

CANON MCMILLAN SCHOOL DISTRICT

CANONSBURG, PENNSYLVANIA

ANNUAL FINANCIAL REPORT
SCHOOL YEAR ENDED JUNE 30, 2012

CANON MCMILLAN SCHOOL DISTRICT

TABLE OF CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-xiv
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
BALANCE SHEET-GOVERNMENTAL FUNDS	3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET VS ACTUAL – GENERAL FUND	7
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS	9
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	10
STATEMENT OF NET ASSETS – FIDUCIARY FUNDS	11
NOTES TO THE FINANCIAL STATEMENTS	12-32

SUPPLEMENTARY INFORMATION

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS	33
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	34-35
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	36-38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39-42
SCHEDULE OF EXPENDITURE OF AWARDS OF FEDERAL ASSISTANCE	43
NOTES TO THE SCHEDULE OF EXPENDITURE OF AWARDS OF FEDERAL ASSISTANCE	44
SCHEDULE OF SUMMARY OF PRIOR FINDINGS	45

Unqualified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and
Supplementary Information

Independent Auditor's Report

Canon-McMillan School District
Canonsburg, Pennsylvania

Ladies and Gentlemen:

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 Canon-McMillan School District as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Canon-McMillan School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Canon-McMillan School District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, on our consideration of Canon-McMillan 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I through xiv 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Canon-McMillan School District's financial statements as a whole. The combining nonmajor fund financial statements and the statement of changes in assets and liabilities – agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditure of awards of federal assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements, the statement of changes in assets and liabilities – agency funds and the schedule of expenditure of awards of federal assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CYPHER & CYPHER

CERTIFIED PUBLIC ACCOUNTANTS

November 9, 2012
Canonsburg, Pennsylvania

Management's Discussion and Analysis

**CANON–McMILLAN SCHOOL DISTRICT
CANONSBURG, PENNSYLVANIA**

**Management's Discussion and Analysis (MD&A)
June 30, 2012**

Our discussion and analysis of Canon–McMillan School District's financial performance provides an overview of the School District's financial activities for the fiscal year ending June 30, 2012. The MD&A should be read in conjunction with the financial statements and footnotes. This report was prepared by the School District's Business Office.

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 issued June, 1999.

This report was prepared by the School District's Business Office. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including disclosures in the notes to general purpose financial statements, is the responsibility of the School District's management. We believe that the data is accurately presented in all material respects, is presented in a manner designed to fairly present the financial position and results of operations of the District as measured by the financial activity of the various funds and that all disclosures necessary to enable a reader to gain the maximum understanding of the School District's financial affairs have been included.

THE SCHOOL DISTRICT

Canon–McMillan School District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"). Canon–McMillan School District is an independent reporting entity as determined within the criteria established in accordance with Governmental Accounting Standards Board codification Section 2100. The application of this section provides comparability between governmental units, comprehensiveness of an individual report, and an indication of the responsibility and control function of the elected officials.

The criteria of Section 2100 have been examined as to the relationship of the School District with the Western Area Career and Technology Center. This entity was determined not to be a part of the reporting entity of the School District. The Center has been excluded due to lack of substantial control. The District appoints one member to the Joint Operating Committee of the Center. The District pays tuition for the students attending the school and would be responsible for any revenue shortfall and loan defaults. However, past history has shown refunds from the Center to the District.

The School District provides a comprehensive educational system from kindergarten through grade twelve, including regular instruction, special instruction, vocational education and necessary support services. The goal of the School District is to provide excellence in education by fostering high levels of student achievement through cooperation with the community and amidst an ethical culture.

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The Superintendent functions as the Chief Executive Officer and works collaboratively with the Board of School Directors within a governance framework. The collaboration continues with and throughout the administrative team as teamwork is a cornerstone of our philosophy of success.

POSITIVE RESULTS OF OUR SCHOOL PROGRAM

Overall, the District is proud of the achievement of its students. Most school scores on the PSSA test exceeded the State goals for 2011-2012. The elementary testing data, specifically, reflects some of the highest achieving schools in the Commonwealth. We are proud to note that the Canon McMillan School District is the only school district in Washington County to boast two National Blue Ribbon Schools: First Street Elementary (2007) and Wylandville Elementary School (2010).

