

TOWN OF MASHPEE, MASSACHUSETTS

REPORT ON APPLYING AGREED-UPON PROCEDURES
STUDENT ACTIVITY FUNDS

FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011

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Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Honorable Board of Selectmen and School Committee
Town of Mashpee, Massachusetts

We have performed the procedures enumerated below, which were agreed to by the Town of Mashpee, Massachusetts (Town), solely to assist the Town evaluate the systems of internal control over financial reporting and compliance with the Massachusetts Student Activity Law (Massachusetts General Law [MGL] Chapter 71, Section 47) related to the Town's student activity funds for the period July 1, 2010 through June 30, 2011. The Town is responsible for the administration and systems of internal control surrounding its student activity funds. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures, findings and recommendations are contained herein:

Procedures Performed

Our procedures (detailed below) were performed on the following schools' student activity funds:

- Mashpee High School
- Mashpee Middle School
- KC Coombs Elementary School
- Quashnet Elementary School

We performed the following procedures:

1. We documented the banking and accounting systems related to student activity funds for the purpose of verifying that they have been established in accordance with the Massachusetts Student Activity Law
2. We obtained and reviewed a list of each of the student activity funds maintained at each school to identify any individual funds that fall outside the definition of student activity funds in accordance with the Massachusetts Student Activity Law and as defined in the Student Activity Accounts Guidelines (SAAG) for Massachusetts School Districts issued by the Massachusetts Association of School Business Officials (MASBO)
3. We obtained and reviewed a sample of the student activity bank account reconciliations for each school during the engagement period to verify that the reconciliations were complete and accurate and agreed to the detailed balances of the individual student activity funds and the general ledger

4. We obtained and reviewed the detailed activity of the student activity funds at each school during the engagement period and:
 - a. Selected a sample of 10 receipts at each school to verify that they were:
 - i. Credited to the appropriate student activity account
 - ii. Deposited to the appropriate agency bank account
 - iii. Recorded to the appropriate account in the Town's general ledger
 - b. Selected a sample of 10 disbursements at each school to verify that they were:
 - i. Appropriately supported by an approved invoice or other documentation
 - ii. Charged to the appropriate student activity account
 - iii. For an appropriate purpose related to a legitimate student activity fund
5. We documented our findings in the form of this report to the Board of Selectmen and School Committee

Findings and Recommendations

The following represents our findings and recommendations based on the aforementioned procedures:

Mashpee High School (MHS)

MHS Finding #1

We reviewed a list (and descriptions) of each of the student activity funds maintained at MHS to identify any individual funds that fall outside the definition of student activity funds as defined by the Massachusetts Student Activity Law and the SAAG for Massachusetts School Districts issued by MASBO.

Two of the funds ("Student Activity General" and "Checking Other") were described by the MHS as funds that account for miscellaneous teacher reimbursements, graduation expenditures, student reimbursement for lost items while in school, supplies/deposits/checks for the student activity account, awards given out to students, teacher retirement plaques, charitable donations collected by seniors for their senior projects, teacher appreciation awards and school international trips.

Based on the SAAG, a student activity account may be used for monies raised by student organizations and which will be expended by those students for their benefit. As such:

- There should be no student activity funds that are "general" in nature. All funds must correlate to a *specific* activity.
- Any monies belonging to (or benefiting) teachers cannot be maintained in student activity accounts. Should teachers wish to maintain such account(s), they must establish a bank account in their own name, and cannot use the Town's tax exempt federal identification number for such accounts.

MHS Recommendation #1

We recommend the MHS implement procedures to discontinue the use of the “general” and “other” funds and record all receipts and disbursements to a *specific* student activity. If a receipt or disbursement cannot be traced to a specific student activity, it should not be deposited, charged or recorded to a student activity fund.

We recommend the MHS implement procedures to discontinue the use of student activity funds to account for monies that belong to (or benefit) teachers, staff and/or the MHS in general.

MHS Finding #2

Our review of each of the student activity funds maintained at MHS did not identify a fund that accounted for interest income earned on student activity fund bank accounts. In accordance with MASBO’s SAAG, interest earned by student activity bank accounts shall be retained and the School Committee shall determine for what purpose such earnings may be used.

