



Powers & Sullivan, LLC

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Hamilton-Wenham Regional School District Fiscal 2016 Audit Presentation

Presented by:

Frank Serreti, CPA Partner

Elizabeth Devereaux, CPA Supervisor



Results of the Fiscal 2016 Financial Statement Audit

- ▶ The principle objective of our work for fiscal 2016 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 2016 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 were discussed in detail with the Assistant Superintendent of Finance and Administration and the District Accountant.

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General Fund – Fund Balance

- ▶ General fund fund balance totaled \$1.7 million.
- ▶ Reservations against fund balance:
 - Encumbrances totaling \$179,000.
 - Represents open purchase orders as of June 30.
 - E&D voted to fund fiscal 2017 appropriations totaled \$555.
- ▶ Unassigned fund balance totaled \$1.5 million.



General Fund – Operations

- ▶ Actual revenues exceeded the budget by \$158,000. This was primarily due to Chapter 70 State Aid, E-Rate reimbursements for technology, Medicaid reimbursements.
- ▶ Actual expenditures were \$346,000 less than budgeted. Approximately \$247,000 relates to instructional services, \$28,000 relates to administration, \$36,000 relates to employee benefits and \$29,000 relates to programs with other districts.
- ▶ \$179,000 of appropriations were carried forward as a result of encumbrances, to be expended in fiscal 2017.
- ▶ \$396,000 of Excess and Deficiency (E&D) was used to balance the operating budget
- ▶ Overall, this resulted in a \$137,000 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 10/4/16 for certification and is estimated to total \$1.5 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 certified balance is approximately \$33,000 under the 5% limit.



Financial Statement Highlights

- ▶ \$2.3 million of school capital improvements were authorized in fiscal 2014 for the Winthrop boiler and windows projects:
 - The MSBA has committed to fund 44% of these projects for a total of \$1.0 million.
 - In total, \$2.0 million was expended as of June 30, 2016.
 - \$1.8 million of bond anticipation notes were issued to temporarily finance these projects and the Buker boiler project which was completed in fiscal 2015.

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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

- ▶ Personnel earnings records – Resolved
 - We recommended that written procedures be developed to ensure that documentation maintained in employee personnel files is standardized. The District developed a Personnel File Checklist in 2016 to ensure standardization.

- ▶ Audit of student activity funds – Resolved
 - We recommended that the District implement policies and procedures to comply with the MGL audit requirement and the new guidelines established by DESE. The District engaged Powers & Sullivan to conduct agree-upon procedures engagement in accordance with DESE guidelines for the District's student activity accounts. The High School engagement was completed in 2016.

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Management Letter

Prior Year Comments

- ▶ Individual scholarship trust fund reconciliations – Resolved
 - We recommended that additional procedures be implemented to reconcile the scholarship investments by each individual scholarship balance. Adding this procedure to the reconciliation process, will help ensure that money transfers occur on a timely basis. The District reconciled the individual scholarship balances from the investment statement to the general ledger balances during 2016.
- ▶ Investment of trust funds in custody of the Treasurer – Resolved
 - We recommended that the District work with its portfolio manager to ensure that the scholarship trust funds are invested in accordance with MGL Chapter 44, Section 54. The District's scholarship trust funds were reinvested to comply with MGL Chapter 44, Section 54 in September 2016.
- ▶ Preschool revolving fund – Partially Resolved
 - We recommended that the District adopt financial policies concerning the allocation of direct and indirect costs to the preschool revolving fund. This will ensure that expenditures are consistently charged to the program and will enable the District to properly set rates to cover the anticipated costs.

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Management Letter

Prior Year Comments

- ▶ Develop procedures concerning computer passwords – Partially Resolved
 - We recommended that the District adopt policies and procedures concerning the assignment, modification, and deletion of user passwords. Passwords should be changed at least once every six months. Written policies and procedures will help to ensure that password assignments, deletions, and modifications are performed in a manner consistent with management's intentions. The District has hired Presidio Network Solutions to conduct a detailed districtwide IT security assessment, which will include recommendations around IT policies and procedures. User passwords will be included as part of their assessment and review.
- ▶ Adopt a cash and investment policy – Partially 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 has drafted a cash and investment policy and has forwarded it to the School Committee for review and approval.
- ▶ Develop written procedures concerning capital asset disposals – Unresolved
 - We recommended that written procedures be developed to strengthen internal controls over accounting and physical control of assets or proceeds from disposition.

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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 #74: - Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

GASB Statement #75: - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

- ▶ GASB #74 and #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.

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Questions?

Thank You

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