As one of the fastest growing school districts in southwestern Pennsylvania, we are proud of the myriad of opportunities we offer our students. Our growth, in combination with the age of some of our facilities necessitates a capital improvement plan which has been established. We anticipate the creation of physical learning spaces that are conducive to learning appropriate for the 21st century, representative of financially sound decisions and indicative of the well developed infrastructure our students and school community deserve.

The Canon-McMillan School District meets the needs of its students on a variety of academic, emotional and social levels. Tutoring is offered for at-risk students needing extra help. Enrichment opportunities also are provided and are augmented by programming that addresses the needs of identified gifted students. As a result, the District embraces standards-based, differentiated instructional practices all of which build a foundation for student success.

As a testament to the positive results of our school programs, the Canon-McMillan School District has been recognized by the Division of Federal Programs by designating two of our elementary schools as Title 1 Distinguished Schools. They are First Street Elementary and South Central Elementary.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations:

Governmental funds including the general, capital projects, debt service and athletic reported a combined fund balance of \$11.9 million including a combined net income of \$4.7 million for 2011-2012.

Revenues: The School District's general fund received \$63.3 million during 2011-2012 compared with \$61.6 million for 2010-2011. Canon-McMillan received 69.9% of its funding from local sources, 29.2% from state sources and .9% from federal sources, compared with 67.2%, 31.8%, and 1% respectively in 2010-2011. Real estate tax receipts continue to be the primary source of revenue for the general fund. The property assessments, from which real estate tax receipts are based, continue to increase, but are increasing at a rate slower than expected due to the high number of tax assessment appeals and a slightly lower collection rate for our district. Without a significant increase in state funding, it is anticipated that future annual millage rate increases are likely, especially if the District pursues Capital Projects. Earned Income Tax is the second most significant local revenue source funding general fund operations and it has continued to increase, especially with the mandated countywide consolidation effort. The District will continue to monitor this taxing effort as it will have both short and long term impacts to the Earned Income Tax collection. However, it is still anticipated that the School District is financially positioned very well as economic growth continues because the financial health of the local economy is not dependent on any one of several major employers.

Expenditures: Total general fund spending for 2011-2012 was \$62.6 million for the year compared with \$60.8 million for 2010-2011. Instructional programs expended \$31.4 million, or 54.2% of all general fund spending compared with \$32.1 million or 54.3% in 2010-2011.

It is anticipated the District will continue to perform better than many communities in terms of revenue streams. Additionally, there have been improvements and additions to the highways creating increased access to major markets and making the Canon-McMillan School District a location that businesses are sure to find attractive.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time increases and decreases in net assets serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement from some items that will result in cash flows in the future fiscal periods, such as uncollected taxes.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, state and federal subsidies (governmental activities) from other functions that are intended to recover a portion from user fees and charges (business-type activities). The governmental activities include general costs of the District such as instruction, administration and community service. The largest major fund in governmental activity is the General Fund.

The General Fund, the Capital Projects Fund, and the Debt Service Fund are the three major funds under governmental activities.

The General Fund accounts for all transactions of the School District which are not required to be accounted for in another fund. The School Board is empowered by Article 5 Section 507 of the Public School Code to levy and collect necessary taxes in addition to the annual State appropriation in order to pay for any indebtedness that may be created and to enable it to establish, enlarge, equip, furnish, operate, and maintain the operations of the School District. All other funds are designated for specific purposes.

The Capital Bond Funds have activity restricted to capital improvements and the purchase of long-term equipment and are aggregated into a single presentation, Construction Fund. The Debt Service Fund accounts for resources accumulated to provide for payment of general long-term debt principal and interest. The District has one non-major fund: a District Activity Fund, all of which are aggregated into a single presentation, Non-Major Funds.

The other major funds are the Food Service Fund and the Retirement Obligations Fund and they are business-type activities which account for the cafeteria program in each of the District's eleven schools and the funds set aside by the District for retirement obligations.. The District contracted the cafeteria services through an RFP process with Nutrition Inc. selected to provide food service management.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Most of the District's activities are reported in governmental funds which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which focuses on near-term inflows and outflows of readily available resources as well as balances of readily available resources at the end of the fiscal year. Such information is useful in evaluating a District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers can understand the long-term impact of the government's near-term financing decisions. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements and can be noted on Pages 4 and 6 in the financial statements.

