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Hamilton-Wenham Regional School District Fiscal 2017 Audit Presentation

Presented by:
Frank Serreti, CPA Partner
Thomas Couto, Senior Auditor



Results of the Fiscal 2017 Financial Statement Audit

- ▶ The principle objective of our work for fiscal 2017 was the expression of our opinion on the District's financial statements.
- ▶ We performed our audit in accordance with auditing standards generally accepted in the United States of America, and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- ▶ Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles.
- ▶ Management is responsible for the preparation and fair presentation of the financial statements.

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Results of the Fiscal 2017 Financial Statement Audit

- ▶ We met with the District's staff to understand their processes and control systems.
- ▶ We tested the amounts and disclosures in the financial statements and assisted with the drafting of financial statements.

RESULTS:

- ▶ Based on our audit, we issued an Unmodified Audit Opinion on the District's financial statements.
- ▶ There were no material proposed audit adjustments.

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Management's Responsibilities

As part of the audit process, management is responsible for the following:

- The fair presentation of the District's financial statements in accordance with U.S. GAAP;
- Establishing and maintaining effective internal controls over financial reporting to ensure all significant transactions are properly reflected within the financial statements;
- Identifying and ensuring that the District complies with the laws and regulations applicable to its activities;
- Making all financial records and related information available to P&S;
- Perform procedures to ensure the appropriate valuation of the District's assets and liabilities;
- Identify contingent liabilities of the District and ensure that they are assessed and appropriately reflected in the financial statements; and
- Adjusting the financial statements to correct material misstatements and affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor, if any, during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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P&S Responsibilities

- ▶ Our responsibility is to express an opinion on the District's financial statements;
- ▶ An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions;
- ▶ We are responsible for ensuring that the School Committee is aware of any significant deficiencies and/or material weaknesses; and
- ▶ Our responsibility is to communicate those matters that have come to our attention as a result of the performance of our audit.
- ▶ The financial statements and other materials were discussed in detail with the Assistant Superintendent of Finance and Administration, the Director of Accounting and Payroll, and the District Treasurer.

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General Fund – Fund Balance

- ▶ General fund fund balance totaled \$2.1 million.
- ▶ Reservations against fund balance:
 - Encumbrances totaling \$291,000.
 - Represents open purchase orders as of June 30.
 - E&D voted to fund fiscal 2018 appropriations totaled \$569,000.
- ▶ Unassigned fund balance totaled \$1.3 million.



General Fund – Operations

- ▶ Actual revenues exceeded the budget by \$105,000. This was primarily due to Chapter 70 State Aid, and Medicaid reimbursements.
- ▶ Actual expenditures were \$209,000 less than budgeted. Approximately \$133,000 relates to debt service, \$42,000 relates to instructional services and \$18,000 relates to administration.
- ▶ \$291,000 of appropriations were carried forward as a result of encumbrances, to be expended in fiscal 2018. An increase of \$110,000 from the prior year.
- ▶ \$61,000 of transportation aid closed out to the general fund.
- ▶ Overall, this resulted in a \$486,000 increase in fund balance.

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Estimated Excess and Deficiency

- ▶ Subject to Department of Revenue review and approval.
- ▶ Can be appropriated for any valid school purpose.
- ▶ Excess & Deficiency was submitted to the DOR on 9/18/17 for certification and is estimated to total \$1.3 million.
- ▶ Statute allows the District to maintain a balance not to exceed 5% of subsequent years budget.
- ▶ Any excess is required to be returned to member Town's.
- ▶ The estimated balance is expected to be approximately \$276,000 under the 5% DOR limit and \$347,000 over the 3% limit established by School Committee policy.

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OPEB and Pension Liabilities

- ▶ The net OPEB obligation totaled \$19.4 million, an increase of \$1.8 million from the prior year. The unfunded actuarial accrued liability totaled \$25.3 million as of 7/1/15, the most recent actuarial valuation.
- ▶ The net pension liability totaled \$10.9 million, an increase of \$638,000 from the prior year. This liability relates to employees that are part of the Essex Regional Retirement System. Teachers and eligible administrators are enrolled in the Massachusetts Teachers Retirement System, in which the pension liability is funded by the Commonwealth.

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Capital Projects

- ▶ \$3.1 million of school capital improvements were authorized in fiscal 2014:
 - Projects included \$803,000 for the Booker School boiler project and \$2.3 million for the Winthrop School boiler and windows projects.
 - The MSBA committed to fund 44% of eligible project costs. The final MSBA reimbursement was received in fiscal 2017 and reimbursements totaled \$1.1 million.
 - In fiscal 2017, the District issued \$1.5 million of long-term bonds to fund the District's share of these projects.



Management Letter

None of the comments in the current year management letter are considered to be Material Weaknesses or Significant Deficiencies. We consider the comments to be enhancements to internal controls and operating procedures.

Prior Year Comments

- ▶ Preschool revolving fund – Resolved
 - We recommended that the District develop written procedures for the allocation of direct and indirect costs to the preschool revolving fund to ensure that expenditures are consistently charged to the program and to enable the District to properly set rates to cover the anticipated costs. Written procedures were developed and implemented in 2017 for the allocation of costs to the preschool revolving fund.
- ▶ Develop written procedures concerning capital asset disposals – Resolved
 - We recommended that written procedures be developed to strengthen internal controls over accounting and physical control of assets or proceeds from disposition. Written procedures were developed in 2017 for capital asset disposals.

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Management Letter

Prior Year Comments

- ▶ Adopt a cash and investment policy –Resolved
 - We recommended that the District adopt a deposit and investment policy with consideration given to the specific types of risks required for disclosure, such as custodial, interest rate and credit risk. The District adopted a cash and investment policy in 2017.
- ▶ Develop procedures concerning computer passwords –Resolved
 - We recommended that the District develop written procedures concerning the assignment, modification, and deletion of user passwords. Passwords should be changed at least once every six months. Written procedures will help to ensure that password assignments, deletions, and modifications are performed in a manner consistent with management's intentions. Written procedures were developed in 2017 for computer passwords.

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Management Letter

Current Year Comment

- ▶ Documentation of internal controls
 - In December 2013, the U.S. Office of Management and Budget (OMB) issued Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditures of federal funds and to reduce the risks of waste, fraud and abuse. In accordance with the Uniform Guidance, non-federal entities must establish and maintain effective internal control over the federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in accordance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (the Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
 - We recommend that management document and evaluate the system of internal controls over federal awards by utilizing the Green Book or COSO Internal Control Framework.

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Upcoming GASB Pronouncements

GASB Statement #75: - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which is effective for 2018.

- ▶ GASB #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the other postemployment benefit liability will be immediately recognized as other postemployment benefit expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Employers will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the measurement date. Net other postemployment benefit liability (asset) equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.
- ▶ We recommend that the District contact its actuary to ensure that the actuarial information is available for the 2018 audit.

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Questions?

Thank You

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