

Financial Audit Advisory Committee
Final Minutes of Meeting on January 19, 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: Linda Escobedo, Select Board designee and Chair; Arthur Fulman, citizen representative; Court Booth, School Committee designee; Wendy Rovelli, Light Board designee; and Carol Wilson, citizen representative.

Members absent: Thomas Piper, citizen representative.

Others present: Kerry Lafleur, Chief Financial Officer; Mary Barrett, Town Accountant; Jared Stanton, Business Manager CPS/CCRSD; Ian Rhames, Assistant Business Manager, CPS/CCRSD; John Hickling, Finance Committee observer; Kathy Cuocolo, Finance Committee observer; Malysa Simard, Finance Assistant; and Karlen Reed, LWVCC's Light Board observer; Scott McIntyre, Partner, Melanson Heath & Company; Sara Corduck, Melanson and Heath Audit Engagement Manager; Rich Delorey, Assistant Treasurer.

Chair Linda Escobedo called the meeting to order at 8:30 AM and roll call of Committee members was taken. She then suggested that agenda item 2 be taken out of order and welcomed Scott McIntyre of Melanson Heath.

Item 2: FY20 – Review of Financials and Management Letter

Mr. McIntyre began by reporting that the annual audit had gone well. The Town's books and records were found to be in good order with no disagreements concerning how various accounting principles have been applied. The auditors' work revealed no material weaknesses or significant deficiencies. The Management letter does, however, offer certain recommendations intended to improve internal controls and operating efficiency.

He then listed four topics which typically command particular attention:

- Unassigned Fund Balance
- Outstanding Bonds Payable and Debt Position
- Pension Liability
- Other Post-Employment Benefits (OPEB) Liability

Taking these in order, Mr. McIntyre reported that, despite positive general fund budget results for FY20, the General Fund balance dropped from \$37.1 MM to \$34.8 MM. More significant is the unassigned fund balance, which went from \$13.8 MM to \$9.9 MM. This, shown on page 19 of the draft, was driven primarily by the use of nearly \$3.8 MM from free cash for various purposes in FY21. These include \$2,000,000 to establish a middle school stabilization fund, \$1,715,000 to reduce the tax levy, and \$50,000 to supplement the purchase of two electric school busses. These amounts would now be reflected in other categories (Restricted, Committed, or Assigned), as applicable and shown in the same

section of the report. In answer to a question from Wendy Rovelli, Kerry Lafleur confirmed that the \$9.9 MM remains well within the Town's policy to maintain between 5 and 10% of annual general fund expenditures in free cash.

Mr. McIntyre then moved to the Statement of Net Position (draft pages 25-26). Here he pointed out the amounts shown as current and non-current portions of the Town's overall debt, virtually all of which is scheduled to be paid off within 10 years in keeping with Concord's policy. This, he said, is looked at very favorably by financial institutions and rating agencies. Mr. McIntyre later introduced a listing of the Town's outstanding debt in much greater detail—a formula error pointed out by Wendy will be corrected in the final draft.

Next he addressed the Town's Pension and OPEB liabilities, which together total about \$52 MM and are respectively funded at 85% and 35%. These two items are essentially the only reason for the negative \$27 MM shown as "unrestricted" under Net Position. Mr. McIntyre reported that that Town's Total Net Position remains very strong and the level to which we have funded these two liabilities is "very admirable" compared to most communities in Massachusetts. He further commented that these fund balances and, therefore the unfunded portions, are both sensitive to investment market conditions and the discount rates applied. The auditors have reviewed both and are in agreement with the assumptions used.

Mr. McIntyre then focused attention on the General Fund Budget results (draft page 33). Revenues fell about \$757,000 short of budget due almost entirely to lower receipts in excise taxes, which he said was very common for Massachusetts communities during FY20. This was offset by expenditures being \$1,074,000 lower than budgeted. Mr. McIntyre also discussed the statement of Cash Flows for Proprietary Funds (business-type activities). Here he pointed out that the net positive operating results were more than adequate to cover the amounts paid by each of the funds for principal and interest.

