

Financial Audit Advisory Committee
Minutes of January 7, 2016
FINAL

The Financial Audit Advisory Committee (FAAC) met on Thursday morning, 8:30 AM., January 7, 2016, at the Town House Select Board Room, Concord, Massachusetts. Notice of the meeting was duly filed with the Town Clerk, Town of Concord, Massachusetts.

Members present:

Arthur Fulman, citizen representative
Wally Johnston, School Committee designee
Michael Lawson, Select Board designee
Thomas Piper, citizen representative
James Terry, Light Board designee
Carol Wilson, citizen representative

Also present:

Alice Kaufman, Select Board Chair
Tony Logalbo, Finance Director
Mary Barrett, Town Accountant
Ian Rhames, Accounting Officer, CPS/CCRS
June Rzepczynski, Finance Committee Observer

Chairman Lawson called the meeting to order at 8:35 a.m.

Appointment of Clerk-Pro-Tem: Mr. Fulman volunteered to be clerk for this morning's meeting.

1. Approval of the Minutes: On a motion duly made and seconded, the Committee voted unanimously to approve the minutes of the December 15, 2015 meeting.
2. Continued Review of the Town of Concord June 30, 2015 Financial Statements:
Mr. Logalbo distributed hard copies of the Comprehensive Annual Financial Report (CAFR) for the Year Ended June, 30, 2015 as prepared by The Concord Finance Department. In addition to providing detailed financial information about the Town's finances, this document contains a Transmittal Letter from Christopher Whelan, Town Manager, as well as the Independent Auditor's Report, prepared by the Town's Auditor, MelansonHeath.

Mr. Logalbo responded to many questions from the Committee regarding the substance of the final Financial Report. As discussed at previous meetings, the new reporting requirements of GASB 67 & 68 require much more disclosure and transparency in municipal financial reporting of pension liabilities. The negative figure (\$779,977) shown on page 27 of the report under column "Governmental Activities," Net Position – Unrestricted, is an example of the impact of these reporting requirements, which now disclose unfunded pension liability and net OPEB obligations. Mr. Logalbo explained

that Concord's current funding ratio based on the January 1, 2014 actuarial report is 81%, with additional resources allocated each year to reduce the unfunded portion. Based on the GASB 67/68 reporting requirements, which require the funding analysis to be based on market value of assets, the funded ratio is reported as 88% (page 91 of the CAFR). The Finance Department works closely with its Advisors to develop strategies with regard to valuation, assumed rates of return and increases in future funding. The goal is to follow a conservative and prudent approach to reduce these unfunded liabilities.

3. Discussion of Town of Concord Management Letter for the Year ended June 30, 2015:
Mr. Logalbo distributed hard copies of the Town's Management Letter which was issued by the Town's independent Auditors and contains the Town's response to two issues: (i.) Annual Audit of Student Activity Funds and (ii.) Prepare for Single Audit Changes. The Town's response indicates that both issues are being appropriately addressed. As Mr. Logalbo explained (quoting from the letter), this letter relates, not to the financial statements themselves, but rather to the internal controls within the Town. The Auditors "considered the Town's internal accounting control over financial reporting as a basis for designing [the] auditing procedures for the purpose of expressing [the Auditor's] opinion on the Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control." However, the Auditors did state that during the audit process they "did not identify any deficiencies in internal controls that [they] consider to be material weaknesses" in the Town's financial systems.
4. Discussion of Committee's Presentation and Reporting to the Select Board on January 11, 2016
The Committee is scheduled to meet with and report to the Select Board on January 11, 2016. This is in accordance with the Committee's charge. Committee members were encouraged to attend that meeting. A discussion followed regarding the nature, format and substance of the Committee's presentation to the Select Board. Should the Committee formally vote on the Financial Statements and Management Letter or should it just report and comment on the materials reviewed and the process followed. The consensus was to prepare a report with comments.

It was agreed that Mr. Lawson would draft and circulate to the Committee for comment a report to the Select Board focusing on:

- A. The process followed by the Committee.
- B. The Audit process and Management Letter.
- C. Comments on the Financial Statements:
 - (i.) Unrestricted Net Position
 - (ii.) OPEB Liabilities.
 - (iii.) Changes in accounting regulations : GASB 67 & 68.
 - (iv.) Capital Expenditures and Depreciation.
- D. The effectiveness of the Audit Committee.
- E. Possible changes in the Committee's Charge.

As a member of the Select Board, Mr. Lawson will introduce the subject at the January 11th meeting.

5. Committee Discussion future work plan and meeting schedule:
Due to the time, the Committee decided to defer to its next meeting discussion of the document prepared by Tom Piper and Mike Lawson. dated January 7, 2016, titled “Financial Audit Advisory Committee – Meeting Schedule and Objectives.” The Committee will meet again in February or March. Mr. Lawson will circulate a proposed date.
6. Citizen comments: None.
7. Adjourn: Meeting adjourned at 10:40 AM.

Respectfully Submitted,

Arthur Fulman,
Temporary Clerk