

# Powers & Sullivan Presentation to the Sudbury Select Board



June 1, 2021

# Our Objective

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- ❑ Introduction
- ❑ Virtual meeting format
- ❑ Overview of the 2020 Audit Process
- ❑ Overview of the 2020 Audit Results

# Audit Objectives

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- ❑ The principal objective of our work during fiscal 2020 was the expression of our opinions on the Town's basic financial statements (within the ACFR) and on the Town's compliance with provisions of Uniform Federal Guidance with respect to federal grants.
- ❑ 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 (referred to as yellow book).

## Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

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- ❑ 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 in accordance with U.S. generally accepted accounting principles.

# Audit Process

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## ❑ Preliminary Audit Work

- Transaction Testing of Revenues, Expenditures, Payroll, and Journal Entries.
- Major liability testing related to OPEB and Pension.
- Compliance with laws, regulations and grant requirements.

## ❑ Year End Audit Work

- Verification of year end balances and account reconciliations.
- Verification of budgetary controls.
- Year end cut-off procedures.
- Verification of proper capital asset activity and depreciation.
- Verification that financial statements comply with GASB/GAAP.

# COVID-19 Audit Considerations

- ❑ New Audit Risk Considerations.
- ❑ Various Federal Funding Opportunities
  - Cares Act Funding Town \$1.7M available
  - School reopening \$603,675
  - DESE funding to School (ESSR grants I, II and III/ \$59,090; \$233,825; and \$502,680, respectively)
  - Other sources (FEMA, HHS, etc.)
  - New – ARPA Funding \$2.05M
- ❑ Other Considerations – legislative changes, remote working, impact on Town services, potential budgetary pressures, revenue changes, system changes, Town Meetings, etc.

# Audit Results

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- ❑ Unmodified Audit Opinion – financial statements present your financial position in accordance with Generally Accepted Accounting Principles.
- ❑ No instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.
- ❑ 2020 will be the ninth year the Town has submitted an Annual Comprehensive Financial Report (ACFR) to the Government Finance Officer's Association (GFOA) for consideration for a Certificate of Achievement for Excellence in Financial Reporting.

# Annual Comprehensive Financial Report (ACFR)

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Introductory Section (*pages 3-12*)

Financial Section:

- ❑ Powers & Sullivan Audit Opinion (*pages 15-16*)
- ❑ Management's Discussion and Analysis (*page 19-26*)
- ❑ Basic Financial Statements (*pages 29-40*)
- ❑ Notes to Basic Financial Statements (*pages 41-73*)
- ❑ Required Supplementary Information
  - Budget, Pension Plan Schedules, OPEB Schedules (*pages 76-90*)
- ❑ Notes to Required Supplementary Information (*pages 91-94*)



# Annual Comprehensive Financial Report (ACFR)

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- ❑ Combining Schedules (*pages 98-103*)

## Statistical Section (*pages 106 – 122*)

- Financial Trends
  - Revenue Capacity
  - Debt Capacity
  - Demographic and Economic Information
  - Capital and Operating Indicators
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- ❑ Government Finance Officer's Association Award Program – Town received award for 2019 ACFR as well as for the Budget Presentation.

# Financial Position

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## □ General Fund Budgetary Results

- \$105.2M General Fund budget (*ACFR page 79*).
- Revenues exceeded budget by \$1.7M (*ACFR page 76*).
- Expenditures were under budget by \$1.1M (*ACFR page 79*).

## □ General Fund Balance

- General Fund Balance = \$18.7M (includes Stabilization \$6.4M).
- General Fund Balance = 16.6% of General Fund Expenditures.
- Unassigned General Fund Balance = \$15.5 million.

# Financial Position

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## Community Preservation Major Fund

- ❑ \$5.7M balance
- ❑ Spent \$1.8M on projects and debt service
- ❑ Received \$2.1M in taxes and \$525,000 in state matching funds.

## General Capital Projects Major Fund

- ❑ \$599,000 deficit balance – final project has not been permanently financed  
- \$470,000 BAN outstanding.
- ❑ \$17.4M spent from this fund.
- ❑ \$15.1M in bond proceeds and transfers in.

## Nonmajor Governmental Funds

- ❑ Broken out on pages 98 – 101
- ❑ Other Special Revenue, Capital Project and Permanent Trust Funds

# Financial Position

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- ❑ Full Accrual, Governmental net position decreased by \$4.9M to \$16.1M.
- ❑ Enterprise Funds relatively unchanged net positions.
  - Swimming Pool – \$69,000 deficit net position.
  - Transfer station - \$253,000 net position.
  - Recreation Field Maintenance – \$259,000 deficit net position.
  - Total enterprise fund decrease in net position - \$126,000.

