other: 1%
- State Sources: 28%
- Other Local: 2%
- Taxes: 67%
Graphical Analysis

General Fund Expenditure Breakdown (excluding refinancings)

- Instruction
- Support services
- Operation of noninstructional services
- Facilities acquisition, construction and improvements
- Debt service

Years:
- 2011
- 2012
- 2013
- 2014
- 2015
Graphical Analysis

General Fund Expenditure Object Comparison (excluding refinancings)

Salaries  Employee Benefits  Purchased Property and Technical Services  Purchased Property Services  Other Purchased Services  Supplies  Property  Debt Service  Other Objects

2011  2012  2013  2014  2015
Graphical Analysis

Expenditure Breakdown - Chambersburg Area School District (2013-2014)

- Salaries: 43%
- Benefits: 22%
- Purchased Professional and Technical Services: 8%
- Purchased Property Services: 2%
- Other Purchased Services: 10%
- Supplies: 3%
- Property: 1%
- Debt Principal, Transfers: 4%
- Debt Interest, Other: 7%

Expenditure Breakdown - LIU Schools (2013-2014)

- Salaries: 44%
- Benefits: 20%
- Purchased Professional and Technical Services: 7%
- Purchased Property Services: 2%
- Other Purchased Services: 13%
- Supplies: 4%
- Property: 1%
- Debt Principal, Transfers: 8%
- Debt Interest, Other: 3%

Expenditure Breakdown by Object - Schools with $76-$125 Million of Expenditures (2013-2014)

- Salaries: 44%
- Benefits: 21%
- Purchased Property Services: 2%
- Purchased Professional and Technical Services: 6%
- Other Purchased Services: 11%
- Supplies: 4%
- Property: 1%
- Debt Principal, Transfers: 8%
- Debt Interest, Other: 3%
Graphical Analysis

Expenditures per Average Daily Membership (2013-2014)

- Chambersburg Area School District: $12,465
- LIU Schools: $13,070
- All PA Schools: $15,075
Graphical Analysis

Unassigned Fund Balance as a Percentage of Expenditures (2013-2014)

- Chambersburg Area School District*: 5.67%
- LIU Schools: 6.52%
- All PA Schools: 7.15%

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

Status of Fund Balance - General Fund

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

2011: [Graphical representation]
2012: [Graphical representation]
2013: [Graphical representation]
2014: [Graphical representation]
2015: [Graphical representation]
Other Financial Statement Components

• Notes to Financial Statements
  – Note 9 – Bonds and Notes Payable
    • Total outstanding at year end $ 145,650,000
    • This is an increase compared to last year of $ 5,830,000
    • Issued Series 2015AA for Marion elementary and various capital projects of the District.
    • Also has details of future debt service requirements
      – Total Principal Outstanding $ 145,650,000
      – Total Interest to be paid $ 72,736,435
    • Disclosed the bond issue subsequent to year end – Series 2016
Other Financial Statement Components

• Notes to Financial Statements
  – Note 14 – Pension Plan
    • Extended to approximately 5 pages in the footnotes
      – Added information about the plan, benefits, contributions and actuarial assumptions
    • Implementation affected the following:
      – Reduced beginning net position by $ 154,657,171
      – Added deferred outflows of $ 17,342,001
      – Added deferred inflows of $ 11,247,548
      – Added net pension liability of $ 157,333,350
• Notes to Financial Statements
  – Note 14 – Pension Plan (continued)

  • This liability is an estimate based on actuarial calculations and future employment and investment trends. This does not equal the exact amount that the District will pay in pension contributions for current employees.

  • Included in the disclosure is a sensitivity analysis of the NPL, which shows the NPL with a discount rate 1% lower and 1% higher than the 7.5% discount rate that was used:

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease 6.5%</th>
<th>Current Discount Rate 7.5%</th>
<th>1% Increase 8.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>District's proportionate share of the net pension liability</td>
<td>$196,252,000</td>
<td>$157,333,350</td>
<td>$124,108,000</td>
</tr>
</tbody>
</table>
Schedule of Expenditures of Federal Awards

• Notes to Schedule of Expenditures of Federal Awards
  – Total Federal Expenditures $ 8,094,067
  – Programs tested under Single Audit:
    • Special Education Cluster (IDEA)
    • Child Nutrition Cluster
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
  – Summary of new standards that will affect the District
  – Graphical Analysis
Management Letter

• Summary of New Standards
  – Uniform Guidance for Federal Awards
  – Uniform Grant Guidance – Changes to Single Audits
  – GASB 72 – Fair Value Measurement and Application
  – GASBs 74 and 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions
  – GASB 77 – Tax Abatement Disclosures
  – GASB Exposure Draft – Lease Accounting
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.
  – 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
• Pension standard (GASB 68) implemented during the current year impacted the Government-Wide Statement and Food Service Fund significantly.

• Questions?