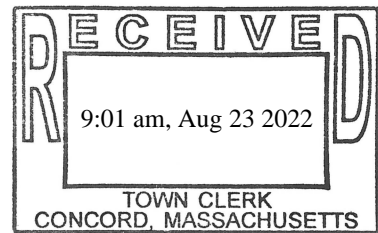


**Financial Audit Advisory Committee
Minutes of Meeting on June 14, 2022**



The Financial Audit Advisory Committee (FAAC) met on June 14, 2022 at 8:30AM by ZOOM (Meeting ID 815 9300 5252). Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts and the meeting was recorded.

Members present: Matthew Johnson, Select Board designee and Chair; Arthur Fulman, citizen representative; Wendy Rovelli, Light Board designee; and Court Booth, School Committee designee

Members absent: Carol Wilson, citizen representative; there remains one vacancy on the Committee.

Others present: Kerry Lafleur, Interim Town Manager; Gail Dowd, Interim Finance Director; Mary Barrett, Town Accountant; Erin Mulcahy, Assistant Town Accountant; Ian Rhames, Assistant Business Manager, CPS/CCRSD; Matt Cummings, Financial Manager, CMLP; Karlen Reed, LWVCC's Light Board observer; Malysa Simard, Finance Assistant; Scott McIntyre, Partner, Melanson; Sara Corduck, Melanson Audit Engagement Supervisor; and Cynthia Rainey, Concord Public School Committee.

Chair Matthew Johnson called the meeting to order at 8:30 AM and a roll call of Committee members was taken.

Item 1: Approval of Minutes: October 19, 2021

On a motion by Wendy Rovelli and seconded by Arthur Fulman the minutes were approved by unanimous roll call vote.

Item 2: FY21 Town Audit: Review ACFR & Management Letter - Melanson

Mr. McIntyre began by reporting that the annual Town audit is complete and went well. Mr. McIntyre noted that the Annual Comprehensive Financial Report (ACFR) is the newly adopted name going forward of the report formerly known as the Comprehensive Annual Financial Report. The Town's books and records were found to be in good working order with no disagreements concerning how various accounting principles have been applied. The auditors' work revealed no material weaknesses or significant deficiencies. A clean, unmodified opinion has been issued. An "Emphasis of Matter" has been added to the Independent Auditors' report this year to denote that as discussed in Note 34 to the financial statements, in 2021 the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Mr. McIntyre stated the opinion is not modified with respect to this matter this year, however, the ACFR will look quite different next year in so far as formatting and data captured because of the adoption of this GASB.

Mr. McIntyre then moved to the Statement of Net Position, page 2 (draft page 40 of the PDF). Here he wanted to highlight the Net Pension Liability and the Net OPEB Liability in the governmental activities' column. The net pension liability as of the balance sheet date of 6/30/21, technically measured at the end of the Retirement System year of 12/31/2020, had a liability of \$8,472,362. The system is well-

funded at a level of approximately 95% as of this date, and this liability is among the smallest seen in the Commonwealth. The net OPEB liability is \$16,658,829 as of 6/30/2021. This account balance has seen a significant drop since a year ago, when the liability was at \$38,609,300. To explain this, Mr. McIntyre utilized the data on page 91 of the Independent Auditors' Report (page 104 of the pdf packet), to demonstrate the factors contributing to the change in net OPEB liability, which included the Employer contributions of \$4,043,878 and paid benefits of (\$2,428,878) netting a \$1,615,000 cash contribution into the fund. Additionally, the portfolio earned \$7,309,562, resulting in the Plan net position increasing by \$8,924,562. The increased Plan net position decreased the liability and in conjunction with this, the total OPEB liability decreased by \$11,494,272 due to differences between expected and actual experience. Overall, the OPEB Trust Fund is approximately 62% funded. These liabilities are substantially lower than Concord's Aaa peer communities.

Mr. McIntyre discussed how the Deferred Inflows of Resources totaling \$27,400,498 will be amortized to zero over the next approximately 4 (four) plus years. Mr. McIntyre notes at that time, the Town would have an opportunity to turn the unrestricted net position deficit balance of (\$22,218,346) caused by pension and OPEB liabilities, into a positive number.

Mr. Johnson remarked that the Town is a member of the regional Minuteman Technical High School District, and it has identified that the OPEB liability is in the opposite position to the Town's. Mr. Johnson noted that although Minuteman Tech is not part of the Town's budget, he recognizes there will be a financial impact to the Town. He is curious if these types of encumbrances are, or will be, considered in the annual auditing. Mr. McIntyre opined that the GASB may issue guidance in the future on the subject matter raised by Mr. Johnson, perhaps contained within a GASB Statement being worked on with respect to reducing Note Disclosures. Since credit rating agencies want to know about any future cash obligations a local government may be responsible for, these types of agreements will impact the future cash flow of the organization although they are not balance sheet liabilities.

