TOWN COUNCIL
Budget/Management Committee
Town Hall Council Chambers
March 12, 2012-Monday

Present:	Kenneth DiFazio, Chairman Patrick O'Connor, Vice Chairman Arthur Mathews, Council President Michael Molisse, Councilor Michael Smart, Councilor
Also Present:	William McKinney, Chief Financial Office Richard Swanson, Town Auditor
Recording Secretary:	Mary Barker

Chairman DiFazio called the Budget/Management Committee Meeting to order at 6:30PM.

12-017 Fiscal Year 2011 Financial Statements and Management Letter
The chairman invited Frank Biron, President and Erica Lussier, Manager of Melanson Heath & Co. with Auditor Richard Swanson, to review the management letter. Mr. Swanson presented highlights from the financial statements.

A. The auditors have issued a clean financial opinion, which is excellent as it means no material discrepancies were found in the books or financial records of the town for fiscal year 2011.
B. As of June 30, 2011 total assets exceeded liabilities by $108,004,085 or a 1.6:1 ratio, which is excellent.
C. Total Bonds payable debt at year's end was $71,906,823; a decrease of $6,308,000 for FY10; excellent, as the town is paying off debt. Chairman DiFazio asked where the town stands as to long-term debt over last 5-8 years. Auditor Swanson will review debt schedule and report back.
D. Water & Sewer Enterprise Funds- increase Retained Earnings of $855,353 due to profits from their operation. These funds are available for appropriation for capital improvement or equipment, strictly within these enterprise funds. This includes income from services provided to Southfield.
E. Total revenue in FY11 increased by $7,550,000 over FY10; mainly due to the increase in property tax and charges for resident services (trash collection).
F. Capital Assets total investment was $183,262,983. The two significant increases over FY10 included Fogg Library and new water treatment plant at Great Pond.
G. Total revenue was $129,570,530; revenues exceeded expenses by $4,013,351.
H. The Management letter contains one new recommendation; that the town consider purchasing a new software program for reporting tracking and depreciation of capital assets in order to comply with GAAP reporting. The administration has indicated they will purchase new or enhance the existing software. The other

items in the management letter were carryovers from the prior audit, and were addressed; if not resolved, a management plan has been set.

Frank Biron, President of Melanson, Heath and Company reviewed the financial statements. He provided the opinion that the town's finances are in accordance with accounting principles and the firm is issuing a clean opinion. This does not include an opinion of the contributory retirement which is audited by another firm, and which also issued a clean opinion. After the opinion, the report outlines the management discussion and summary, which is a narrative summary of the operations.

He reviewed the numbers, which were reviewed in the narrative summary. Mr. Biron recapped the entity-wide basis financial statements, which consolidates all accounts in the town into two categories; governmental and business activities. The breakout of water and sewer activity is broken out further into the report. The information is provided in a full accrual basis of accounting. It includes fixed assets which depreciate; land and buildings. The town doesn't track these internally in the general ledger system. The non-current liabilities were also reviewed, and includes bonds payable, compensated employee absences, landfill liability for post-closure, unamortized bond premium and accrued other post-employment liabilities, by far the largest liability. It's a result of an accounting standard, GASB45, which was applicable the past three years. GASB required the town to have an actuarial valuation to determine future costs for retirees' health insurance benefits. The actuaries were also required to provide a thirty-year funding schedule that indicates how much would have to be set aside each year to fund it. After the thirty years, it would be fully funded. The town is not funding it, and no one is requiring the town to, but the town is required to have the funding schedule. The amounts not funded each year are reported under GASB as a liability- totaling $31.9 million for the three years it has not been funded. It will continue to grow as the town does not fund. The total liability is expected to be $236M. Because it is growing at such an accelerated pace, the unrestricted net assets are in deficit.

Chairman DiFazio asked for clarification of the retirement benefits and Mr. Biron explained that these are funded under a different GASB structure. The health benefit is not being funded. Councilor Mathews asked if there is a correlation to the town joining the GIC and the explosion of the deficit over the last few years. Mr. Biron responded that he reviewed the actuarial report, and it is one but not the biggest reason. Instead of funding the actuarial schedule over 30 years, the remaining balance is to be funded over 27 years. Stone Consulting's report is up- to- date and Mr. Swanson confirmed this. The current audit does not redo the work, but incorporates their information. The town generously contributes to the health insurance and all retirees are required to participate in Medicare. Councilor Mathews noted the administration is presenting a measure to council to begin funding the liability. He asked for the status of other Commonwealth cities and town's contributions.

