

Members Present:

Christos Arsondiadis, Rob Barker, Dan Cole, Emilio Mauro, Tim McKenna, Cindy Thomas and Wai Wong.

Members Absent: Cynthia Holcombe and Barbara Saint André.

Guests Present:

Kathy Butters, Town Accountant
Paul Gargano, Partner, Roselli, Clark & Associates.
Jim Murgia, Finance Director
Ellen Jones, Finance Committee Secretary

Opening: A meeting of the Canton Finance Committee was called to order by Chairman Barker at 7:00 pm. on Monday, June 18, 2018 in the Salah Meeting Room of Town Hall.

A. Approval of Agenda

Chairman Barker reviewed the items on the agenda which included the reorganization of the Finance Committee and a presentation by the Town's auditors.

B. Announcements

Chairman Barker thanked all of the residents who responded to the letter to the Canton Citizen and to postings on social media expressing interest about becoming a member of the Finance Committee. Chairman Barker welcomed four new members to the Finance Committee – Christos Arsondiadis, Dan Cole, Emilio Mauro and Wai Wong.

In the fall, the Finance Committee in conjunction with the Finance Director would hold an informational meeting that would address how the Finance Committee functions, how the budget process works and the role of the Committee.

C. New Business

Reorganization of the Finance Committee – Election of Chair and Vice Chair

Chairman Barker opened up nominations for Finance Committee Chair and Vice Chair.

A motion made by Mr. McKenna to nominate Rob Barker as the Chair of the Finance Committee was seconded by Ms. Thomas. Vote: 7-0-0. This would be Mr. Barker's second year in the role of Chair.

A motion made by Mr. Barker to nominate Mr. McKenna as the Vice Chair of the Finance Committee was seconded by Ms. Thomas. Vote: 7-0-0. This would be Mr. McKenna's second year in the role of Vice Chair.

FY17 – Auditor's Presentation – Paul Gargano of Roselli, Clark & Associates

Chairman Barker welcomed Paul Gargano, a Partner of Roselli, Clark & Associates.

Mr. Gargano gave a brief introduction of the Audit Procedures and provided the following information with regard to the audit:

- The audit conducted was not a fraud audit but performed in accordance with GASB (Government Accounting Standards Board). Mr. Gargano stated that if fraud were found during the audit they would be required to report it.
- The auditors reviewed the financial statements and issued a clean opinion.
- The Town's CAFR (Comprehensive Annual Financial Review) was submitted to the GFOA (Government Finance Officers Association). The Town has received the CAFR award for the past 12 years. If there were any deficiencies found during the audit report the auditors would be required to report these under SAS #115.
- The Town's General Fund reserve balance is at a healthy balance of \$16 million according to GAAP (Generally Accepted Accounting Principles). This figure would vary slightly from the reserve balance provided by Mr. Murgia at year end.
- The Town's reserve ratio (which is the ratio of the reserve fund balance against general fund expenditures) is about 17% which is 2% higher than the tier one metric which is the highest level the bond rating agencies look for. Bond rating agencies consider a high reserve balance as favorable. The Town has maintained a AAA bond rating for the last 10 years placing it in the top 10% of communities in the state.
- The auditors follow GAGAS (Yellow Book) which is Generally Accepted Government Accounting Standards. This requires the auditors to review internal control over major transactions, contracts, laws and grants.
- Bond Rating agencies favorably view towns that prepare long-term financial projections with regard to borrowing and their adherence to these projections.
- There were no findings under SAS #115 (Statement on Auditing Standards). SAS #115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements.
- A "clean opinion" means that there were no findings of any sort.
- Under GASB74 the Town is required to include a footnote on the Balance Sheet with regard to its OPEB (Other Post Employment Benefits) obligation.
- Under GASB75 the Town will be required to disclose the full amount of the OPEB obligation which is currently approximately \$87.3 million. Mr. Murgia stated that the Town currently has \$4 million set aside in the OPEB Trust Fund and has been contributing on an annual basis towards this fund.
- Mr. Gargano updated the Committee on its review of the School Department's student activity funds. The state issued a requirement that towns have their student activity funds audited every three years. The auditors have reviewed these funds two out of the last four years. The most recent review is currently in draft form. There were no major findings at this time.
- There is a new single audit requirement for internal control documentation. There is no requirement to test but the Town has to maintain an internal control system in accordance with the Green Book or COSO.