Proprietary Funds - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. While the District maintains only one proprietary fund type, the Food Service Fund, it provides more detail and additional information than government-wide statements, such as cash flows.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's operations. The District maintains student funds as Agency Funds. The District acts as a custodian and administers this fund on behalf of the students and their organizations. Since these funds are custodial in nature, the District does not measure the results of operation. However, acting as a custodian of these funds, the Business Office had found areas of concern in regard to the internal controls and added further controls as a result.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects the condensed Statement of Net Assets:

Statement of Net Assets As of June 30, 2012

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and Other Assets	\$ 13,250,760	\$ 18,316,068	\$ 2,743,110	\$ 3,483,246	\$ 15,993,870	\$ 21,799,314
Non Current Assets	73,036,368	71,318,091	312,243	254,833	73,348,611	71,572,924
Total Assets	86,287,128	89,634,159	3,055,353	3,738,079	89,342,481	93,372,238
Current and Other Liabilities	9,236,363	9,763,024	24,606	13,374	9,260,969	9,776,398
Non Current Liabilities	86,462,117	85,096,779			86,462,117	85,096,779
Total Liabilities	95,698,480	94,859,803	24,606	13,374	95,723,086	94,873,177
Invested in Capital Assets	(10,945,071)	(10,714,656)	312,243	254,833	(10,632,828)	(10,459,823)
Restricted	3,439,124	8,890,174	2,238,751	2,932,709	5,677,875	11,822,883
Unrestricted	(1,905,405)	(3,401,162)	479,753	537,163	(1,425,652)	(2,863,999)
Total Net Assets	\$ (9,411,352)	\$ (5,225,644)	\$ 3,030,747	\$ 3,724,705	\$ (6,380,605)	\$ (1,500,939)

Assets, Liabilities & Net Assets

The School District's total assets increased 4 million during 2011-2012 to a total of 93.3 million, with 11.9% in cash and cash equivalents, 0.8% in investments, 1.59% as receivables (delinquent taxes), and 1.84% for receivables from federal and state sources, insurance reimbursement, and other School District funds. The remaining 84.87% of total assets are attributable to noncurrent assets comprised of long-term receivables and capital assets net of depreciation.

Current liabilities decreased \$849,909 during 2011-2012 to a total of \$94.8 million and include but are not limited to: \$81.7 of bonds payable, \$886,257 accounts payable, \$4.3 million salaries and benefits payable, \$2.9 million in other post employment benefits payable. Accounts payable balances are primarily the result of expenditures incurred prior to June 30, 2012 and paid subsequent to June 30, 2012. Accrued salaries and benefits are primarily the result of salaries earned by teachers as of June 30, 2012 and paid during the summer 2012.

The District's total net assets increased \$4.8 million during 2011-2012, to a total deficit of \$(1,500,939) which includes a deficit of \$(10,459,823) in Invested Capital Assets, Net Related Debt and Inclusive of Long-Term Receivables and a surplus of \$11.8 million of restricted funds.

RESULTS OF OPERATIONS

Fiscal year ended June 30, 2012

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Program Revenues:						
Charges for Services	\$ 309,380	\$ 270,780	\$ 1,333,703	\$ 1,442,042	\$ 1,643,083	\$ 1,712,822
Operating Grants and Contributions	10,588,682	8,140,053	807,044	787,798	11,395,726	8,927,851
General Revenues:						
Property Taxes	35,779,181	36,808,689			35,779,181	36,808,689
Other Taxes	4,930,247	6,169,890			4,930,247	6,169,890
Grants Subsidies and Contributions	10,477,930	11,494,471			10,477,930	11,494,471
Other	(1,508,186)	(524,013)	1,767,988	791,509	259,802	267,496
	60,577,234	62,359,870	3,908,735	3,021,349	64,485,969	65,381,219
Expenditures:						
Depreciation	1,880,264	1,884,377			1,880,264	1,884,377
Instruction	32,643,261	31,874,970			32,643,261	31,874,970
Instructional Student Support	2,701,064	2,812,314			2,701,064	2,812,314
Administrative and Financial Support	5,025,617	5,314,359			5,025,617	5,314,359
Operation and Maintenance of Plant	5,607,607	5,492,674			5,607,607	5,492,674
Pupil Transportation	4,726,531	4,346,099			4,726,531	4,346,099
Student Activities	1,196,238	1,158,248			1,196,238	1,158,248
Community Services	122,448	118,620			122,448	118,620
Debt Service	5,333,827	5,172,501			5,333,827	5,172,501
Food Service			2,250,133	2,327,391	2,250,133	2,327,391
	59,236,857	58,174,162	2,250,133	2,327,391	61,486,990	60,501,553
Change in Net Assets	\$ 1,340,377	\$ 4,185,708	\$ 1,658,602	\$ 693,958	\$ 2,998,979	\$ 4,879,666

