

Financial Audit Advisory Committee
Minutes of Meeting on January 17, 2018

The Financial Audit Advisory Committee (FAAC) met at 8:30 AM in the Conference Room at 141 Keyes Road, Concord, Massachusetts. Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts.

Members present: Michael Lawson, Select Board designee; Arthur Fulman, citizen representative; Thomas Piper, citizen representative; Wendy Rovelli, Light Board designee; and Wally Johnston, School Committee designee.

Members absent: Carol Wilson, citizen representative.

Others present: Scott McIntire, Partner, Melanson Heath & Company; Kerry Lafleur, Finance Director; Mary Barrett, Town Accountant; Malyssa Simard, Finance Assistant; and Karlen Reed, LWVCC's Light Board observer.

Chairman Lawson called the meeting to order at 8:31 AM.

Item 1: Approval of minutes, meeting of November 30, 2017

Upon a motion moved and seconded, it was voted to approve the minutes of 11/30/17 with minor corrections as noted.

Item 2: Review of FY17 Draft Financials for Town, including MD&A; Management Letter, including Town's Response; Review Town Compliance & Risk Management.

A draft of the Annual Comprehensive Financial Report for the Town's For the Year Ended 6/30/17 having been distributed to Committee members in advance of the meeting, Scott McIntire explained that some information dealing with OPEB is yet to be added. Data related to GASB 45 was received shortly before the draft was issued and evaluation relative to GASB 74, which came into effect for 2017, was still in the works. He believes both will be relatively easy to incorporate into the final draft. The audit being otherwise complete, Mr. McIntire reported that the Town's financial books and records are in "good working order", with all key balance accounts being reconciled on a regular and timely basis. Some minor reclassifications have been recommended, but no significant audit entries are required.

Mr. McIntire explained that the audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the latter commonly known as "GAGS". It is his opinion that the Town's Financial Statement is fully in accordance with both of these applicable standards.

Referring to the Statement of Net position (page 25 of the draft), Mr. McIntire explained that this section looks at both short and long term perspective and separates the Town's governmental and

business-type activities, the four enterprise funds. Pointing to the net pension liability of nearly \$24 million in the governmental column, he stated that while this is a big number, it is comparable to many of Concord's peers and significantly smaller than that of many other communities. That the account is essentially unchanged from the prior year is a positive. He also pointed to the deferred outflow related to pensions, which was first shown in the statement for 2015 and has grown to \$8.7 million in the governmental column and \$10.3 million in total. As disclosed in a related footnote, pension expense will be increased in increments averaging about \$2 million over the next 5 years.

With respect to the Town's OPEB obligation, reported here at \$7.3 million, Mr. McIntire described this as a big number, but comparatively smaller than that of many Towns. This has been coming on the books at about \$1 million per year for seven years. With GASB 75 coming into full play for FY28, it will jump to about \$31 million. Asked whether this would be a surprise, Scott replied that uninitiated readers could be surprised, but rating agencies and members of the financial community have known to look to the back pages of prior year reports for relevant notes. The discount rate the Town elects to apply will come into play, with a higher discount rate reducing the calculated obligation.

Moving on to the Balance Sheet (page 28), Mr. McIntire pointed out that the unassigned General Fund Balance of \$11.6 million, representing a little more than 11% of the annual operating budget, is consistent with peer communities. This is down from the prior year, however funds were drawn with Town Meeting approval for specified projects (55 Church Street and Junction Village) as well as the usual allocation to reduce the property tax levy. Under Nonmajor Governmental Funds, Mr. McIntire explained that the negative unassigned balance is a matter of timing. It represents short term debt for the school transportation facility and that it will "go away" when converted to long term debt. Asked about the distinction between "restricted" and other fund balances listed, Mr. McIntire explained that a body other than Concord controls the strings on that money.

Referring to Changes in Fund Balances (page 30), Mr. McIntire characterized the General Fund as a "break even" for the year. Looking at Variance with Final Budget, he point out in particular the positive results on property and excise tax collection as well as investment income. He also commented on the over-budget expense for snow and ice, noting that Concord was not alone on that. Pointing to the Statement of Net Position for the four Enterprise Funds, Mr. McIntire noted that the unrestricted fund balance for each was level or increased from the prior year.