With regard to the Management Letter for the year ended June 30, 2017, Mr. Gargano offered the following comments regarding the four findings and their recommendations:

- Employee Reimbursement Policy (from prior year) – Since the issuance of the Management Letter this finding has been resolved and the Town has adopted an employee reimbursement policy.
- Planning Board Escrow Deposits (from prior year) – The Planning Board is working on addressing escrow accounts that have gone into deficit balances due to paying consultant service fees without obtaining funds from the developer.
- Capital Asset Maintenance – The Town Accountant maintains the Town's capital assets using capital asset software. The auditors recommend that the Town Accountant review assets with individual departments and cross reference with insurance lists to ensure that only in current assets are on the list.

- Recreation Department Review – The auditors conducted a review of the Recreation Department five years ago. Their internal controls were okay as of five years ago. The auditors found that there is an issue with regard to the collection of user fees for field permits. The auditors recommend that the Recreation Department collect the fees up front or institute a late fee. With regard to the use of the Town’s pool by users purchasing one-day passes, the auditors recommend that the users sign a liability waiver and the Recreation Department keep this information on hand/on file electronically for future use. Without the liability waiver there could be a safety and liability issue for the Town if someone were to get injured.

Mr. Murgia commented that the Recreation field user fees help to pay for the maintenance of the fields and for the electric costs of lights used at the fields. Ms. Thomas suggested that given the new leadership in the Recreation Department it should be communicated to the various leagues who use the fields the importance of paying up front in accordance with the Department’s policy.

Mr. Gargano explained that the “informational items” in their audit are those items that the auditors want to make the Town aware of going forward, such as SAS #115, OPEB GASB #74 and 75, Student Activity update and new single audit control requirements.

Discussion regarding the Town’s OPEB Obligation – Ms. Thomas asked for an explanation for the difference between OPEB liability and OPEB obligation. Mr. Gargano explained that the Town has been recognizing its small OPEB obligation over time for 30 years out. Ten years into the process GASB changed the manner in which it looked at a Town’s obligation into a liability.

- Currently, there is no requirement that the Town has to fund the \$87 million but the bond rating agencies are starting to look at OPEB liability. Mr. Gargano explained that the Town of Canton is doing a good job of funding a portion of the OPEB liability each year.
- Mr. Murgia confirmed that the Town has set aside \$4 million so far and that the bond rating agencies expectation is that the Town will continue to contribute towards this obligation each year. At ATM 2018 the Town appropriated \$800,000 towards OPEB for FY19 as part of the Fixed Costs budget.
- The Enterprise Funds are self-supporting. The OPEB actuary determined how much of the OPEB costs relate to water and sewer employees. A portion of the \$800,000 is funded from the enterprise funds.
- Mr. Murgia further explained that retirees who are enrolled in health insurance with 75% paid by the Town the cost is paid out of the health insurance trust fund budget. The OPEB trust fund is accumulating for the costs of future retirees.
- Mr. Murgia stated that the other long term liability that the Town has is its retirement costs. The Town is part of Norfolk County Retirement System (NCRS). State law requires state retirement systems to be fully funded by 2040. NCRS is on track to be fully funded by 2032. The Town pays approximately \$5,000,000 for one year of NCRS pension costs. Once the retirement system becomes fully funded the Town would be able to use its annual \$5,000,000 payment towards OPEB.
- Retirees are allowed to continue with the Town’s insurance (75% paid by the Town) but are required to enroll in Medicare A & B if eligible as well as the BCBS Medex supplemental plan.
- The OPEB Trust Fund is not counted towards the Town’s reserves.
- The Town’s reserves include free cash, stabilization fund and excess overlay reserve.

Mr. Cole questioned the comment in the audit report that the auditors do not report on the effectiveness of the Town’s internal control. Mr. Gargano explained that they do not issue an opinion on it and that they test internal control to assess risks in certain areas and not to issue an opinion on internal control. An internal control audit would cost the Town significantly a lot more than the current audit being done and the auditors are following GAGAS guidelines. Mr. Gargano stated that if there were issues with the Town’s internal controls he would be reporting on them, but there was nothing to report.

The discussion with Mr. Gargano ended at approximately 7:40 p.m.