Mr Biron then reviewed the balance sheet and in particular the general fund. The numbers have improved over the last few years. The cash balance hasn't changed much. Investments, under new GASB54 standards, are now required to be indicated and include the town's stabilization fund. Property tax receivables are up slightly. He reviewed a summary by levy year. The management letter again includes a comment that the town should be more aggressive in liening the receivables that were uncollected. When the town doesn't lien it is at risk; if the homeowner is in default and files bankruptcy, the town stands to lose the receivable altogether. If liened, the town will collect. Councilor Mathews asked how Weymouth compares to other municipalities. Mr. Biron noted other cities and towns lien quicker but it is an indication that the town needs to proceed further with the foreclosure process.

Councilor Smart noted this has been discussed with the administration. CFO McKinney noted FY10 is in process of being liened. The town also has a pending tax title auction. Chairman DiFazio asked Mr. Biron's opinion as to whether the town should foreclose or sell tax titles. Mr. Biron responded that the way the town is proceeding with the auction is adequate at present. Excise receivables are comparable to other years. This also includes MSBA school building funds that are paid over a number of years. He then reviewed the liabilities which includes unpaid bills, accrued liabilities (payroll) deferred revenues offsets the receivables. Once these are collected and converted it becomes revenue or free cash.

Mr. Biron reviewed the change in the terminology with the new GASB54; names of some fund balances have changed. The three components in the general fund are committed (stabilization balance, reserve for continuing appropriations), assigned fund balance (reserve for encumbrances, insurance encumbrances) and unassigned fund balance (formerly undesignated fund balance). The bond rating agencies pay particular attention to this balance. The undesignated fund balance plus the stabilization fund balance should account for 5-10% of the overall budget. Weymouth is currently at about 3%; not quite where it should be, but better than last year. Unassigned fund balance is up from last year. The DOR free cash calculation begins with the unassigned fund balance and the higher that is, the higher the free cash figure will be. Unassigned fund balance is trending positively.

He then reviewed the statement of revenues. Net income for the year was $2.5 million. He reviewed where these revenues came from. It was much better than the year before when the revenues closed short. The components include interest/penalties/other taxes, building permits, charges for services (Tri-Town). The appropriation and expenditures were reviewed. The state assessment was higher than was projected. The contingency, reserve fund turned back an unspent balance. The largest variance was health insurance and the town beat budget by $4M; part was used as funding source free cash use during the year

Mr. Biron noted the town did well with this budget- better than the prior year. He noted that towns build free cash balances by budgeting conservatively on local revenues.

Councilor Smart asked about the loss on investment income. Mr. McKinney noted that it is money in the bank that just isn't earning high interest.

Mr. Biron then reviewed the enterprise funds which is on a different basis of accounting. The free cash is available for future capital outlays. He then reviewed fiduciary funds-pension, private purpose (scholarship) funds; the return on investments 14.5% indicates that the town is doing a good job rebuilding balances. He explained the footnotes to the report.

Overall the general fund balances and enterprise funds did well. The town is not where the bond rating agencies want it to be yet, but is improving. The town did good job pulling information together for the audit. It ran much more efficiently than last year. The town takes it seriously but there is room for improvement, which Erica Lussier will review.

Erica Lussier noted that part of the audit is to look at internal controls, and what recommendations can be made for improvement in operating efficiency are included in the management letter. No significant deficiencies or material weaknesses were found. The management review comments were provided to the town for response which are included in the document. Many of the items were already addressed in 2012. They are as follows:

1. Document reconciliations-they were not always formally documented. The town accountant has begun quarterly sign-offs on the key account reconciliations as recommended.
2. Develop a more formal risk assessment process to identify areas where potential fraud or material misstatements could occur, the account areas which are more at risk and what is in place to mitigate this. The town has developed a draft fraud policy which addresses these issues, and recommends the town formally adopt the policy.
3. The town should be proactive with risk assessment policies and discuss these at monthly department head meetings including providing information for reporting department irregularities.
4. Expanding on the departmental receipts policies with regard to decentralized departments which receive cash and checks. Policies and procedures would include receipt logs, establishing clear audit trails, and documenting oversights in the reconciliation process. It helps employees to know what the administration expects and improves the control over decentralized receipts. The town does have an internal auditor but it does not replace having formal policies in place to strengthen internal controls.
5. More aggressive tax collection policy with the fully implemented GASB54.
6. Upgrade software to track fixed assets to provide detailed reporting. Contact the software company to see if upgrades are available or look to obtain software that can meet these needs.

She also noted the town staff was very cooperative and made the process easier.

Councilor Mathews thanked them for the presentation and asked that the report be presented to the full council at its meeting.

A MOTION was made by Councilor Mathews to ACCEPT the audit report and management letter and was seconded by Councilor Smart. UNANIMOUSLY VOTED.

At 7:31PM, there being no further business, a MOTION was made by Vice Chairman O'Connor to adjourn the Budget/Management Committee meeting and was seconded by Councilor Smart. UNANIMOUSLY VOTED.

Respectfully submitted by Mary Barker as Recording Secretary

Approved by Kenneth DiFazio, Chairman