

(ATTACHMENT 7)

ACTION ON RECEIPT OF THE FISCAL YEAR-END 2011 AUDIT REPORTS

Milwaukee Public Schools

Presentation to the Accountability/Finance and Personnel Committee and Board of School Directors

March 20 & 29, 2012





Agenda

Baker Tilly, LLP Audit Team

Overview of 2011 Audit

Required Communications

Financial Highlights

Note: *The following information is intended solely for the information and use of the Accountability/Finance and Personnel Committee and the Board of School Directors of Milwaukee Public Schools and its management.*



Candor. Insight. Results.





Baker Tilly Virchow Krause Audit Team

Partners -

Wendi Unger (Financial and Single Audit)

Wayne Morgan (Pension)



Managers -

Irina Myaskovsky (Financial & Single Audit)

Darlene Middleman (Pension)



Incharge Accountants -

Irina Myaskovsky (Financial & Single Audit)

Jessica Jochman (Pension)



HUB Participation -

Coleman & Williams, Ltd. (Single Audit)

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Overview of 2011 Audit

Audit Process

- Select an audit team and develop an audit plan.
- Obtain an understanding of the District's policies, procedures and systems.
- Perform tests of:
 1. System of controls (including IT controls)
 2. Compliance with laws, regulations, contracts, grants, etc.
- Perform tests specific to the District's federal and state grant awards.
- Perform detailed tests of significant account balances.
- Review and test information included in the District's financial statements including footnotes.

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Overview of 2011 Audit

Reports for 2011 Audit



- Unqualified opinion for state report (PI-1506AC)
- Unqualified opinion on basic financial statements of the District
- Unqualified opinion on Early Retirement Supplemental and Benefit Improvement Plan
- Unqualified opinion on Supplement Early Retirement Plan for Teachers
- Management letter – A) Material weakness in system of controls found during the audit, B) other current year issues and C) status of prior year issues
- Single Audit – Unqualified opinion on internal control over compliance; One compliance finding related to Federal Programs and one compliance finding related to State Programs.

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Required Communications

1. Auditor's Responsibilities Under Generally Accepted Auditing Standards

- To express an opinion on the financial statements
- To conduct an audit in accordance with auditing standards generally accepted in the United States of America
- To plan and perform the audit in order to obtain reasonable (rather than absolute) assurance that the financial statements are free of material misstatement
- To express an opinion on compliance with regulations for federal and state award programs

2. Changes in Significant Accounting Policies

- Implemented GASB #54 (Fund Balance Terminology)

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Required Communications, *Continued*

3. Management Judgments and Accounting Estimates

- No significant changes in estimates
- Accrued claims for self-insurance - \$47.6 million (vs. \$44.0 million prior year)
- Accrued compensated absences - \$29.9 million (vs. \$32.0 million prior year)
- Unfunded status of OPEB obligation as of July 1, 2009 (date of most recent study) - \$2.4 billion
- Unfunded status of the Pension Plans - Early Retirement Supplement and Benefit Improvement Plan of \$10.4 million (vs. \$10.5 million prior year) and Supplemental Early Retirement Plan for Teachers of \$125.4 million (vs. \$126.1 million prior year)

4. Significant Audit Adjustments Identified and Recorded During Audit

- The audit did NOT result in any significant adjustments to the District's financial statements. Five minor adjustments were identified and included in the financial statements.

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Required Communications, *Continued*

5. Uncorrected Misstatements

None.

6. Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents.

7. Disagreements with Management

None.

8. Management's Consultation with Other Accountants

We are not aware of any such consultations.

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Required Communications, *Continued*

9. Issues Discussed Prior to Retention

We discussed a variety of matters including accounting principles which occurred in the normal course of our professional relationship and were not a condition to our selection or retention as auditors.

10. Difficulties Encountered in Performing the Audit

We received full cooperation from the District staff.

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Financial Highlights

- A. The District's government-wide financial statements show that liabilities exceeded assets by \$126 million (liabilities exceeded assets by \$21 million in the prior year). Of this amount, \$500 million represents investment in capital assets net of related debt, \$11 million is restricted for debt service, and (\$637) million is an unrestricted deficit. The deficit relates principally to unfunded OPEB's and long-term pension liabilities and accrued compensated absences.
- B. The District's governmental funds ended the 2011 fiscal year with a decrease in total fund balances of \$2.9 million. This decrease is a net change principally reflecting a decrease in General Fund of \$414,000 and a decrease in both the Construction Funds of \$2.4 million and School Nutrition Services Fund of \$97,000.
- C. Total fund balance for the governmental funds was \$134 million at June 30, 2011. Of this amount, \$6 million was nonspendable for inventories, prepaid expenditures and noncurrent advances. \$20 million was restricted for self-insurance, debt service and flex spending. \$45 million was committed for construction and \$63 million was unassigned. As of June 30, 2011, the District is \$53.4 million below (deficit) the Board-established working capital designation.

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Financial Highlights, *Continued*

- D. The District's total long-term obligations at year end were \$918 million and increased by \$119 million (net) during the 2011 fiscal year. The increase relates primarily to the increase in the District's OPEB obligation. The long-term obligations include \$358 million of bonds and notes and \$521 million of accrued OPEB obligation.
- E. During the year ended June 30, 2011, the District, expended \$88 million less than its \$1.3 billion General Fund budget or about 7%. The District budgeted to reduce the General Fund equity by \$26.5 million, however actual results reported a \$414,000 decrease.

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