# Financial Position

## ▣ OPEB – GASB 74/75

- \$8.6M in partial funding in Trust.
  - ▣ \$597,000 contribution to trust in FY2020
- Invested with US Bank.
- Unfunded Liability \$83.2 million, as of June 30, 2020.
- Significant note disclosures and three schedules in the Required Supplementary Information (*RSI pages 88-90*).
- Discount rate decreased from 3.74% to 2.3%. This change in assumption was part of the increased the liability.
- Other assumption changes included inflation rate, healthcare trend rates, mortality tables, mortality improvement rates, percent retiring with covered spouses and participation rates.

# Financial Position

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## ❑ Pensions

- Member of Middlesex Regional Retirement System
- Middlesex System is 49.45% funded.
- Sudbury's share of unfunded liability is \$64.2M, as of June 30, 2020.
- Significant note disclosures and three schedules in the Required Supplementary Information (*RSI pages 83-85*).

## ❑ Debt:

- \$14.5M new GO bonds issued in fiscal year 2020.
- Governmental funds retired \$3.5M of outstanding debt.
- \$32.2M of governmental bonds outstanding.

# Single Audit/Uniform Guidance

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- ❑ The Town is required to have a Single Audit which includes specific testing of Federal Expenditures.
- ❑ Single audits are performed in accordance with *Government Auditing Standards* and the audit requirements of the Uniform Guidance.
- ❑ Total Federal Expenditures                \$1,670,951
- ❑ Department of Education                \$702,863 (42%)
- ❑ Disaster Grants – Public Assistance \$429,755 (26%)
- ❑ Major Grants = Disaster Grants – Public Assistance (March 2018 storm)
- ❑ No Findings Reported

# Management Letter

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- ❑ No Material Weaknesses or Significant Deficiencies
- ❑ 2 Prior Year Comments Resolved
  - Documentation of Internal Controls Over Federal Awards (Significant Deficiency)
  - Untimely School Department Financial Reporting
    - ❑ End of Year Report Filed Late – State Aid temporarily withheld from Town
- ❑ 1 New Comment
  - Timeliness of Actuarial Information for OPEB Financial Reporting and Disclosure



# Management Responsibilities

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

- The fair presentation of the Town's financial statements in accordance with generally accepted accounting principles;
- 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 Town 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 Town's assets and liabilities;
- Identify contingent liabilities of the Town 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.

# P&S Responsibilities

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- ❑ Our responsibility is to express opinions on the Town's financial statements and compliance over federal programs;
- ❑ Conduct our audits in accordance with generally accepted auditing standards and Governmental Auditing Standards (Yellow Book). Those standards require that we obtain reasonable (rather than absolute) assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit is not designed to detect error or fraud that is immaterial to the 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 Select Board is aware of any significant deficiencies and/or material weaknesses;
- ❑ Our responsibility with respect to other information in documents containing audited financial statements is to read such information and consider whether the information or the manner of its presentation is materially consistent with information appearing in the basic financial statements; and
- ❑ Our responsibility with respect to Select Board communications is to communicate those matters that have come to our attention as a result of the performance of our audit.

# Areas of Audit Emphasis

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- Ensuring that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.
- Updating our understanding of internal control structure surrounding significant accounting cycles, including treasury, investments, fixed asset purchases and construction in progress, purchasing and payables, revenues and receivables, and payroll.
- Understanding any changes in key information technology systems and control areas, including the computer environment.
- Ensuring that the cash and investments are maintained in accordance with the Town's investment policy and that they are presented in accordance with GAAP.
- Ensuring that the receivables from taxpayers and other governments exist, are collectible and are presented at their net realizable value.
- Identification of Component Units to be included in the financial statements.

# Areas of Audit Emphasis-Continued

- Determining whether capital assets are properly capitalized and impairment of capital assets is considered and appropriately disclosed.
- Ensuring that certain significant accruals are calculated in accordance with the Town's policies and GAAP.
- Assisting the Town in implementing new financial reporting requirements issued by the Governmental Accounting Standards Board especially as they relate to reporting the Net Pension Liability and pension related disclosures .
- Ensuring that the Town's OPEB Trust is appropriately calculated, valued and fairly stated in accordance with GASB requirements.
- Ensuring that the Town's Pension Liability is reported accurately in accordance with current GASB requirements.
- Testing the Town's compliance with requirements applicable to each major program and internal control over compliance in accordance with the Uniform Guidance.

# Summary

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- ❑ This is a Team Effort.
- ❑ Thank You for Your Assistance and Commitment to this Process.
- ❑ Questions or comments?