

**TOWN COUNCIL MINUTES
BUDGET/MANAGEMENT COMMITTEE
Town Hall Council Chambers
March 21, 2011 - Monday**

Present: Kenneth DiFazio, Chairperson
Arthur Mathews, Council President
Michael Molisse, Councilor
Michael Smart, Councilor

Also Present: Richard Swanson, Town Auditor
William McKinney, CFO
Scott Bois-Financial Services Coordinator

Not Present: Patrick O'Connor, Vice Chairperson

Recording Secretary: Mary Barker

Chairman Kenneth DiFazio called the Budget/Management Committee meeting to order at 6:40 PM

11 014- Fiscal Year 2010 Financial Statements and Management Letter

Chairman DiFazio introduced Richard Swanson and Frank Byron, (Melanson Heath & Company) to present an overview of the independent audit of the town.

Mr. Swanson reviewed the Audit and the Management letter. He reported the following to the committee:

- A. The auditors have issued a "clean opinion" on the statements, which is excellent, as it means no material discrepancies were found in the financial statements and books of the town.
- B. At the end of the year, total assets exceeded liabilities by \$128,740,899 and the current ration was 2:1, which is good.
- C. Total long-term debt decreased by \$5,463,968 which is good as the town is paying off debt.
- D. Net assets decreased \$2,403,082 from the prior year, as the town expended more than was received in revenues.
- E. The Water & Sewer Enterprise Funds increased Retained Earnings by \$5,027,435 due to profits from their operations.
- F. Capital Assets increased by \$18,373,358 from the prior year, mainly due to the new Great Pond Water Treatment Plant.
- G. Net Cash from Water & Sewer operations was \$17,848,833 of which the Water Fund contributed 85% of the total.
- H. At the end of year, the Pension Trust Fund had \$120,565,505 in net assets, which is good for the number of retirees being paid.

- I. The Management Letter contains five weaknesses that our auditors identified, along with their recommendation on how to improve. The response from the Administration on an action plan is very good. They will be reviewed during field audit activities by the Town Auditor.

Councilor Mathews noted the comments about the Enterprise Fund balance and the affect by the bond repayment for the Water Treatment Plant. Chairman DiFazio asked if it will justify a lower rate to customers. Mr. Bois responded that eventually that is the goal, but it will be offset by the MWRA's anticipated sewer rate increase. Chairman DiFazio asked what is included in the net assets of the town. Mr. Swanson reviewed the activities.

Councilor Smart asked that future year reports include a column that illustrates the change from the prior year. The format has not changed although the auditing firm has, so comparison can be made to the report of last year. Chairman DiFazio asked Mr. Byron to explain the side letter dated February 9, 2011. The Management Letter is the major areas where efficiencies or controls could be improved. The side letter items are other items where improvements can be made, although not as important as those in the Management Letter.

Mr. Byron reported on the audit results. The "clean opinion" is the best that can be reported, but does not include the contributory retirement account, which was audited by the previous plan. He then reviewed the items on the statement, and how the GASB34 affects it. He reviewed the statement of Net Assets. TheTown maintains its books in multiple funds, however, the audit collapses it into two columns and on a full accrual basis. He reviewed the specific Fixed Assets, Long term Liabilities which are the basis for the net assets. The restricted accounts (grants), trust accounts and unrestricted accounts were then reviewed. Unrestricted net assets are in deficit and growing. This is a result of an unfunded liability to the GASB45 post-employment (health insurance) benefits for retirees. The state requires a thirty year schedule based on an actuarial study of the town to determine the town's unfunded liability. The town does not fund it but must be carried yearly as a liability. This is the third year for Weymouth and is accumulating at about \$7 million a year, which results in the deficit showing in the Net Assets. Most towns and cities in the Commonwealth do not fund this; however, because Weymouth has a generous retirement package, its liability is one of the larger ones.

Chairman DiFazio asked what the risk is to the town by not funding yearly. Mr. Byron responded that it can negatively affect the town's bond rating but there is no capacity in the town to currently fund it.

Mr. Byron then reviewed the change in net assets and the fund basis of accounting. This is the manner in which the town tracks its books. He noted that real estate receivables which have not yet been liened are mentioned in the Management Letter recommendations. The town should be more aggressive in liening property; the lien process will protect the town in the event of bankruptcy. He reviewed the general fund balance and the GIC funds. The undesignated fund balance is the starting point of the Free Cash calculation and a factor in bond rating agencies. The stabilization balance is

also a consideration in the bond rating process (5-10% per year). Chairman DiFazio noted a higher balance will affect state aid and collective bargaining negotiations and is down from last year. Mr. Byron then reviewed the income statement. He pointed out that the change in fund balance is essentially the net profit. He then reviewed the net changes in the budget; using free cash as a funding source affects this part of the report as a variance. Revenues were short of what was budgeted. He reviewed the turnbacks- amounts unspent and turned back to the town to build free cash. The chairman asked if the town is not conservative enough. Mr. Byron responded that the revenues are down all over the state. He then reviewed the Enterprise funds, which are treated like a business and full accrual basis of accounting, which is different from the way the town tracks its books. He reviewed the income statement for the Enterprise funds as well.

He also noted the Fiduciary funds (contributory retirement) which were audited by the prior firm and incorporated into the report, Private Purpose accounts (scholarship trust funds) and Agency funds (student activity accounts). The income statement for these funds was reviewed briefly; including the town's 21% return on investments.

Mr. Byron then summarized the recommendations in the Management Letter. None are considered serious breakdown in internal controls:

- Document reconciliations- the town reconciles the General Ledger to the various departments; however not all are documented in writing that balances agree.
- Develop more formal risk assessment process-looking for financial risk- financial irregularities that might be happening in town. He recommends the town be proactive in looking for these situations, discussions take place at department head meetings, and develop a fraud policy.
- Expand Departmental Receipt policy- this is a high risk area and needs more oversight, with specific standardized formats and security.
- Prepare for the new accounting standard-GASB54 which is going to change the names of the fund balances. The town doesn't need to do much other than prepare for it.
- Establish a more aggressive tax collection policy-primarily in liening property to protect the town's assets.

Chairman DiFazio noted the town's response to the Management Letter is fairly vague; and he asked if the audit will look for proof next year. Mr. Byron responded yes. Chairman DiFazio asked the town auditor to look at last year's recommendations, although by a different auditing firm, to see what has been implemented.

Councilor Mathews and Chairman DiFazio both noted the thoroughness of the presentation.

A MOTION was made by Councilor Smart to accept the report on item 11 014 and the Management Letter and was seconded by Councilor Mathews. Unanimously voted.

*Accounting for Southfield Mitigation Funds
Process for review of Internal Audit Reports*

These items are ongoing and will be continued to the next meeting.

Adjournment

At 7:28 PM, there being no further business, Councilor O'Connor made a MOTION to ADJOURN the meeting and was seconded by Councilor Smart. UNANIMOUSLY VOTED.

Respectfully submitted by Mary Briggs as Recording Secretary

Approved by Kenneth DiFazio as Chairman