

**Mansfield Board of Education
Finance Committee
September 8, 2016
Conference Room B
6:00pm**

Board Members: Randy Walikonis, Chair, Jay Rueckl, Martha Kelly

Agenda

Call to Order

Approval of Minutes:
July 13, 2016 (M)

Hearing for Visitors

Additions to the Present Agenda

Review of FY 15/16 Audit Communication from Blum Shapiro & Co., P.C.

Review of 2015-2016 4th Quarter Financial Report

Review of Budget Transfer 2015-2016

Mansfield Middle School Gym RFQ

Suggestions for Future Agenda Items

Adjournment

Draft Minutes

Mansfield Board of Education Finance Committee

July 13, 2016; UConn Alumni Center Board Room

Attendees: Martha Kelly, Jay Rueckl, Randy Walikonis, Director of Finance Cherie Trahan, Superintendent Kelly Lyman

Other board member in attendance: Kathy Ward

The meeting was called to order at 4:48 by Mr. Walikonis.

Approval of June 9, 2016 Minutes. Mr. Rueckl moved to accept, Mrs. Kelly second. Approved unanimously.

Hearing for visitors: none.

Additions to present agenda: Mrs. Kelly asked to discuss Food Service Budget. Mr. Rueckl second. Approved unanimously.

Update on shared services agreement: Mrs. Trahan reported on the shared services agreement between the BOE, the Town of Mansfield, and Region 19. The share of the financial services budget that will be charged to the board will be 23%, and the share of the IT budget that will be charged to the board will be 27.5%. Overall this would result in an increase in cost to the BOE of about \$55,446. The town's cost would decrease by about \$56,633. The overall cost to the taxpayer will not change.

Food service budget: Mrs. Trahan clarified that the approximately \$204,000 in benefits in the cafeteria budget includes health insurance benefits, social security, MERS, and workman's comp. Approximately \$126,000 of that was for health insurance.

Motion by Mrs. Kelly, second by Mr. Rueckl to adjourn at 5:16. Vote: unanimous in favor.

Respectfully submitted,

Randy Walikonis

MEMO - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To: Finance Committee, Town of Mansfield, Connecticut
From: Vanessa E. Rossitto, CPA, Audit Partner
Blum Shapiro & Company, P.C.
Date: July 20, 2016
Re: Communication with Those Charged with Governance

We are engaged to audit the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Mansfield, Connecticut for the year ended June 30, 2016. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, the Uniform Guidance and the Connecticut State Single Audit Act.

As stated in our engagement letter dated July 20, 2016, our responsibility, as described by professional standards, is to express opinions as to whether your basic financial statements, prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve those charged with governance or management of their responsibilities.

In planning and performing our audit, we will consider the Town of Mansfield, Connecticut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance and the Connecticut State Single Audit Act.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform an examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods for which we were not engaged as auditors.

Audit Scope and Materiality

The scope of our audit of the financial statements is designed to provide reasonable assurance that the Town's financial statements are free of material misstatements, whether caused by errors or fraud. Our consideration of materiality is a matter of professional judgment and is influenced by our perception of the needs of users of financial statements.

Audit Approach

The nature, timing and extent of our contemplated procedures for significant accounts are based on a risk assessment of the likelihood of material misstatements occurring in those accounts. We contemplate an audit strategy based on reliable effective controls. We plan to execute audit procedures to substantiate account balances primarily as of or near year-end.

In conducting our audit, we maintain an awareness of the possibility that errors, fraud or illegal acts (as defined in authoritative professional literature) may have occurred that could have a material and direct effect on the financial statements. Effective internal controls are designed to prevent or detect errors, fraud or illegal acts; however, it is possible that they may nevertheless occur.

Independence

There are no relationships between any of our representatives and the Town that in our professional judgment impair our independence.

Non-Audit Services

In addition to above services, we will also assist in preparing the financial statements, the schedule of expenditures of federal awards, the schedule of state financial assistance and related notes of the Town of Mansfield, Connecticut in conformity with accounting principles generally accepted in the United States of America, the Uniform Guidance and the Connecticut State Single Audit Act based on information provided by you.

Management agrees to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Further, we are also performing the following services and/or issue the following reports:

- Board of Education Form ED001 Agreed Upon Procedures

Responsibilities under Auditing Standards Generally Accepted in the United States of America

Management's responsibilities include:

- The selection and application of accounting principles, the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, schedule of expenditures of state financial assistance, and all accompanying information
- Establishing and maintaining effective internal controls, including internal controls over compliance
- Making all financial records and related information available to us and for the accuracy and completeness of that information
- The design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the government
- Identifying government award programs and understanding and complying with the compliance requirements

Auditor's responsibilities include:

- o Express opinions on the financial statements based on our audit
- o Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement
- o Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements
- o Consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- o Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

Audit Areas of Focus

- o Cash
- o Investments
- o Receivables and revenues
- o Capital Assets
- o Payables, accruals, expenditures
- o Payroll expenditures
- o Debt
- o Insurance and Self Insurance
- o Grants – Federal and State Single Audit

Engagement Timing

- o Our initial planning for the year-end audit will be performed during July 2016. Our focus will be on documentation of the internal controls as required by auditing standards, fraud inquiry interviews with management and key personnel, preparation of certain confirmations some overall analytical procedures and audit fieldwork as applicable to the federal and state single audits and procedures performed relevant to the tax collector's and tax assessor's offices.