Revenues

Local taxes account for 69.6% of all revenue. The District currently receives approximately \$375,000 per each mill of real estate tax. This figure takes into account deducting for un-collected taxes (discount, collection rate, etc...). Federal and State subsidies are 30% of total revenue for fiscal 2012.

Expenditures and Other Financing Uses-Governmental Funds

Operating expenditures decreased \$985,437 thousand for 2011-2012 to a total of \$60.5 million. Instructional services account for 52.6% of total expenditures. It is the most influential factor in the total expenditures from fiscal 2012 and only a small decrease from 2010-2011 of .4%. The reason for the small decrease instead of the typical trend of an increase is due to the employees taking some type of wage freeze. Otherwise, we would have seen an increase in salaries and fringe benefits, specifically state mandated retirement contributions.

The following table shows the District's nine largest functions at total cost and net cost (total cost less revenues generated by the activity). This table also shows the net costs offset by the other unrestricted grants, subsidies, and unrestricted contributions to show the remaining financial needs supported by local tax efforts and miscellaneous revenues.

Fiscal Year Ended June 30, 2012
Governmental Activities

Function/Program:	Total Cost		Percentage	Net Cost		Percentage
	2011	2012	Change 2011-2012	2011	2012	Change 2011-2012
Depreciation	\$ 1,880,264	\$ 1,884,377	0.2%	\$ 1,880,264	\$ 1,884,377	0.2%
Instruction	32,643,261	31,874,970	-2.4%	25,151,894	26,819,348	6.6%
Instructional Student Support	2,701,064	2,812,314	4.1%	2,504,968	2,590,534	3.4%
Administrative and Financial Support	5,025,617	5,314,359	5.7%	4,852,611	5,103,444	5.2%
Operation and Maintenance of Plan	5,607,607	5,492,674	-2.0%	5,368,360	5,208,272	-3.0%
Pupil Transportation	4,726,531	4,346,099	-8.0%	3,270,861	2,777,494	-15.1%
Student Activities	1,196,238	1,158,248	-3.2%	1,078,876	1,025,865	-4.9%
Community Services	122,448	118,620	-3.1%	122,031	118,209	-3.1%
Long Term Debt Interest	5,333,827	5,172,501	-3.0%	4,108,930	4,235,786	3.1%
Total Governmental Activities	59,236,857	58,174,162	-1.8%	48,338,795	49,763,329	2.9%
Less: Unrestricted Grants, Subsidies and Contributions				(10,477,930)	(11,494,471)	
Total Needs From Local Sources				\$ 37,860,865	\$ 38,268,858	1.08%

Explanation of Expenditure Category Content:

Depreciation—Depreciation expense is an application of the matching principle whereby the cost of fixed assets used up during a period is matched with the revenues generated by their use. While depreciation expense is not a use of cash, the underlying concept that depreciation expense should bear some relationship to principal debt payments is most important. In 2008-2009, we reflected the results of our outside appraisal of fixed assets and believed we were current in the cost of those assets. In subsequent years, we have added additional updates that were shared by our outside appraisal company.

Instruction—Activities designed to provide grades K-12 students with learning experiences to prepare them for activities as citizens, family members, and non-vocational workers as contrasted with programs designed to improve or overcome physical, mental, social and/or emotional handicaps.

Instructional support services include those activities associated with assisting, supporting and directing the instructional staff on providing learning experiences for students. Program areas included in this section are audiovisual services, computer services, library, curriculum development and staff development.