

City of Portsmouth, New Hampshire Presentation of Results of Audit June 30, 2021

January 13, 2021

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Agenda

- ▶ Brief overview of FY21 audit results
- ▶ What is a financial statement audit?
- ▶ Independence
- ▶ Annual Comprehensive Financial Report (“ACFR”) detail

Brief overview of audit results

- ▶ Another successful and timely audit
- ▶ No significant deficiencies or material weaknesses noted; only 1 standard management letter recommendation to implement the upcoming new GASB pronouncement, No. 87 for 6/30/22

What is a financial statement audit?

- ▶ Management function is to safeguard assets and ensure proper financial reporting, while auditors' function is to express an opinion on the financial statements.
- ▶ Auditors perform procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

What is a financial statement audit? (continued)

- ▶ Audit Procedures (not all-inclusive)
 - ▶ Transaction testing (vendor disbursements, payroll disbursements and journal entries), including procurement testing (sampling of contracts)
 - ▶ Reconciliation testing (cash, receivables, etc.)
 - ▶ “Walk Throughs” (treasury cycle, tax collection cycle, general ledger and closing cycle)
 - ▶ Evaluate the policies and procedures as a whole
 - ▶ Obtain understanding of checks and balances that are present within the City
 - ▶ Obtain and test actuarial reports
 - ▶ Obtain and test debt documents
 - ▶ Review claims and legal documents
 - ▶ Review all funds and test all material account balances and use sampling plan when required by auditing standards

Importance of Independence

- ▶ Our scope of work includes audit and additional services (nonattest services primarily for the preparation of financial statements).
- ▶ [**ET Section 1.295**](#), Nonattest Services, of the AICPA Code of Professional Conduct and [**Chapter 3 of Government Auditing Standards—2018 Revision**](#) (the Yellow Book) establish specific professional standards and provide guidance regarding maintaining auditor independence in the conduct of a financial statement audit when the auditor also provides certain nonattest services to the audit client.
- ▶ Melanson ensures independence with professional standards by annual certification of all employees. Further, we ensure independence by applying safeguards outlined by GAGAS when we perform non-audit services.

Importance of Independence (Continued)

- ▶ Independence checklist filled out for Portsmouth annually by audit team, including evaluation of SKE (skill, knowledge, experience) of individual at the City taking responsibility for the nonattest services.
- ▶ Melanson has a system of rotating Principals and Staff on the jobs on as needed basis.
- ▶ Our current statistics on nonattest services:
 - ▶ Only 1 of your Principal's 19 clients prepares their own FS.
 - ▶ None of other Firm Governmental Principals' clients prepare their own FS.
 - ▶ Clients find it cost effective to have the nonattest services and audit services performed by the same firm.

Sample of Client Work

- ▶ Melanson has successfully been performing audit engagements for clients with nonattest services and maintaining longevity with clients.
- ▶ Below are some of the Firm's clients, approximate number of years of ACFR award and approximate number of years audited by Melanson:

Entity	Entity Type	ACFR Award (# of Years)	# of Years Audited by Melanson
Bedford, NH	Town (20,000+ Residents)	Yes (17)	16
Concord, NH	City	Yes (26)	29
Derry, NH	Town (20,000+ Residents)	Yes (24)	12
Dover, NH	City	Yes (15)	2 (long time Melanson client prior to 2008)
Keene, NH	City	Yes (3)	12
Laconia, NH	City	No	13
Londonderry, NH	Town (20,000+ Residents)	No	5 (long time Melanson client prior to 2016)
Manchester, NH	City	Yes (Not GFOA)	6
Nashua, NH	City	Yes (16)	19
Portsmouth, NH	City	Yes (28)	28
Rochester, NH	City	No	7
Amesbury, MA	City	No	23
Needham, MA	Town (30,000+ Residents)	No	27
Fitchburg, MA	Town (40,000+ Residents)	No	31
Leominster, MA	Town (40,000+ Residents)	No	31
Watertown, MA	Town (30,000+ Residents)	No	28
Weymouth, MA	Town (50,000+ Residents)	No	11
Danvers, MA	Town (20,000+ Residents)	Yes (18)	27
Lexington, MA	Town (30,000+ Residents)	No	23