- o Audit Timing:

Commencement of Fieldwork	9/6/16
End of Fieldwork	9/16/16
Issuance of Draft Financial Statements	11/1/16
Client Approval of Draft Statements	11/15/16
Issuance of Financial Statements	12/1/16
Issuance of Management Letter, if applicable	12/1/16
Post Audit Meeting with Management	TBD

Engagement Team

An engagement team consisting of the following individuals will be responsible for audit, and other services, including contact information to reach us:

- o Vanessa Rossitto, Audit Partner
Direct Line: 860-561-6824
Email: vrossitto@blumshapiro.com
- o Gerry Paradis, Concurring Audit Partner
Direct Line: 860-570-6371

Email: gparadis@blumshapiro.com

- Michael Popham, Audit Manager
Direct Line: 860-570-6391
Email: mpopham@blumshapiro.com

Other Communications

At the completion of our audit we will communicate in writing the following information related to our audit:

- Management judgments and significant sensitive accounting estimates
- Significant accounting policies
- The adoption of new accounting principles or changes in accounting principles
- Significant audit adjustments (recorded and unrecorded)
- Disagreements with management about auditing, accounting or disclosure matters
- Difficulties encountered in performing the audit
- Irregularities and illegal acts
- Consultation by management with other auditors
- Matters affecting independence of auditors
- Material weaknesses, significant deficiencies and control deficiencies

Knowledge of Fraud

- If management or those charged with governance has any knowledge of fraud or potential fraud, this information needs to be communicated to us. As part of the audit process, we will be meeting with management to discuss fraud risks and any further issues.

Cybersecurity Threats

The frequency, scale and cost of cybersecurity incidents has increased exponentially. Here are some recent trends, facts and stats that illustrate the current cybersecurity climate:

- Cybersecurity incidents have surged 38% since 2014
- 77% of organizations reported an increase in cybersecurity attacks in 2015
- 50% of organizations feel they lack the talent to combat today's cybersecurity threats
- Nearly every state has a data protection law, most include fines for data breaches
- Global cybersecurity spending came in at \$77 billion for 2015
- Ransomware and targeted attacks are on the rise
- Attackers have found ways to monetize many types of personal data, and aren't just targeting SSNs and credit cards
- 80% of board members say that cyber security is discussed at most or all board meetings
- Commonly affected industries include: government, financial services, healthcare, retail and manufacturing

BlumShapiro offers a range of services to assess your company's cybersecurity strategy and develop a plan to mitigate risk. It can start with a short educational session for employees. We also offer a portfolio of Implementation services to help mitigate overall risks.

Industry Developments - Current Year Accounting Standards and Federal Single Audit

- **GASB Statement No. 72 Fair Value Measurement and Application.** This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

- **GASB Statement No. 76 The Hierarchy Of Generally Accepted Accounting Principles For State And Local Governments.** The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

- **Uniform Guidance.** The federal Office of Management and Budget has released its new Uniform Guidance to overhaul federal single audits and grantee administration entitled *Uniform Administrative requirements, Cost Principles and Audit Requirements for Federal Awards*.

Auditor Changes

Federal single audit changes include:

- Raising the audit threshold from \$500,000 to \$750,000
- Raising the "Type A" program threshold from \$300,000 to \$750,000
- Raising the questioned costs floor from \$10,000 to \$25,000

- Reducing the expenditure coverage requirements from 25% to 20% for low risk auditees and from 50% to 40% for other auditees

These changes generally serve to reduce audit effort required, but the amount of the reduction is highly dependent on the particular organization and its mix of federal funds. Some organizations could see a substantial reduction in audit effort while others may see no change.

Auditee Changes

Auditee changes include:

- Replacing the various cost standards circulars for different entity types with one set of standards for all entities
- Replacing the various grantee administrative standards circulars for different entity types with one set of standards for all entities

Cost standards changes include:

- Allowing grantee to implement a 10% indirect cost rate (modified cost method) without requiring federal approval
- Relaxing the documentation requirements for allocation of compensation

The effective date for grantee organizations to apply the new cost standards and administrative requirements is generally for new awards received after December 26, 2014. Procurement requirements must be adopted by December 26, 2015.

These proposed changes in the federal single audit do not affect the Connecticut Single Audit.

Industry Developments - Future Accounting Standards - June 30, 2017

- **GASB Statement 73 - Pensions Not Within the Scope of Statement 68 and Amendments to Statements 67 and 68** This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.
- **GASB Statement 74 - Financial Reporting by OPEB Plans (disclosure)** The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. However, if an OPEB plan has fewer than 100 plan members (active and inactive), use of a specified alternative measurement method in place of an actuarial valuation is permitted. Actuarial valuations, or calculations using the specified alternative measurement method, of the total OPEB liability are required to be performed at least every two years, with more frequent valuations or calculations encouraged. If

a valuation or calculation is not performed as of the OPEB plan's fiscal year-end, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 24 months prior to the OPEB plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability are required to be made in conformity with the guidance in Actuarial Standards of Practice issued by the Actuarial Standards Board.

- **GASB Statement 77 - Tax Abatement Disclosures** Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
 - The gross dollar amount of taxes abated during the period
 - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.
- **GASB Statement 78 - Pensions Provided Through Certain Multiple-Employer DB Pension Plans** This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that 1) is not a state or local governmental pension plan, 2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and 3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.
 - **GASB Statement 79 - External Investment Pools and Pool Participants** This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant

noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

- **GASB Statement 80 - Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14** This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Industry Developments - Future Accounting Standards - June 30, 2018

- **GASB Statement 75 - OPEB Accounting for Employers and Non-Employer Contributing Entities** The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Areas of Concerns

- If you have any concerns that you would like to discuss with Blum Shapiro, we will make ourselves available either by phone or in person to discuss such concerns.