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To the Board of Directors  
Multnomah County School District No. 3  
Multnomah County, Oregon

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Multnomah County School District No. 3 for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Purpose of the Audit**

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the basic financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules
- federal, state and other agency rules and regulations related to expenditures of federal awards

### **Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the basic financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the basic financial statements does not relieve you or management of your responsibilities. Our engagement letter details our nonaudit services we provide; these services do not constitute an audit under *Government Auditing Standards*.

In planning and performing our audit, we considered 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 also considered internal control over compliance with requirements that could have a direct and material effect on a major federal 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 OMB Circular A-133.

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the basic financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of the major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on compliance with those requirements.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic

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financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Planned Scope and Timing of the Audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. We also communicated any internal control related matters that are required to be communicated under professional standards.

### **Results of Audit**

1. Audit opinion letter - an unmodified opinion on the basic financial statements has been issued. This means we have given a “clean” opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment, except as noted on page 86.
3. Federal Awards – We found no issues of non-compliance and no questioned costs. We have responsibility to review these programs and give our opinion on the schedule of expenditures of federal awards, and tests of internal control systems, compliance with laws and regulations, and general and specific requirements mandated by the various awards.
4. Management letter – No separate management letter was issued.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015, except for the implementation of GASB 68 – *Accounting and Financial Reporting for Pensions* and GASB 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the basic financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the basic financial statements were Management’s estimate of Accounts Receivable and Capital Asset Depreciation, which are based on estimated collectability of receivables and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the basic financial statements are neutral, consistent, and clear.

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*Difficulties Encountered in Performing the Audit*

We encountered no difficulties in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, there were misstatements detected as a result of audit procedures and were corrected by management and were material, either individual or in the aggregate, taken as a whole. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the basic financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Supplementary Information*

With respect to the supplementary information accompanying the basic financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

*Other Information*

With respect to the other information accompanying the basic financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited basic financial statements. Our results noted no material inconsistencies or misstatement of facts.

**Other Matters – Future Accounting and Auditing Issues**

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accounts and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

**GASB 72**

GASB issued Statement No. 72, Fair Value Measurement and Application, which prescribes how state and local governments should define and measure fair value. It also prescribes which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. This standard is required to be implemented in fiscal year 2015-16.

**SINGLE AUDIT**

On December 26, 2013, the Office of Management and Budget (“OMB”) issued the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, for state and local governments, non-profit entities, institutions of higher education and tribal governments. This guidance (also referred to as the “Supercircular”) supersedes the requirements from eight OMB Circulars down into one. As a result of this circular, there will be changes to the single audit requirements previously specified under OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Beyond making changes to auditor requirements the new standards required that non federal entities follow the new Cost Principles in 2 CFR 200 for any grants that were awarded after December 26, 2014.

In these standards there are also significant purchasing changes to federal grants that apply July 1, 2016. The purchasing department should be familiar with these new standards, because these standards are detailed and complex.

**IMPLICIT RATE SUBSIDY FOR OPEBs**

In Oregon, an implicit rate subsidy is required for almost all entities, due to the fact that Oregon law requires that any retiree be allowed to buy-back into their former employer’s health insurance plan. In the past, relatively small employers participating in a large, pooled health plan were sometimes exempt from having to account for an implicit rate subsidy due to a “community-rating” exception. In general, this exception applied when the claims experience of an individual employer would have virtually no impact on the premium being charged to that employer. The accounting standards that apply to OPEBs refer to the Actuarial Standards of Practice (ASOPs) in determining whether a community-rated situation applied. However, the newly revised ASOP 6 virtually eliminated the concept of the community-rating exception. As a result, agencies participating in community-rated plans that had previously been exempt from reporting liabilities due to an implicit rate subsidy may now be required to do so. We recommend that Management contact an actuary to determine if an actuarial study is required.

**Emphasis of Matter – New Pension Reporting Requirements**

During the 2014-2015 fiscal year a new accounting requirement went into effect called Government Accounting Standards Board Statement 68 - *Accounting and Financial Reporting for Pensions* as well as the provisions of GASB Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. Every government in the United States was required to comply with these new accounting rules. In the past, governments have not recorded a liability for the amount of money owed to current and former employees for future retirement benefit payments that have already been earned by the employees. This new requirement made financial reports for governments more transparent and accurate by quantifying a debt that has always existed but not reported.

The new accounting standard created a method for calculating the entire amount of money owed to all current and former employees in the future, which will need to be included as a liability in the June 30, 2015 financial report. As a result, it was possible that some governments would have a lower, and possibly negative, financial position, or net worth as of the beginning of the fiscal year than what was reported in the prior year under old standards, as well as at the end of the current fiscal year. Some governments in an attempt to reduce rates paid to PERS elected to “fund” their future debt to PERS by borrowing money using “Pension Obligation Bonds” which was used by the state’s actuaries, Milliman, to calculate the District’s proportionate share of the overall state unfunded liability or asset. Due to the results of the valuation as of June 30, 2015 there was a state-wide asset that was proportionately allocated to each employer based on the actuarial study. This study did not take into account the results of the *Moro v. State of Oregon* decision by the Oregon Supreme Court in April of 2015.

The Statement of Net Position now has new accounts listed. The Net Pension Asset represents the District’s proportionate share of the state-wide actuarially determined asset as of the measurement date. The Net Pension Related Deferrals include a combination of calculations made by the actuaries based on potential changes in assumptions and the difference between actual and expected returns on investments, as well as contributions made to PERS by the District prior to the date of the actuarial valuation which were not accounted for in the state-wide asset

These new requirements do not change anything related to the budgets of the governments, do not require additional spending and have no bearing on the amount of money available to spend. Governments make payments to PERS each month based on a rate already calculated by an actuary, and this will not change as a result of the new pronouncements.

**Best Practices – Not Significant Deficiencies**

1. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (elected officials). This can be accomplished by asking specifically designed questions to senior staff, by reviewing basic financial statements and projections and by comparing financial results to pre-established benchmarks. While elected officials participate in the budget adoption process and receive staff prepared basic financial statements, these only partially fulfill the monitoring function.

We recommend that the Board of Directors articulate their monitoring practices and record in the minutes when those activities occur.

Since monitoring activities, including benchmarking, are unique to each entity we are available to assist the Board of Directors in establishing checklists, questions and benchmarks that are customized for your use.

2. Fidelity Insurance Coverage

In reviewing fidelity insurance coverage we noticed that the District often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board of Directors examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

3. Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Board of Directors continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

4. Minimum Number of Appropriated Funds

We noted that the District has more than the legally required number of funds. According to NCGA Statement 1, Paragraph 4, "Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." We recommend that the District consider closing funds that are not required to be in a separate fund. Both GFOA (Government Finance Officers Association) and GASB (Governmental Accounting Standards Board) encourage governments to use the minimum number of funds.

This information is intended solely for the use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.



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