Furthermore, the SAAG recommends:

- A separate record shall be maintained on all interest earnings
- School Committee policies shall specify the use and disposition of all interest earned, which shall be for the benefit of the students participating in activities:
 - Interest earnings may be expended for costs related to the operation of the student accounts. This includes (but is not limited to) bank charges, audits, specialized bonds for employees handling student activity monies (if not covered under general liability policies), forms and tickets, and bookkeeping costs.
 - Interest earnings not used for operational costs of the account may be turned over to the clubs, classes and organizations having monies in the student activity accounts. A distribution system shall be specified by the School Committee that treats all organizations equitably in such distributions.

MHS Recommendation #2

We recommend a separate fund be established for interest earnings and the School Committee establish formal policies that specify the use and disposition of all interest earned.

MHS Finding #3

The MHS does not perform monthly bank reconciliations of its student activity fund bank accounts, which is a weakness in internal controls over cash.

MHS Recommendation #3

We recommend the MHS implement procedures to perform monthly bank reconciliations that reconcile ending bank balances to cashbook balances in the student activity funds general ledger. The reconciliations should identify (where applicable) timing differences (outstanding checks, deposits in transit, etc.) between activities recorded in the bank and general ledger. The reconciliations should be performed (and reviewed) no later than one month after the bank statement date to detect and correct errors and/or irregularities timely. The reconciliations must be signed and dated by the preparer and reviewer.

MHS Finding #4

In July 2010, the MHS checking account became overdrawn by as much as \$1,079. The checking account must be reimbursed timely from the Student Activity Agency Account (agency account) to ensure that sufficient funds are available to pay for all checks issued.

MHS Recommendation #4

We recommend the MHS implement procedures to process checking account reimbursements timely to ensure that sufficient funds are available to pay for all checks issued.

MHS Finding #5

As identified above, the MHS does not perform monthly bank reconciliations. Therefore, we were unable to determine if the total balance of the MHS' student activity funds was reconciled to the book balances of the agency and checking bank accounts at June 30, 2011. Since the agency and checking accounts are the only bank accounts used for the MHS' student activities, the sum of their reconciled book balances should equal the sum of the individual student activity fund balances maintained by the MHS. This reconciliation provides assurance that the student activity funds' balances are properly recorded.

In addition, we were unable to determine if the book balance of the agency account at June 30, 2011 was reconciled to the Town's general ledger. This reconciliation provides assurance that the agency account balance is properly stated and that all agency account activities have been posted to the Town's general ledger.

MHS Recommendation #5

We recommend the MHS implement procedures to reconcile the total student activity fund balances to the book balances of the agency and checking bank accounts monthly.

We recommend the MHS implement procedures to perform monthly reconciliations of the agency account book balance to the Town's general ledger.

MHS Finding #6

The MHS uses Excel to account for its student activity fund transactions. Given the MHS' volume of transactions, as well as the limited reporting capabilities of Excel, the MHS student activity funds should be maintained in a software program specifically designed for bookkeeping, such as QuickBooks. Use of such software will also enhance the MHS' ability to perform the required monthly reconciliations identified in the findings previously reported.

MHS Recommendation #6

We recommend the MHS utilize bookkeeping software to account for its student activity funds.

MHS Finding #7

We selected a sample of 10 disbursements and identified the following deficiencies:

- 1 of the 10 disbursements was a scholarship. Under the provisions of Section 53A of Chapter 44 and Section 37A of Chapter 71 of the General Laws of Massachusetts, all grants and gifts for educational purposes shall be deposited with a municipality's Treasurer and held as a separate account. In accordance with MASBO's SAAG, scholarships are considered a gift for educational purposes and therefore should be governed by either of these two laws.

- 1 of the 10 disbursements, charged to the “Student Activity General” fund (referred to in MHS Finding #1), was for the purchase of ledger sheets and bank checks. As identified in MHS Finding #2, these types of disbursements should be charged to an “Interest Earnings” fund.
- 1 of the 10 disbursements, charged to the “Student Parking Fees” fund was for the rental of faculty robes for graduation ceremonies. Any monies belonging to (or benefiting) teachers cannot be maintained in a student activity accounts. Should teachers wish to maintain such account(s), they must establish a bank account in their own name, and cannot use the Town’s tax exempt federal identification number for such accounts.