Overview of the Annual Comprehensive Financial Report

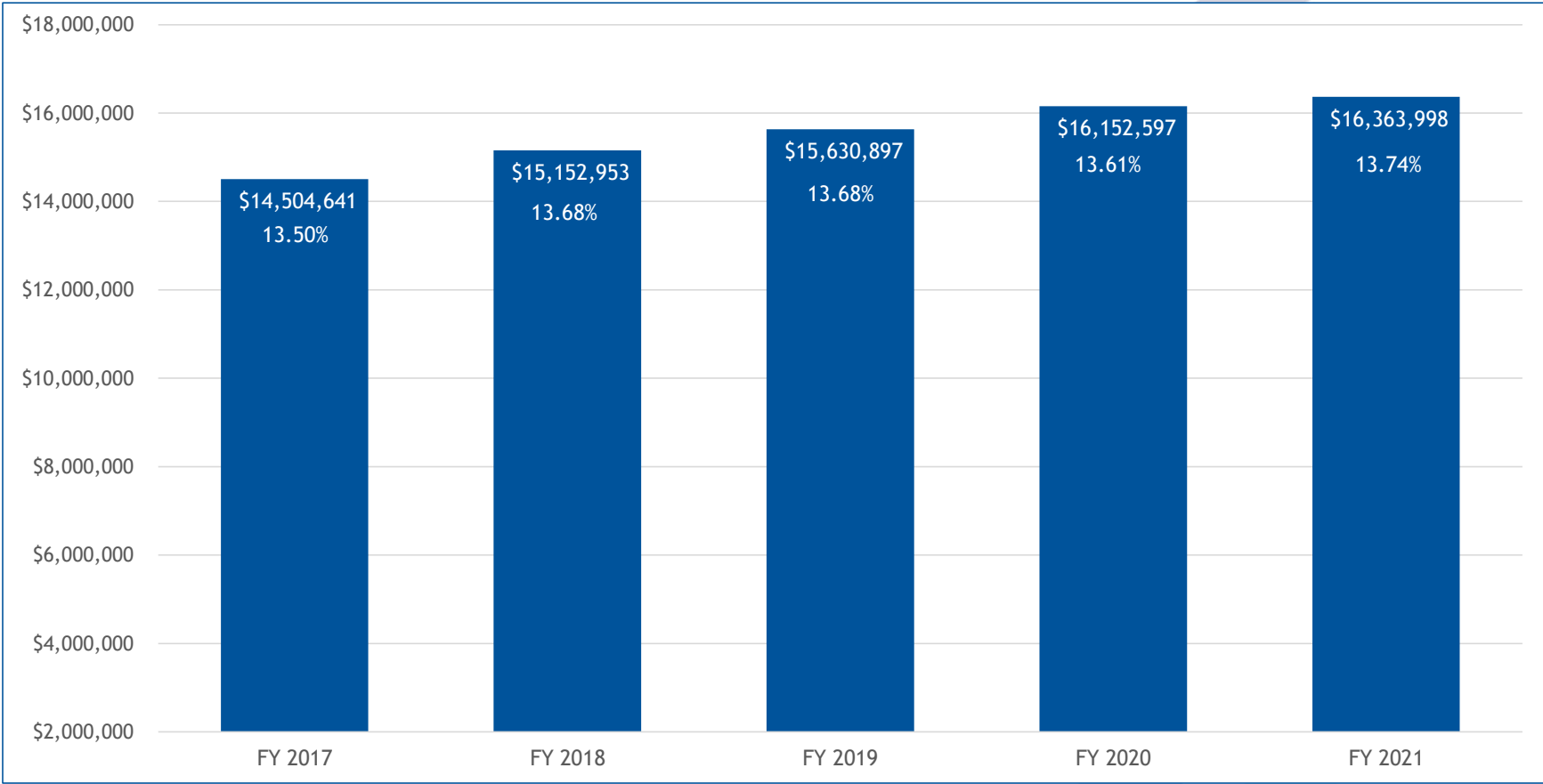
- ▶ ACFR Program – The City has received this award for excellence in financial reporting from GFOA for its Fiscal Years ending June 30, 1988, 1989, and for twenty-six consecutive years from 1995 to 2020.
- ▶ Transmittal letter – unaudited, provided by management
- ▶ Auditors’ Report – unmodified opinion
- ▶ Management’s Discussion and Analysis (MD&A) – provides reader with summary to have a basic understanding of how the City is doing – unaudited, provided by management
- ▶ Dual perspective financial statements:
 - ▶ Government-Wide Financial Statements – long term perspective
 - ▶ Fund Financial Statements – short term perspective for governmental funds and detail for enterprise funds
- ▶ Notes to the financial statements, required supplementary information, supplementary statements and schedules
- ▶ Statistical section – provides the users of the financial statements a historical background on how the City has performed by reporting multi-year data – unaudited, provided by management