Discussion moved on to information in the draft that remained to be updated. With respect to GASB 74, Ms. Lafleur is planning to meet with the actuary and will have more information at the next meeting. Mr. Lawson asked about the schedule for future debt service (pages 62-63)—is the Town overly aggressive? Mr. McIntire explained that audit agencies don't necessarily want to know how much is owed but instead want to know how much of that debt will be paid off in a 10-year period and stated that Concord's schedule is in line with peer communities. Ms. Lafleur added that the Town's capital replacement plan is based on rapid debt payment and that future projects would have to be put off if payment schedules were extended.

Focusing next on the Current Year Recommendations contained in the draft management letter, Mr. McIntire noted that the FY17 closing process was complicated by certain timing differences between the

general ledger and Treasurer records specifically related to the balance in the OPEB trust account. Although these were resolved after the year end, he recommends working to eliminate such timing differences in the future. Ms. Lafleur acknowledged that an error was made in her office during the transition from the former Finance Director and was not discovered until quite a bit later, at which time the rest of the funds were transferred. The issue will not reoccur.

The second recommendation relates to developing policies to ensure compliance with new Uniform Guidance Standards applicable to federal grants. Although the schools typically receive and spend more federal money than the Town and such funds are sometimes funneled through another entity such as the State, the standards still apply. Ms. Barrett is exploring policy and procedure templates that can be adapted to work from the Town perspective.

Ms. Reed, from the LWVCC, asked a question about the Municipal Light Plant's Rate of Return (page 45). She noted a concern with regard to the draft Financial Statement simply indicating that the rate does not exceed the 8% threshold, compared to the Annual Report providing a figure of 1.9%. She feels that the Financial Report should be more specific and suggests that a footnote could be added that shows how the rate is calculated. While acknowledging that the difference in fiscal year end for the Town and Light Plant could be a factor, Mr. McIntire agreed that an explanatory note could avoid future confusion. After a discussion it was decided that information pertaining to the calculations for the figure given in the Annual Report will be given to Mr. McIntire so that he can then provide the committee with reconciliation. At that time it Mr. Lawson will draft a letter and subsequently have the item placed on Select Board's agenda.

Item 3: Review Audit Plan for December 31, 2017 CMLP Audit

Mr. McIntire began by acknowledging that problem areas from the prior year were mostly driven by turnover in key Light Plant staff and is still somewhat behind, so a specific date to begin the audit field work has not yet been set. They have, however, done the inventory and found no exceptions. This is consistent with previous years. When asked for a projected timeline, Ms. Lafleur suggested a couple of months—she does not want to suggest they are terribly far behind. A discussion ensued over whether it was necessary to resolve every detail before beginning the field work. Ms. Barrett reported that they are making small steps towards the goal, but that it has been difficult to coordinate schedules with the necessary Light Plant staff, who also have critical reporting obligations to the Department of Public Utilities. She will work with Ms. Reddington (who was unable to attend today's meeting) and the Light Plant's consultant to find a workable time. Mr. McIntire recommended that if certain discrepancies can be identified and accepted as issues of timing, these can then be resolved as the audit proceeds.

Item 4: Review of FY17 Draft Financials for CCRSD, including MD&A; Management letter, including District's Response; Review District Compliance & Risk Management, including any follow-up on approval process for payment of Unused Vacation Time

Mr. McIntire has a draft from the school district, however Ian Rhames is currently on vacation and has not and there has not yet been a chance for review, so it is suggested that discussion be held off for today. Ms. Lafleur reported that she has heard from Mr. Rhames and he believes he will be ready to

discuss the draft with Mr. McIntire in about two weeks. It was agreed that Committee members will be provided with copies of relevant materials as soon as they are available.

Item 5: Citizen Comments

Ms. Reed spoke to say that she is very impressed with the thoroughness and diligence of the Committee.

Item 6: Adjourn

The meeting was adjourned at 10:03 AM.

Documents distributed or referred to during this meeting:

- Minutes of November 30, 2017
- Town of Concord Comprehensive Annual Financial Report for the Year Ended June 30, 2017 Draft
- Concord June 30, 2017 OPEB Report Draft