MHS Recommendation #7

We recommend the MHS implement procedures to deposit scholarship funds with the Town Treasurer in accordance with the provisions of Section 53A of Chapter 44 and Section 37A of Chapter 71 of the General Laws of Massachusetts.

We recommend a separate fund be established for interest earnings and the School Committee establish formal policies that specify the use and disposition of all interest earned, which could include disbursements for items such as ledger sheets and bank checks.

We recommend the MHS implement procedures to discontinue the use of student activity funds to account for monies that belong to (or benefit) teachers and staff.

Mashpee Middle School (MMS)

MMS Finding #1

We reviewed a sample of bank account reconciliations and identified the following:

- None of the reconciliations were manually dated by the preparer or the reviewer. The lack of manually dated reconciliations inhibits the verification of the timeliness of the reconciliations.
- As identified in the previous comment, the reconciliations were not manually dated by the preparer and the reviewer. However, the print-outs of the reconciliations contained automated dates at the top of the page, which would appear to indicate the date on which the reconciliations were completed.

Our sample identified instances in which monthly reconciliations were performed as many as 611 days after the bank statement date. Monthly reconciliations should be prepared and reviewed no later than one month after the bank statement date to detect and correct errors and/or irregularities timely.

- The checking and agency account reconciliations for July, August and September 2010 did not start with the correct ending balance in the bank statement. In addition, the agency account reconciliation for November 2010 did not start with the correct ending balance in the bank statement. Monthly bank reconciliations must start with the ending bank balance and end with the cashbook balance at the end of the month in order to provide assurance that student activity funds’ balances are properly recorded.

MMS Recommendation #1

We recommend the MMS implement procedures requiring the preparer and reviewer of bank account reconciliations to manually date all reconciliations.

We recommend the MMS implement procedures to prepare and review monthly bank reconciliations no later than one month after the bank statement date to detect and correct errors and/or irregularities timely.

We recommend the MMS implement procedures to begin all monthly bank reconciliations with the ending bank statement balance and reconcile to the ending cashbook balance.

MMS Finding #2

As of June 30, 2011, the book balance of the agency account was not reconciled to the Town's general ledger. This reconciliation provides assurance that the agency account balance is properly stated and that all agency account activities have been posted to the Town's general ledger.

The following identifies the variance between the book balance of the agency account and the Town's general ledger:

	<u>June 30, 2011 Balance</u>
Agency account book balance	\$ 1,554.60
General ledger balance	<u>1,654.60</u>
Variance	<u><u>\$ (100.00)</u></u>

MMS Recommendation #2

We recommend the MMS implement procedures to perform monthly reconciliations of the agency account book balance to the Town's general ledger. The reconciliations should be performed no later than one month after the bank statement date to detect and correct errors and/or irregularities timely. The reconciliations must be signed and dated by the preparer and reviewer.

MMS Finding #3

We selected a sample of 10 receipts and identified 1 receipt that was posted to the wrong account in the student activity fund general ledger. The receipt, for \$299.00, related to the 7th grade account, but was posted to the DC Travelers account.

MMS Recommendation #3

We recommend the MMS implement procedures to post receipts to the appropriate activity account in the student activity fund general ledger.

KC Coombs Elementary School (KCCES)

KCCES Finding #1

We reviewed a list (and descriptions) of each of the student activity funds maintained at KCCES to identify any individual funds that fall outside the definition of student activity funds as defined by the Massachusetts Student Activity Law and the SAAG for Massachusetts School Districts issued by MASBO.