City of Portsmouth

Budget vs. Actual Comparison – General Fund – Fiscal Year Ended June 30, 2021 – Budgetary Basis

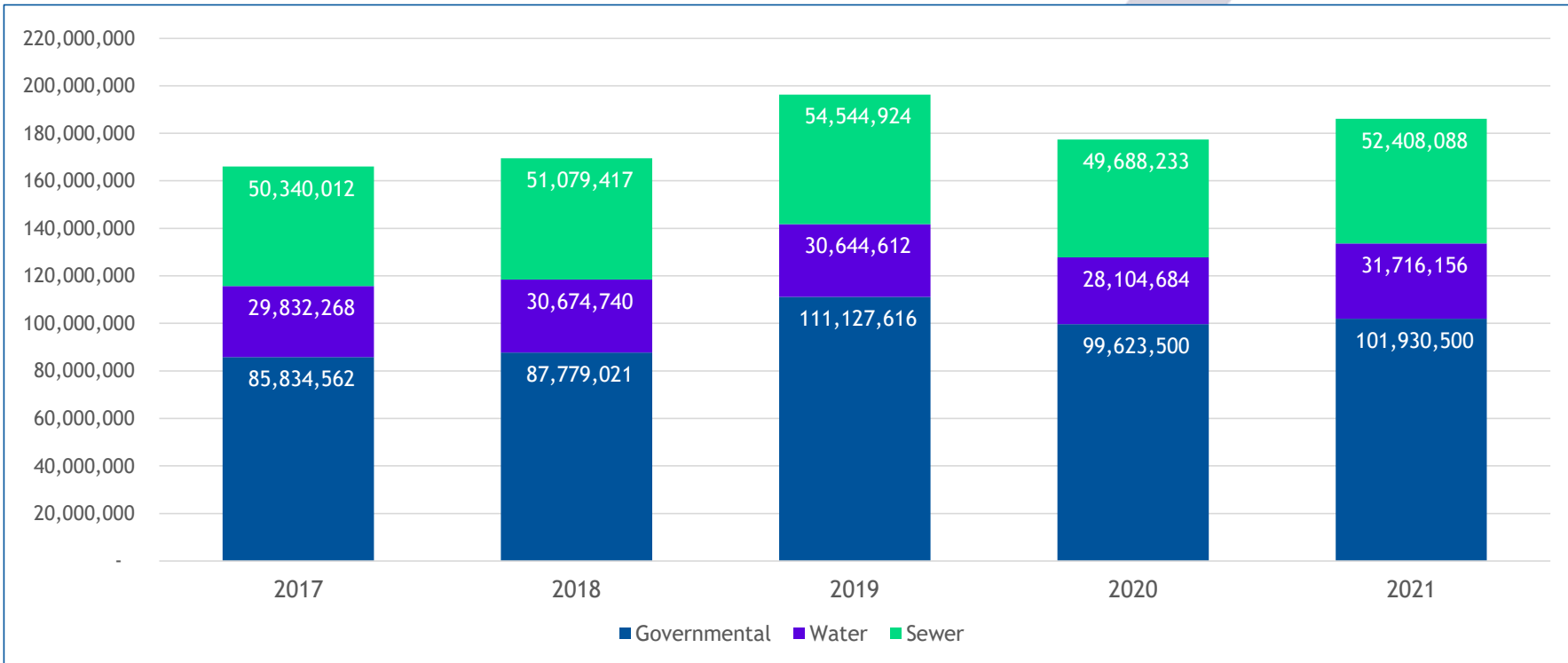
	Budgeted Amounts	Actual Amounts	Variance
Revenues	\$119,115,338	\$121,681,166	\$2,565,828
Expenditures	\$119,115,338	\$117,516,660	\$1,598,678
Net	\$ -	\$4,164,506	\$4,164,506

General Fund Unassigned Fund Balance (\$ and % of Appropriations)