Mr. Johnson commented that the Town has entered a Regional Dispatch arrangement with the Town of Acton, whereby both Towns are equal partners. He inquired as to what extent Acton issued debt and/or capital expenses may be reflected in the Town of Concord's future audited statements. Mr. McIntyre responded he would need to understand more about this arrangement in the coming years to see whether this relationship may be defined as a joint venture, like the relationship the Town holds with many other communities within the Minuteman Technical High School District. Mr. Johnson believes that the net effect would be positive on the Town as there is state support for these arrangements and expressed curiosity surrounding the impact to the Town's finances as we begin to enter more regional arrangements. Mr. McIntyre noted that GASB has been busy developing new standards and one is to evaluate public-public partnerships, public-private partnerships. It is a comprehensive standard that will likely encompass these types of joint ventures (for lack of a better term) in the future.

Mr. McIntyre referred to the net management discussion and analysis pension liability. He reiterated that the pension liability is approximately 95% funded but wanted to note that with respect to these types of liabilities, there is a difference between funding and accounting. The audit reflects the accounting perspective. The reason this is notable is that over the course of the next couple of years, it

is possible for the Town's pension liability to become a pension asset on the accounting side. However, on the funding side, the Town may still have an amortization schedule that will need to be amortized with annual contributions as determined by PERAC.

Mr. McIntyre moved to review the fund basis financial statements. The general fund balance assets exceed liabilities by \$38,186,136, with \$12,320,090 restricted (pension reserve fund), a committed fund balance of \$8,185,985 (made up of stabilization funds), an assigned fund balance of \$6,879,001 (encumbrances carried into FY22 and free cash appropriated for FY22), and an unassigned fund balance of \$10,801,060, which is relatively unchanged from FY20 (-\$119,155) due to a very strong budgetary performance of \$2,398,398. The fund balance did not go up by \$2,398,398 because the Town, like other communities, used \$2,517,564 certified free cash and overlay surplus for FY22 as follows: \$1,867,564 to reduce the tax levy; \$500,000 to develop and support affordable housing; and \$150,000 for the senior property tax exemption program.

Mr. Johnson stated that Town Meeting voted to use free cash to reduce the tax levy by \$1,000,000 but inquired about the additional \$867,564. Ms. Lafleur answered that the \$867,564 is the prior year carry forward that Town Meeting appropriated due to the pandemic and revenue loss and this is not typical.

On the governmental funds page, Mr. McIntyre pointed out that this year there is a separate column for the federal grants fund due to the size and magnitude of the activities in the fund for FY21. It met the definition of a "major fund" and therefore the balance sheet is presented itself and is not consolidated with the non-major governmental funds. An unassigned fund balance deficit exists of -\$1,535,505 but this should not be looked at as problematic as grant funds in general are expenditure driven and reimbursement is typically sought after the fact. He expects that the money would come in FY22 and eliminate the accounting deficit. Mr. Johnson notes that the decision has been made to expend ARPA funding over the full four-year period so we will likely see this column for quite some time.

Mr. McIntyre moved to the amortization schedules of the long-term bonds and loans and points out that everything is paid off by the year 2031. The relevance is credit rating agencies like to see how much of the long-term obligations will be retired within a 10-year period and Concord fits into that model.

The management letter comments/recommendations were presented and there are no significant deficiencies or material weaknesses identified. In general terms, the recommendations include streamlining some policies, practices, and procedures. Those identified include improving the cash reconciliation procedure to ensure investment statements are included, improve year-end cut-off procedures with special attention to the enterprise non-budgetary funds, prepare for GASB 84 and 87, align the encumbrance policy with the practice, and improve reconciliation of utility receivables. Management acknowledges and agrees with the recommendations put forward by Melanson and will take necessary steps to implement them.

Mr. McIntyre provided a brief update to the committee on the 12/31/21 year end of the CMLP audit. The audit went very well this year, and the work is virtually done but the firm needs a little more time.

Item 3: FY21 CCRSD Audit: Review draft statement and Management Letter – Melanson

Mr. McIntyre referred to page 163 of the PDF packet and noted that the district's FY21 audit went well, finding the books and records to be in good order, and the same key aspects of the Town's financial statements are found also in the district's, namely the net pension and net OPEB liabilities. The independent auditors have issued a clean, unmodified opinion. Like the Town, the Emphasis of Matter paragraph has been included to inform the reader that this is the first year that the government implemented GASB No. 84. He anticipates next year that paragraph will state that the entity implemented GASB No. 87.

The net pension liability is \$1,394,961. CCRSD is a contributing member of the Concord Contributory Retirement System, which is 95% funded, measured as of 12/31/20. The net OPEB liability is \$9,540,003, down from approximately \$12,000,000 a year ago. It is 44% funded, measured as of 6/30/20. There were \$1,142,634 in contributions and \$592,634 in payments. The fund earned \$1,736,595 in net investment income. The net position of the OPEB Trust went up by \$2,286,595, and as a result, the liability went down by \$2,995,038.

Like the Town, the positive experience of the net pension and net OPEB liability produced a deferred inflow of resources, totaling \$5,872,477. This will eventually go to zero and amortize out in the credit balance. As the "liability" (it is not a liability but acts like one) goes down, it will have a positive impact on the unrestricted -\$13,802,064 by \$5,872,477 over the next four to five years.

