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Accountants | Auditors | Advisors

Board of School Directors
Canon–McMillan School District
Canonsburg, Pennsylvania

Ladies and Gentlemen:

We have audited the financial statements of the Canon–McMillan School District for the year ended June 30, 2014, and have issued our report thereon dated October 8, 2014. Professional standards require that we provide you with the following information related to our audit.

Management Letter Comments

Fund Balance

We noted an increase in the General Fund fund balance from a \$4,475,402 at June 30, 2013 to \$4,721,446 at June 30, 2014. This includes transfers of \$3,000,000 to the Capital Reserve Fund, \$300,000 to the Retirement Obligations Fund, and \$144,831 to the Cafeteria Fund. While the level of fund balance is entirely the decision of the Board of School Directors, it is important to remember that an appropriate level of fund balance is essential for the proper operation and fiscal stability of the District.

With the unassigned fund balance at \$3,029,998 at June 30, 2014, this level represents 4.4% of the 14/15-expenditure budget. The recommended minimum fund balance is 8% - 10% of current budgeted expenditures.

It is also important to remember that using fund balance to balance the budget results in a non-recurring source of funds. Because of this, any fund balance used in a given year will need to be made up in future years. The non-recurring source of funds can only be made up in a combination of three ways - Revenue from Growth, Expenditure Reductions, or Tax Increases.

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Post Retirement Liabilities

During the past several years, we have discussed the benefits made to district employees relating to retirement. The following is a history of the value of those benefits.

	<u>Retirement Incentives</u>	<u>Accumulated Sick Days</u>
June 30, 2010	\$ 141,720	\$ 974,258
June 30, 2011	69,940	792,208
June 30, 2012	24,647	785,444
June 30, 2013	49,846	677,952
June 30, 2014	37,384	628,435

It is important to note that while a continued decrease has been seen over the past five years, current decisions and future contracts can play a heavy role in whether these liabilities continue to decline or if a rise is noted in the coming years.

GASB Statement #45

During the year ended June 30, 2009, the District implemented GASB Statement #45. As noted in previous audits, this Standard deals with the accounting for postretirement benefits such as the continuation of health insurance benefits for retirees.

The District has opted to follow the pay as you go method of applying GASB Statement #45 and contributed \$300,000 to its retirement obligations fund. While this fund is not a restricted trust under GASB Statement #45, it does show that the District is proactive in setting aside funds for its future retirement obligations. Because the annual required contribution was not funded into a restricted trust, the ARC continues to be recorded as a liability on the District’s government wide financial statements. There will be an annual increase in the ARC balance for future required payments and accrued interest that is not transferred into a restricted trust.

Federal Programs

This year, federal program regulations required a major program compliance audit of IDEA and the Child Nutrition Cluster. There are no findings noted in the audit of the School District’s federal programs.

Cafeteria Fund

The following is a history of the cafeteria fund profits and losses:

	<u>Profit or Loss</u>	<u>General Fund Contribution</u>	<u>Depreciation Expense</u>	<u>Cash Flow/Deficit before Contribution</u>
June 30, 2010	\$ (24,843)	-0-	\$ 89,080	\$ 64,237
June 30, 2011	(109,168)	-0-	89,571	(19,597)
June 30, 2012	(96,683)	96,683	92,274	(4,409)
June 30, 2013	(200,033)	200,033	93,117	(106,916)
June 30, 2014	(144,831)	144,831	81,091	(63,740)

During the 2013/2014 year, the General Fund subsidized the \$144,831 loss that occurred in the cafeteria fund with a transfer. The Board should keep in mind that the profit (loss) shown above includes depreciation, which is a non-cash expense. When depreciation expense is added back to the net profit, the actual cash inflow (outflow) for the District can be determined. Thus for 13/14, the cash outflow for the food service fund was \$(63,740).

Student Activity Clubs – Fundraising Request Forms

Procedures noted that some of the year end information sheets were not filled out correctly. It appears that some of the errors are caused by misunderstandings on the proper way to fill out the forms. We recommend that the District modify the year end forms in a way to increase the verifiability of the data by requiring that a separate form be filled out for each fundraiser rather than a year end report that includes all fundraisers for a specific club.