City of Portsmouth

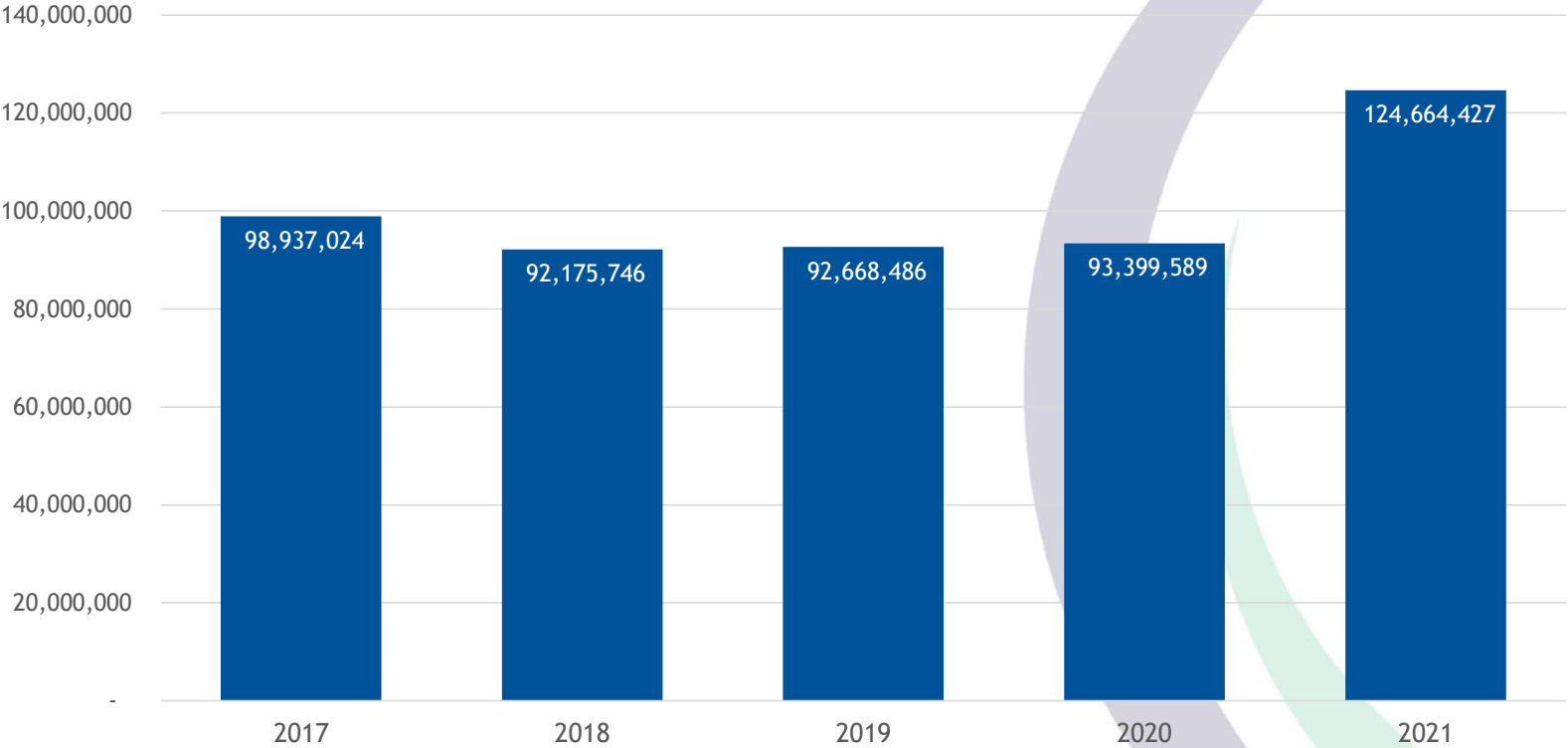
Bonds and Long-Term Loans Payable – Last 5 Years – “Manageable” as defined by Standard & Poor’s (“S&P”)



More than 71% of principal scheduled to retire in 10 years is a positive credit factor that contributed to AAA rating by S&P.

City of Portsmouth

Net Pension Liability (“NPL”) – Last 5 Years (City’s share of NHRS NPL, which was 1.95% at 6/30/20)



6/30/21 increased primarily due to discount rate drop from 7.25% to 6.75%

Reports Issued

- ▶ Opinion on Financial Statements (however, we do not express an opinion on the introduction, Management Discussion & Analysis, Required Supplemental Information or statistics)
- ▶ Governance Letter
- ▶ Management Letter

Questions and Comments

- ▶ This presentation is intended as a tool to assist the City Council and management in understanding its financial results. The information contained in this presentation should be read in conjunction with the audited financial statements and related disclosures.