

Financial Audit Advisory Committee
Minutes of Meeting on September 14, 2021

The Financial Audit Advisory Committee (FAAC) met at 8:30AM by ZOOM (Meeting ID 821 4289 4865). Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts and was recorded.

Members present: Terri Ackerman, Select Board designee and Chair; Arthur Fulman, citizen representative; Wendy Rovelli, Light Board designee; Carol Wilson, citizen representative; and Court Booth, School Committee designee (arrived late due to conflict with another meeting)

Members absent: None

Others present: Kerry Lafleur, Chief Financial Officer; Mary Barrett, Town Accountant; Erin Mulcahy, Assistant Town Accountant; Jared Stanton, Assistant Superintendent of Finance and Operations, CPS/CCRSD; Ian Rhames, Assistant Business Manager, CPS/CCRSD; Matt Cummings, Financial Manager, CMLP; Scott McIntyre, Partner, Melanson Heath & Company; and Zach Fentross, Manager, Melanson Heath & Company; and Malysa Simard, Finance Assistant.

Chair Terri Ackerman called the meeting to order at 8:31 AM and roll call of Committee members was taken.

Item 1: Approval of Minutes: January 19, 2021; February 2, 2021

The minutes of January 19, 2021 (with a date correction) and February 2, 2021 were both approved by roll call vote. Court Booth had not yet arrived at the meeting and Terri abstained, as she had not been a member of the Committee at that time.

Kerry Lafleur noted that there is a vacancy on the FAAC.

Item 3: CY2020 CMLP: Audit and Management Letter (taken out of order)

Zach Fentross, who served as Audit Manager, thanked Matt Cummings and his staff for their support and cooperation throughout the process, especially in light of the continuing need to conduct much of the work remotely. Mr. Fentross then noted that there was no Management Letter this year. Both of the recommendations conveyed in the prior year's letter had been resolved in CY20 and no new significant issues were identified. The auditors gave a "Clean Opinion".

Mr. Fentross then provided an overview of the CY2020 Financial Statement, highlighting certain account balances and trends. He explained that the Statement of Net Position includes both the Light Plant and Broadband, which are broken out further on in the report. He then pointed to a decrease in unrestricted cash and short-term investments, which are partially offset by increases in restricted cash and prepaid expenses, and explained that these are largely a result of timing differences between CY19 and CY20. A third major factor was a shift in the rate stabilization fund, whereby an excess collected in

2019 was returned to customers over CY2020 through per kilowatt hour charges. Mr. Fentross then noted that 100% of the CMLP's debt will have been paid off in the next nine years and that this is viewed very favorably by rating agencies and other users of the financial statements.

The CMLP's net pension liability decreased by approximately \$589,000, primarily due to investment earnings coming in higher than anticipated and bringing the system to 80% funded, also a favorable position relative to other systems in the State. Net OPEB liability also dropped. Mr. Fentross did note that these figures were as of 12/31/2019, so prior to the effect of COVID on market conditions.

Mr. Fentross then moved to Revenues and Expenses, first comparing a \$560K drop in electric sales to a \$402K reduction in cost of purchased power. This resulted primarily from significantly reduced usage by commercial and industrial customers while residential usage increased only slightly during the first several months of the COVID pandemic. He also pointed out that the Light Plant does not know what the cost of purchased power will actually be when budgeting and setting rates. This resulted in an "overcharge" of approximately \$1,000,000, which will be given back to customers in the subsequent cycle. Mr. Fentross explained that this ebb and flow is not unusual. It was suggested that the Light Plant find a way to explain this to customers, perhaps via an insert with bills.

In response to questions by Art Fulman and Wendy Rovelli, Mr. Fentross explained that in a normal year, the labor cost for linemen working in the field to maintain and improve the distribution system can be capitalized, then expensed over time through depreciation charges. During CY2020, these workers remained on the payroll, but compensation costs for time not spent in the field must be expensed in the current year.

Ms. Rovelli also asked about a reduction in cash on hand relative to annual operating expense. Mr. Fentross replied that the ratio has dropped, but it is not particularly concerning, especially when prepaid expense is taken into account--this increased by approximately \$1.3 million. Matt Cummings added that the Light Plant is currently conducting a cost of service study to assist in future rate setting exercises.

