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# **Hamilton-Wenham Regional School District Fiscal 2018 Audit Presentation**

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



# Results of the Fiscal 2018 Financial Statement Audit

- ▶ The principle objective of our work for fiscal 2018 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 2018 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 \$1.8 million.
- ▶ Reservations against fund balance:
  - Encumbrances totaling \$304,000.
    - Represents open purchase orders as of June 30.
  - E&D voted to fund fiscal 2019 appropriations totaled \$347,000.
- ▶ Unassigned fund balance totaled \$1.1 million.



## General Fund – Operations

- ▶ Actual revenues exceeded the budget by \$164,000. This was primarily due to Chapter 70 State Aid, and Medicaid reimbursements.
- ▶ Actual expenditures were \$24,000 less than budgeted. Approximately \$18,000 relates to instructional services and \$2,000 relates to programs with other districts.
- ▶ \$26,000 of transportation aid closed out to the general fund.
- ▶ \$569,000 of E&D was used to balance the operating budget.
- ▶ Overall, this resulted in a \$342,000 decrease in fund balance.



# 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 10/4/18 for certification and is estimated to total \$1.1 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 \$510,000 under the 5% DOR limit and \$147,000 over the 3% limit established by School Committee policy.

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# OPEB and Pension Liabilities

- ▶ The District implemented *GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. The implementation of this standard required different methods and assumptions for determining the total OPEB liability as well as updated footnote disclosures and required supplementary information schedules.
  - The net OPEB liability as of June 30, 2017, totaled \$19.4 million reported under GASB 45 and was revised to \$27.8 million under GASB 75. An increase of \$8.4 million.
    - This increase is mainly due to GASB 75 requiring the immediate recognition of the OPEB liability vs. GASB 45 requiring the recognition of the OPEB liability over 30 years.
    - Also contributing to the increase was a decrease in the discount rate from 3.5% to 3.25%



## OPEB and Pension Liabilities (continued)

- The net OPEB liability totaled \$35 million as of June 30, 2018, an increase of \$7.1 million from the revised prior year balance of \$27.8 million.
  - \$5.6 million of this increase is attributable to premium increases and updated teacher retirement assumptions (increasing the liability by \$5 million).
  - Changes of assumptions increased the liability by another \$1.4 million.
- ▶ The net pension liability totaled \$10.5 million, a decrease of \$400,000 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.



# Management Letter

The current year management letter does not include any comments that we consider to be Material Weaknesses or Significant Deficiencies; however the following informational comment has been included:

- ▶ 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 COSO Internal Control Framework.
  - In FY18, District Federal Awards totaled \$681,000.

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Questions?

Thank You

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