

**Financial Audit Advisory Committee
Minutes of Meeting on February 12, 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; and Wendy Rovelli, Light Board designee.

Members absent: Carol Wilson, citizen representative and Wally Johnston, School Committee designee.

Others present: Scott McIntire, Partner, Melanson Heath & Company; Ian Rhames, Accounting Officer, CPS/CCRSO; Kerry Lafleur, Finance Director; Mary Barrett, Town Accountant; Malyssa Simard, Finance Assistant; June Rzepczynski, Finance Committee observer; Robert Grom, School Committee observer; and Karlen Reed, LWVCC's Light Board observer.

Chairman Lawson called the meeting to order at 8:36 AM.

Item 1: Approval of minutes, meeting of January 17, 2018

Upon a motion moved and seconded, it was voted to approve the minutes of 1/17/18.

Thomas Piper recalled a question that arose at the January 17, 2018 meeting with respect to how the Light Plant's rate of return is reconciled and presented in its financial statement. Michael Lawson agreed that the topic would be placed on a future agenda. While understanding policies for the Town and CCRSD, Wendy Rovelli asked that discussion be added regarding the appropriate level of unrestricted cash for the CMLP.

Item 2: 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

Scott McIntire noted that Deb Muller, who represented his firm for the CCRSD audit, could not be present at this meeting. He began his review by commenting that the audit had gone well, with good cooperation from District and that, pending incorporation of OPEB data and updating certain supplemental disclosures, the report will soon be ready for final review and with no significant audit entries. He called the audit "clean" with key balance sheet elements in good working order and in accordance with all applicable regulations. Mr. McIntire referred to "Management's Discussion and Analysis" as a great resource for understanding the District's financial status and noted how closely various components of net position track when comparing results for FY16 and FY17.

Mr. McIntire then explained the statement of Net Position as showing the government-wide, long-term perspective. He particularly noted the one negative as driven by the outstanding OPEB obligation and pointed out that when GASB 75 takes effect in the coming year, the full liability could jump to just under \$12 million.

He next explained on page 11 that the Circuit Breaker and Special Education funds had crossed a threshold to be broken out on the statement, rather than being included in the Nonmajor Governmental column as they had been in the prior year. He also noted in the Fund Balance section that approximately \$2.4 million had been previously committed (restricted) for bond service for the building project and that the unassigned fund balance of \$1,053,603, essentially represents E&D, which would be capped by regulation at 5%.

Moving to page 15, which shows the original and final District budgets against actual amounts of revenue and expense, Mr. McIntire said that this helps to explain the drop in Net Position of approximately \$300,000 in that outflows exceeded inflows by that amount, but that this was essentially planned and recognized in advance. In discussion that followed members of the Committee asked about changes in the District budget that were made during the year. Mr. Lawson pointed out that unlike the Town's budget, the District has latitude to make changes during the year from one account to another, so long as the bottom line remains the same. Mr. McIntire confirmed this and said that some readers would want to focus on the original budget vs. actual, while others appreciate that mid-year budget changes indicate District officials are watching and making incremental adjustments to ensure the bottom line will be met; showing both original and final budgets in the statement helps to "connect the dots". Ian Rhames added that tracking and making changes to rebalance the budget over the course of the year also helps in planning the subsequent year's budget.

Asked about the significant increase in total OPEB liability that will be included in the FY18 statement, Mr. McIntire replied that rating agencies have long known and well understand what is coming. He noted that the District has taken positive steps in recent years to fund this liability, that it has a "healthy start" compared to some other districts of similar size, and that this would be looked upon favorably by these agencies.

Discussion then moved to recommendations presented in the Management Letter. The first such recommendation is that the District report its OPEB Trust balance and fair value, rather than its cost basis, as it is the fair value that will be used by the District and its Actuary to set the net OPEB liability. While the District's draft response essentially accepts this recommendation, Committee members questioned whether the difference in language, fair value vs. the District's draft response noting "balance based on investment performance" was really equivalent.

The second recommendation relates to new Uniform Guidance requirements that will apply to certain federal grants. Again, the District has agreed to update any relevant policies and procedures. Mr. Rhames commented that he did not consider these changes to be particularly difficult and it is the District's intention to make such changes.

The third and final recommendation is for greater clarity in distinguishing the District's accounts payable from encumbrances at year end. Mr. McIntire noted that there were some items reported as an encumbrance, which would more appropriately have been shown as payables based on the timing of vendor performance relative to the fiscal year end. The District's draft response is in agreement with this recommendation.

In follow-up questions Arthur Fulman asked where Special Education services appear; are they in Instruction or Other School Services. Mr. Rhames replied that with few exceptions, SPED services that can be delivered within the District are included in Instruction while out of district services, primarily through Case Collaborative, would be included in Other School Services. He added that there is an effort to provide such services in District when possible, as that is generally more efficient and less expensive than an out of district placement.

Another question focused on the implementation of GASB 75 with respect to OPEB liability for FY18. Scott indicated that GASB 75 actually allows the liability amount to be calculated as of the start of the fiscal year. If the District elects to take advantage of this, the liability, inflows, and outflows can then be calculated over the course of the fiscal year and more efficiently included in the year-end financial reporting.

Mr. Piper then asked about risk assessment relative to the District's IT systems. Mr. Rhames responded that the most sensitive data, student information and employment data, are quite "locked up", but having an outside look at system security would probably be beneficial. Mr. McIntire added that this is really outside the financial auditor's role and that many towns are having outside consultants provide a formal risk assessment. Following a brief discussion, Mr. Lawson agreed to add the topic to a future agenda.

Mr. Piper also asked how the Management Discussion and Analysis section of the report compares to GASB expectations and what other districts provide in this regard. He would like to see a more complete discussion of the MD&A's purpose relative to its target audience, ease of access, and reliability of its content. Mr. McIntire answered that it is fairly typical of the peer group and meets all requirements.

Noting that some information, final quality review, and footnotes are yet to be completed, the Committee will postpone a vote on acceptance of the Auditor's Report until a future meeting.

Item 3: Citizen Comments

Karlen Reed, the LWVCC observer, agreed that some concern with IT security is warranted as there may be vulnerability from internal and external access. She also seconded the earlier request for improved clarity on CMLP's rate of return.

Before the meeting ended, Mr. Fulman said that while it is good to see that the School Committee is addressing a policy on payout for unused vacation time, in light of previous controversy he hopes that it will include a requirement for a School Committee vote of approval before any such payout is made. Mr. Rhames believed this was the intention and agreed to communicate the specific recommendation to the Policy Subcommittee.

Item 4: Adjourn

The meeting was adjourned at 9:42 am.

Documents distributed or referred to during this meeting:

- Draft Minutes of January 17, 2018
- FY17 Draft Financials for CCRSD