Student Activity Funds – High School Activities

In our previous audit, we noted that a number of the invoices tested did not include supporting documentation during our review of expenditures. While we did note similar instances with our current audit, we are pleased to note that these occurrences were much less frequent. We also noted one instance in which the activity sponsor signed as the student member on an expense voucher form.

Athletic Fund

Timeliness of Deposits

In prior audits, we noted that deposits from athletic events were not always being made in a timely manner which had resulted in this responsibility being delegated to the business office. We are pleased to note, as in the prior audit, this responsibility now continues to be handled by the athletic department and all deposits tested during our audit were made in a timely manner.

GASB Statement #68

The Governmental Accounting Standards Board has issued Statement #68 to address accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts and have certain characteristics. The application of this Statement will result in the School District being required to include a proportionate share of the PSERS unfunded liability within its financial statements. The Statement is effective for fiscal years beginning after June 15, 2014.

Investments

Quality and safety of investments should continue to be a paramount concern to the administration and the Board. The District should continue its annual review of investment policies and procedures for such matters as evaluating safety of potential investments, defining appropriate investments for the District, and diversification analysis.

Risk Management

We would like to take this opportunity to remind the Board and administration of risk management responsibilities in operations of the District's financial affairs. Protection of the District's assets and the proper expenditure and reporting of those assets are two of the primary duties in the roles of governance and administration. A quick summary includes the following:

- Responsibility for informing us about all known or suspected fraud affecting the government involving (a) the governing body (b) management, (c) employees who have significant roles in internal control, and (d) others where the fraud could have a material effect on the financial statements
- Establishing and maintaining internal control, compliance with laws and regulations
- Making all financial records and related information available to the auditors
- Taking responsibility for the accuracy and completeness of those records
- Responsibility for the design and implementation of programs and controls to prevent and detect fraud
- Responsibility to follow-up and take corrective action of prior audit findings

Debt Related Derivative Activities

The swaption proceeds are accounted for in the District's debt service fund and those monies are not co-mingled with other funds. The remaining balance in the debt service fund of swaption proceeds was \$4,464,995 at June 30, 2014, as well as a receivable for an amount due from the General Fund in the amount of \$40,000. The District should consider developing a plan for the future use of these funds.

The District's interest rate manager and PNC Capital Markets, the swaption counterparty, had recommended the District set aside a portion of the swaption premium to cover issue costs of variable rate bonds should the option be exercised and additional funds to cover the return of state debt service subsidies in the event of exercise. During the 2010/2011 year, the District's first swaption was exercised by the counterparty. As a result, the District had issued variable rate bonds to refund its previous Series of 2001B bonds. During 2012/2013, the District's second swaption was terminated with issuance of the Series of 2012A and 2012B Notes. During 2013/2014, the District's first swaption was terminated with issuance of the Series of 2014A Bonds.

Communication with Those Charged With Governance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Canon–McMillan School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to

the planned scope and timing of our audit. We have communicated such information in our letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Canon–McMillan School District are described in Note 1 to the financial statements. GASB Statement #65 was adopted in the 2013/2014 year. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the School District's financial statements were:

- Fair market value of investments
- Fixed assets
- Depreciation expense
- Retirement and compensated absences liability

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the School District's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the School District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the statement of changes in assets and liabilities – agency fund and the schedule of expenditure of awards of federal assistance, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of School Directors and management of Canon-McMillan School District and is not intended to be, and should not be, used by anyone other than these specified parties.

In closing, we would like to thank Mr. Daniels and Ms. Mansmann and their respective staff members for the superb cooperation we received during our audit. We also thank the Board of School Directors for the opportunity to serve Canon-McMillan School District.

Sincerely yours,

A handwritten signature in black ink that reads "Cypher and Cypher". The signature is written in a cursive, flowing style.

Cypher and Cypher
Certified Public Accountants

Canonsburg, Pennsylvania

October 8, 2014