We identified the following deficiencies:

- One of the funds (“Grants”) and the fund’s activity included a deposit from the Massachusetts Cultural Council. Under the provisions of Section 53A of Chapter 44 and Section 37A of Chapter 71 of the General Laws of Massachusetts, all grants and gifts for educational purposes shall be deposited with a municipality’s Treasurer and held as a separate account.
- One of the funds (“P/S/S Refreshments”, hereinafter referred to as “P/S/S”) was described by the KCCES as accounting for expenses incurred for Parent/Student/Staff activities held during the school year. Our review of the student activity fund general ledger identified instances in which the fund was used for activities relating only to staff (i.e., staff appreciation lunch). In addition, we identified that this fund does not have a dedicated source of revenues specifically earmarked for the fund’s expenses.

Based on the nature of the P/S/S fund as described above, the following are the deficiencies associated with the fund:

- Any monies belonging to (or benefiting) teachers cannot be maintained in student activity accounts. Should teachers wish to maintain such account(s), they must establish a bank account in their own name, and cannot use the Town’s tax exempt federal identification number for such accounts.
- According to the SAAG, a student activity account may be used for monies raised by student organizations. The P/S/S fund does not appear to be funded by monies raised by student organizations.

KCCES Recommendation #1

We recommend the KCCES implement procedures to discontinue the use of student activity funds to account for grant activities. All grants should be accounted for under the provisions of Section 53A of Chapter 44 and Section 37A of Chapter 71 of the General Laws of Massachusetts.

We recommend the KCCES implement procedures to discontinue the P/S/S fund if it does not represent monies raised by student organizations.

We recommend the KCCES implement procedures to discontinue the use of student activity funds to account for monies that belong to (or benefit) teachers and staff.

KCCES Finding #2

We reviewed a sample of bank account reconciliations and identified the following:

- None of the reconciliations were manually signed nor manually dated by the preparer or the reviewer. The lack of signed reconciliations creates an inadequate audit trail. The lack of manually dated reconciliations inhibits the verification of the timeliness of the reconciliations.

- We were not provided with bank reconciliations for the month of August 2010. Therefore, we were unable to perform our procedures for this month.

KCCES Recommendation #2

We recommend the KCCES implement procedures requiring the preparer and reviewer of bank account reconciliations to sign and date all reconciliations.

We recommend the KCCES implement procedures to prepare and review all monthly bank reconciliations no later than one month after the bank statement date to detect and correct errors and/or irregularities timely.

KCCES Finding #3

As of June 30, 2011, the book balance of the agency account was not reconciled to the Town’s general ledger. This reconciliation provides assurance that the agency account balance is properly stated and that all agency account activities have been posted to the Town’s general ledger.

The following identifies the variance between the book balance of the agency account and the Town’s general ledger:

	June 30, 2011
	<u>Balance</u>
Agency account book balance	\$ 18,277.05
General ledger balance	<u>10,116.62</u>
Variance	<u><u>\$ 8,160.43</u></u>

KCCES Recommendation #3

We recommend the KCCES implement procedures to perform monthly reconciliations of the agency account book balance to the Town’s general ledger. The reconciliations should be performed no later than one month after the bank statement date to detect and correct errors and/or irregularities timely. The reconciliations must be signed and dated by the preparer and reviewer.

KCCES Finding #4

The KCCES uses a standard “Transfer of Monies” form to summarize receipts. On the form, there is a “Second Confirmation By” section for the name, initials and/or signature of the person approving the receipt.

We selected a sample of 10 receipts and identified the following deficiencies:

- A signature or initials did not exist on 8 of the 10 forms selected. This is a deficiency in internal controls over receipts.
- The “Transfer of Monies” form (as described above) contains a section in which the purpose of the receipt must be written. For all 10 receipts, the “purpose” of the receipts contained a brief description of the transaction (i.e., “monies received from fundraiser”). However, the forms did not identify the specific student activity fund (book fair, field trip, etc.) the receipt related to. This inhibited our ability to verify if the receipts were posted to the appropriate student activity fund.

KCCES Recommendation #4

We recommend the KCCES implement procedures requiring “Transfer of Monies” forms be signed or initialed by the appropriate personnel as proof that the related receipt has been reviewed by a 2nd person for accuracy and completeness.

We recommend the KCCES add a section to the “Transfer of Monies” form that identifies the specific student activity fund the receipt relates to.

KCCES Finding #5

The KCCES uses a standard “Request for Funds” form to summarize disbursements. On the form, there is a “Principals Approval” section for the principal’s initials and/or signature approving the disbursement.