Item 2: FY20 CCRSD: Audit & Management Letter

Scott McIntyre reported that the School District audit went very well, with books and records found to be in good order, and all key accounts reconciled in a timely manner, resulting in a "clean audit".

Focusing first on liabilities, he indicated that both net pension and net OPEB liabilities are lower than most Towns and school districts in the State. The District's net pension liability decreased some \$3,000,000 from the prior year due to higher investment earnings than projected when the actuary set the applicable discount rate at 7.7%. Investment earnings were also higher than anticipated on the OPEB side, but funds are invested differently here and the actuary had reduced the applicable discount rate, the combination of which increased net liability by about \$500,000. While it is important to recognize these liabilities exist, Mr. McIntyre does not consider them to present any real concern. Ian Rhames added that reported valuation of OPEB and other invested funds is very sensitive to the timing of that valuation relative to shifting investment market conditions.

Mr. McIntyre then referenced Bonds payable. For FY20 the current payment was \$2.9 million. The District refinanced approximately \$22 million of its long-term debt, thus reducing future annual payments.

Mr. McIntyre next drew attention to the General Fund Balances. Here \$1.742 million is restricted to future debt service and \$300K will be applied to the FY21 operating budget. After accounting for encumbrances and other small amounts, the unassigned fund balance stood at \$1,742,528, just under the maximum 5% that would be allowed under state law.

Moving to the Management Letter, Mr. McIntyre indicated that one of two recommendations from the prior year had been resolved in FY20. The other, which was essentially to better distinguish between accounts payable and encumbrances, remained an open issue at year end and the audit team worked with the District to reclassify items according to applicable definitions.

Both new recommendations related to preparation for new GASB rules. The first (GASB 84) is effective in FY21 and relates to fiduciary responsibilities when classifying agency funds as general or special revenue funds, or possibly a custodial fund. The second (GASB 87) concerns changes in the way lease activities are treated in financial reporting, whether the District acts as lessee or lessor.

In response to a question from Court Booth, Mr. McIntyre explained that GASB 84 does not really change amounts; it's more a matter of which column certain affected amounts would be placed in on the financial statement. Mr. Booth then asked if there were any such thing as an *uncommitted* stabilization fund. Mr. McIntyre explained that "committed" here refers to how permitted uses for the funds being set aside are defined. As an example, he pointed to a relatively small stabilization fund that the Town includes in its unassigned fund balance precisely because there are no specific constraints on its use.

Item 4: Status Update: FY21 Audits, Town and CCRSD

Mr. McIntyre expects his team will be in the Town House in early November, with some of the work to again be done remotely. They will need updated capital asset information to make decisions about what the audit will entail. He also noted that obtaining the OPEB report has been a challenge in recent years and hopes it will be available sooner this time around.

Mr. Rhames commented that the CCRSD audit typically trails the Town by about two weeks and that some preliminary work is already underway.

Item 5: Review of Work Plan/ Calendar

Kerry Lafleur will draft reports covering the CCRSD FY20 Audit and the CY20 CMPL Audit to be reviewed by the FAAC prior to being presented to the School Committee and Select Board. The Committee tentatively set its next meeting for 8:30 AM on Tuesday, October 19th. (This date was later confirmed.)

Item 6: Other Business

Noting that the Committee has discussed cybersecurity periodically in the past, Mr. Fulman suggested that the topic be added to the agenda for a meeting in the near future. Ms. Lafleur agreed to contact Jason Bulger, IT Director, to check on his availability. As the Town is setting up a Risk Management Committee, she will also arrange for an update on that effort.

Item 7: Citizen Comments

There were no citizen comments.

Item 8: Adjourn

On a motion made and accepted by roll call vote, the meeting was adjourned at 9:40 AM.

Documents distributed or referred to during this meeting:

- Draft Minutes of January 19, 2021 & February 2, 2021
- Annual Financial Advisory Committee: Audit Activity Schedule
- FY20 CCRSD Audit & Management Letter
- CY20 CMLP Audit & Management Letter