Mr. McIntyre referred to page 175 of the PDF. There are four types of fund balance, and the total fund balance is \$4,411,775. This is broken down by \$910,750 restricted (debt service), \$210,878 committed (stabilization accounts), assigned fund balance of \$1,462,484 (encumbrances and certified ED) resulting in unassigned fund balance of \$1,827,661. Strong favorable budgetary performance of operations resulted in a nearly unchanged unassigned fund balance.

The management letter comments/recommendations were presented and there are no significant deficiencies or material weaknesses identified. The recommendations include the prior year issue to improve accounting for accounts payable at year-end and prepare for GASB No. 87. Mr. Johnson inquired if software subscriptions would fall under GASB No. 87. Mr. McIntyre notes that in the GASB No. 87 software is specifically excluded, yet a year after writing No. 87, GASB then created No. 96 specifically to address software subscriptions. Credit rating agencies are looking for Town's obligations, and recurring payments is included among them.

Mr. Johnson noted that the OPEB liability is 44% funded compared to the Town's 95% and inquired how CCRSD compares to other school districts. Mr. McIntyre responded that it compares very favorably.

There was some discussion about how these numbers will compare to our next audit given so many varying factors and members opined and highlighted that planning for drops in funding is important.

Item 4: Audit Engagement Letter – FY22 thru FY24

Ms. Lafleur commented that it was realized recently that included in the charge of the Committee, the Committee shall review the engagement letter before it is signed but she does not believe this has been done previously. To fulfill all the duties of the Committee charge, she asks that the Committee provide some input on the engagement letter before she signs it. Mr. Fulman notes that he does not recall ever seeing previous engagement letters and asks if there are any material differences between this letter and previous ones. Mr. McIntyre responded that auditing standards change on a regular basis and there is a whole new suite of standards from FY21 to FY22. Mr. Johnson asked if the costs of the Town's audit are benchmarked against other peer towns. Ms. Lafleur commented that our audit is more complex than many peer communities and the cost is very commensurate with the amount of work involved given the electric fund, the school district, and the number of presentations the auditors give to various committees, among other factors. Mr. McIntyre highlighted that the use of various closing dates adds complexity, as well. Mr. Johnson inquired if it might be possible for the Town to reduce the degree of complexity using the various dates, for example, could the Light Plant align with the other dates. Ms. Rovelli responded that with the Light Plant in particular, there is state regulatory compliance that the date is aligned to. The Committee agreed that they had reviewed the letter and support it being signed by Ms. Lafleur.

Item 5: Revisit Audit Activity Schedule

Mr. McIntyre commented that CMLP is ahead of the activity schedule at this point. The Town and CCRSD were slightly delayed due in part to the federal compliance work the firm is required to do. The compliance supplement was not published in a timely fashion which has been an impediment. For FY21, the OPEB valuation for the Town was received on November 29, 2021, which was sooner than it had been received in previous years. For FY22, the compliance supplement has been published which will be helpful.

The Committee agreed to meet again in July or August to have the cyber security risk assessment presentation, the CMLP draft financial statements, and review the draft report before it goes to the Select Board to potentially be on the Select Board agenda on August 29th or September 12th.

Item 6: Other Business

There was no other business brought before the Committee.

Item 7: Citizen Comments

Karlen Reed asked if Ms. Lafleur or Mr. Johnson might mention to the FAAC the question raised regarding the evaluation of the auditor's recommendation on the Fiber Broadband Task Force and the loan between broadband and electric. Ms. Lafleur commented that at the June 13, 2022, Select Board meeting, the Select Board received the final report of the fiber completion task force, which was a very detailed report available on the website for anyone who may be interested. The Chair of the Committee, Mark Howell, formerly the Chief Technology Officer for the Town was in the position of overseeing Broadband for several years. The Task Force has raised an issue about the loan that exists between the light plant and broadband. Broadband was sustaining an operating loss each year that was relatively

small in the beginning, but it occurred over a few years. Then broadband issued some debt and that earned the operating loss. In FY20, the auditors stated that a loan needed to be formalized between broadband and the light plant. The Light Board came up with a loan policy that was accepted. The Task Force has raised questions about the amount of the loss and the repayment of the loan. Ms. Lafleur stated that she and Mr. McIntyre talked about this yesterday because she had a detailed conversation with the Chair of the Task Force last week. Mr. McIntyre is going to take another look at it and put together some information looking at all those years together and identifying what work the auditors did to verify those amounts because the amounts have been called into question somewhat. This will be a separate audit project that isn't expected to take too long, and she will be happy to apprise the FAAC of the results when they are available.

Item 8: Adjourn

With no remaining business on the agenda, the Chair adjourned the meeting at 9:54 am.

Documents distributed or referred to during this meeting:

- Draft Minutes of 10/19/2021
- FY21 Town Audit: Draft ACFR & Management Letter – Melanson
- FY21 CCRSD Audit: Draft Statement & Management Letter - Melanson
- Audit Engagement Letter – FY22 thru FY24 – Melanson
- Audit Activity Schedule