We selected a sample of 10 disbursements and identified the following deficiencies:

- The principal’s signature or initials did not exist on 4 of the 10 forms selected. This is a deficiency in internal controls over disbursements.
- The “Request for Funds” form (as described above) contains a section in which the purpose of the disbursement must be written. For all 10 disbursements, the “purpose” of the disbursement contained a brief description of the transaction (i.e., “purchase of items for fundraisers”). However, the forms did not identify the specific student activity fund (book fair, field trip, etc.) the disbursement related to. This inhibited our ability to verify if the disbursements were charged to the appropriate student activity fund.
- As identified in KCCES Finding #1, the KCCES maintains a P/S/S fund for expenses incurred for Parent/Student/Staff activities held during the school year. 3 of the 10 disbursements tested were for staff meals, holiday gatherings, etc. Any monies belonging to (or benefiting) teachers cannot be maintained in student activity accounts. Should teachers wish to maintain such account(s), they must establish a bank account in their own name, and cannot use the Town’s tax exempt federal identification number for such accounts.

KCCES Recommendation #5

We recommend the KCCES implement procedures requiring “Request for Funds” forms be signed or initialed by the principal as proof that the related disbursement is authorized.

We recommend the KCCES add a section to the “Request for Funds” form which identifies the specific student activity fund the disbursement relates to.

We recommend the KCCES implement procedures to discontinue the use of student activity funds to account for monies that belong to (or benefit) teachers and staff.

Quashnet Elementary School (QES)

QES Finding #1

We reviewed a list of each of the student activity funds maintained at QES to identify any individual funds that fall outside the definition of student activity funds as defined by the Massachusetts Student Activity Law and the SAAG for Massachusetts School Districts issued by MASBO.

We identified a fund (“Admin - Other”) in which some of the fund’s revenue source was interest income. The fund’s expenses were for various activities and purposes, including expenses for activities relating only to staff (i.e., staff lunch).

Regarding interest income, MASBO’s SAAG recommends:

- A separate record shall be maintained on all interest earnings
- School Committee policies shall specify the use and disposition of all interest earned, which shall be for the benefit of the students participating in activities:
 - Interest earnings may be expended for costs related to the operation of the student accounts. This includes (but is not limited to) bank charges, audits, specialized bonds for employees handling student activity monies (if not covered under general liability policies), forms and tickets, and bookkeeping costs.
 - Interest earnings not used for operational costs of the account may be turned over to the clubs, classes and organizations having monies in the student activity accounts. A distribution system shall be specified by the School Committee that treats all organizations equitably in such distributions.

Based on the SAAG’s recommendations, we identified the following deficiencies related to the “Admin - Other” fund:

- We are not aware of any formal policies established by the School Committee that specifies the use and disposition of all interest earned
- We are not aware of the QES having established a system that treats all student activity funds equitably in distributions of interest earnings not used for operational costs
- Interest earned shall be for the benefit of the *students* participating in activities. Activities related to (or benefiting) teachers cannot be funded by interest income or maintained at all in student activity accounts. Should teachers wish to maintain such account(s), they must establish a bank account in their own name, and cannot use the Town’s tax exempt federal identification number for such accounts.

QES Recommendation #1

We recommend the School Committee establish formal policies that specify the use and disposition of all interest earned.

We recommend the QES implement procedures to discontinue the use of student activity funds to account for monies that belong to (or benefit) teachers and staff.

QES Finding #2

We reviewed a sample of bank account reconciliations and identified the following:

- None of the reconciliations were manually signed nor manually dated by the preparer or the reviewer. The lack of signed reconciliations creates an inadequate audit trail. The lack of manually dated reconciliations inhibits the verification of the timeliness of the reconciliations.

- As identified in the previous comment, the reconciliations were not manually dated by the preparer and the reviewer. However, the print-outs of the reconciliations contained automated dates at the top of the page, which would appear to indicate the date on which the reconciliations were completed. Our sample identified instances in which monthly reconciliations were performed between 59 and 332 days after the bank statement date. Monthly reconciliations should be prepared and reviewed no later than one month after the bank statement date to detect and correct errors and/or irregularities timely.