Art Fulman commented on a substantial year over year drop in investment income (draft page 18) and wondered if there was something more involved than market conditions at that particular time? Mr. McIntyre responded that the predominant factor would likely have been a \$650K in the market value of the Pension Reserve Fund, compared to what had been a sizable increase in that Fund's market value the year before.

Aware of the drop in discount rate applied to OPEB, Ms. Rovelli followed up by asking whether there had been a similar adjustment regarding the Pension Fund. Ms. Lafleur replied that the change in discount rate for OPEB from 7.25 to 6.5 was made by the actuary. She is generally in agreement with that change, but was not involved in discussion on that one. The rate being applied to the Pension Fund is currently set at 6.9, also lower than in the past.

Ms. Escobedo asked about steps being taken to prepare for implementation of new GASB standards 84 and 87. Mr. McIntyre replied that both will likely require new accounts to be set up in the Town's general ledger to facilitate compliance. GASB 87 deals with lease arrangements and has been delayed by a year. He recommends that Towns prepare now by taking a close look at any leasing arrangements they might be a party to, whether as lessor or lessee.

Karlen Reed asked for clarification as to the effective date for PEG Access funds as reflected in the Financial Report (draft page 110). Mr. McIntyre replied that the \$1.4 M shown for PEG Access is **as of 6/30/20**, while the other Special Revenue Funds listed there are for the **year ending 6/30/2020**.

(Wendy Rovelli left the meeting at this point.)

There being no further questions on the Financial Report, Mr. McIntyre quickly reviewed the recommendations contained in the Management Letter.

CURRENT YEAR RECOMMENDATIONS

1. Improve Year-end Cut-off Procedures—the Town does a “great job” with its general fund and should apply similar procedures to other funds.
2. Prepare for GASB statements 84 and 87—Mr. McIntyre referred to his earlier response to the question asked by Ms. Escobedo.

PRIOR YEAR RECOMMENDATIONS

3. Align the Encumbrance Policy and Practice—Mr. McIntyre knows that the Town is aware of this recommendation; some encumbrances at year-end were for non-specific purposes and the Town needs more time to work on this.
4. Improve Reconciliation of Utility Receivables—Mr. McIntyre acknowledged challenges stemming from a change in billing software in 2019 and the ongoing efforts of staff to resolve the issue.
5. Analyze Withholding Accounts—Mr. McIntyre noted that the various amounts at issue here are relatively small, but should be addressed. Mary Barrett added that this relates primarily to certain insurance accounts where the Town is currently “self-billed”. There has been ongoing internal discussion as to how this can be handled.

Ms. Lafleur asked if there was an update on the CCRSD audit? Mr. McIntyre answered that a few documents are still needed and, once received, the auditors will be able to wrap up fairly quickly. Ian Rhames reported that he has been in touch with the actuary regarding one of those reports, adding that it usually arrives shortly after the Town receives its own.

Ms. Escobedo thanked Mr. McIntyre for his thorough review and helpful explanations before moving on to other agenda items.

Item 1: Approval of minutes, meeting of November 10, 2020

Upon a motion by Court Booth and seconded by Carol Wilson, the minutes of November 10, 2020 were approved by roll call vote.

Item 3: Review of Work Plan / Calendar

A meeting date of 2/2/2021 was planned. The Committee will review a draft letter to the Select Board at that time. The Committee also awaits a final version of a formal loan agreement between the Light Plant and Broadband.

Item 4: Other Business

Mr. Fulman asked if Ms. Lafleur would please forward the Town's response to recommendations in the Management Letter to Committee members when ready.

Item 5: Citizen Comments

There were no Citizen Comments

Item 6: Adjourn

Ms. Escobedo adjourned the meeting at 9:15 am on a motion by Art Fulman and seconded by Carol Wilson, followed by a unanimous roll call vote by members then in attendance.

Documents distributed or referred to during this meeting:

- Draft Minutes of November 10, 2020
- Draft Management Letter for the Year Ended June 30, 2021
- Draft Comprehensive Annual Financial Report for the Year Ended 6/30/20