QES Recommendation #2

We recommend the QES implement procedures requiring the preparer and reviewer of bank account reconciliations to sign and date all reconciliations.

We recommend the QES implement procedures to prepare and review monthly bank reconciliations no later than one month after the bank statement date to detect and correct errors and/or irregularities timely.

QES Finding #3

As of June 30, 2011, the total balance of the QES' student activity funds was not reconciled to the book balances of the agency and checking bank accounts. Since the agency and checking accounts are the only bank accounts used for the QES' student activities, the sum of their reconciled book balances should equal the sum of the individual student activity fund balances maintained by the QES. This reconciliation provides assurance that the student activity funds' balances are properly stated.

The following identifies the variances between the book balances of the agency and checking bank accounts and the QES' student activity fund balances:

	<u>Amount</u>
<u>Book Balances</u>	
Checking account	\$ 4,750.89
Agency account	<u>7,167.70</u>
Total Book Balances	<u>11,918.59</u>
<u>Fund Balances</u>	
Admin - Other	8,177.10
Admin - Savings	7,167.70
Box Tops	2,436.03
4th Grade	1,428.78
Student Council	889.98
Library	589.08
Grade 6 Fun Day	52.00
Music Account	(197.52)
6th Grade	(637.19)
Admin - Grade 3	(1,167.35)
5th Grade	(1,414.29)
Admin - Grade 5	(2,492.74)
Book Fair Sales	(2,615.92)
3rd Grade	(2,870.73)
Admin	<u>(8,157.19)</u>
Total Fund Balances	<u>1,187.74</u>
Variance	<u>\$ 10,730.85</u>

QES Recommendation #3

We recommend the QES investigate and reconcile the variance identified above and take appropriate action.

We recommend the QES implement procedures to reconcile the total student activity fund balances to the book balances of the agency and checking bank accounts monthly.

QES Finding #4

At June 30, 2011, several of the QES' student activity funds were in a deficit balance. The following identifies the deficit balances:

<u>Fund</u>	<u>Fund Balance</u>
Admin	\$ (8,157.19)
3rd Grade	(2,870.73)
Book Fair Sales	(2,615.92)
Admin - Grade 5	(2,492.74)
5th Grade	(1,414.29)
Admin - Grade 3	(1,167.35)
6th Grade	(637.19)
Music Account	(197.52)

It is possible that some of these deficit balances were (or will be) funded by subsequent receipts. However, whenever possible, student activities should avoid disbursing funds prior to their receipt.

It is also possible that these deficits are:

- "Permanent" deficits that will not be funded by future receipts
- The result of accounting errors in which the funds were not credited for the appropriate amount of receipts and/or were charged for disbursements that did not relate to the funds

QES Recommendation #4

We recommend the QES investigate the cause(s) of the deficits identified above and take appropriate action.

QES Finding #5

As of June 30, 2011, the book balance of the agency account was not reconciled to the Town's general ledger. This reconciliation provides assurance that the agency account balance is properly stated and that all agency account activities have been posted to the Town's general ledger.

The following identifies the variance between the book balance of the agency account and the Town's general ledger:

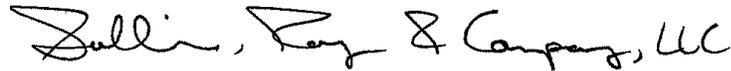
	<u>June 30, 2011 Balance</u>
Agency account book balance	\$ 7,167.70
General ledger balance	<u>5,313.34</u>
Variance	<u><u>\$ 1,854.36</u></u>

QES Recommendation #5

We recommend the QES implement procedures to perform monthly reconciliations of the agency account book balance to the Town's general ledger. The reconciliations should be performed no later than one month after the bank statement date to detect and correct errors and/or irregularities timely. The reconciliations must be signed and dated by the preparer and reviewer.

We were not engaged to, and did not; conduct an audit, the objective of which would be the expression of an opinion on the systems of internal control over financial reporting and compliance of the Town's student activity funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Selectmen and School Committee and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Sullivan, King & Company, LLC".

April 1, 2013