D. Other Business/Open Issues

Metropolis Rink - Update

Mr. Murgia and Ms. Butters provided the following background information and update regarding the status of the rink project:

- The status of the rink was recently discussed at the Board of Selectmen's meeting on June 12, 2018.
- The rink is owned by the state and leased by the Town of Canton.
- The roof collapsed in 2015 due to snow. The responsibility for repair resides with the Town. The Town has been working with the state regarding the repair.
- The state had indicated to the Town that they had been looking at three sites for a rink: two sites in Canton and a site in Norwood. The state later abandoned that idea.
- Ms. Butters has been in contact with FEMA because the Governor had declared a state of emergency and the Town could be eligible for 75% reimbursement to restore the rink back to pre-disaster condition.
- The Town has collected insurance proceeds of approximately \$2.7 million to date.
- The insurance company had first given the Town a two-year deadline date from the date of the collapse or February 2017. The insurance company has now given the town a two-year extension to February 2019.
- The insurance company has indicated to the Town that if the Town can secure the rink under contract with a construction company by February 2019 the Town would be entitled to additional insurance proceeds.
- Ms. Butters indicated that FEMA has given the Town until April 13, 2019 to keep the process moving. She also indicated that another extension could be applied for at that time.
- Approximately a week ago the Town met with FEMA, John Connolly from the BOS, a representative from the BRC (Building Renovations Committee), BOS Chairman Mark Porter and a representative from MEMA. The BOS has given the BRC the green light to proceed with the next step of the process. The BRC will have an architect spec out the work involved and will come up with an estimate. Some of the insurance proceeds will be used to pay for the architect.
- A preliminary amount of \$10 million was first estimated by the architect. This architect has been asked to come up with more definitive estimates. This estimate would be used at a future special town meeting. Mr. Murgia stated that this could not wait for annual town meeting because the Town would miss the deadline with FEMA and MEMA.
- Mr. Murgia indicated that the Town would most likely need a fall special town meeting to have the Town consider funding the difference between the cost of the rink and the funds received to date from the insurance company. This difference would be through borrowing with the assumption that 75% of the delta would be reimbursed by FEMA. The Town's share would be 25%. The Town would seek authorization to borrow the full amount. As expenses are incurred, the Town would submit to FEMA for reimbursement.
- For example, if the cost of the rink is \$9 million and the insurance money is \$3 million the Town would seek authorization to borrow \$6 million. FEMA would pay 75% of the \$6 million.
- Ms. Butters explained that if there was a fundraiser, these funds would also reduce the amount that FEMA would give to the Town.
- Mr. Murgia indicated that the rink restoration project was first thought to have required an override of \$6 million of borrowing with a special election ballot. Because the \$6 million may now only be a \$1.5 million cost to the Town because of the FEMA reimbursement he indicated that the borrowing for the \$1.5 million could be done inside the levy.
- The current lease the Town has with the state runs out in 12 years or 2030. The Town is trying to get the state to give the Town a commitment to extend the lease beyond 2030. Under the lease the Town is required to insure the rink and repair the rink.

- Mr. Murgia stated that it would make it more affordable for the Town to borrow for 20 years versus borrowing for 10-12 years under the current lease term.
- The Town Administrator is working on the lease extension.
- Under the current lease the Town pays 1% of gross receipts. Mr. Murgia stated that the receipts for the rink have been running around \$300,000 per year or about \$3,000.
- At this time there appears to be no plans for a contribution to be made by the state to the rink project.
- FEMA would make reimbursements to the Town as the Town files for them. The Town would not have to wait until the end of the project to submit for reimbursement.
- At the end of the project the state will still own the rink.
- Mr. Mauro asked that if the lease were to expire after the Town rebuilt the rink would there be any risk to the Town. He also asked if the Town would receive any compensation for work done on the rink.
- The footprint of the rink would remain the same. Reasonable improvements beyond code could be made.
- Ms. Butters explained that in 2015 the Town's salt shed also collapsed and that she was involved in the improved FEMA project. A better, stronger salt shed was built at that time for which FEMA reimbursed the Town for 75% of the original shed.

E. Approval of Minutes

A motion made by Mr. McKenna to approve the minutes for March 26, 2018 as written was seconded by Ms. Thomas. Vote: 3-0-4.

A motion made by Mr. McKenna to approve the minutes for May 14, 2018 as written was seconded by Ms. Thomas. Vote: 3-0-4.

A motion made by Mr. McKenna to release the Executive Session minutes for March 22, 2017 as previously approved and voted on May 8, 2017 was seconded by Ms. Thomas. Vote: 7-0-0.

F. Next Meeting Dates: The next meeting dates would be determined in the future. If any Reserve Fund Transfers are needed to cover budget deficits for FY18, the Finance Committee would meet sometime in late July.

Chairman Barker thanked Town Moderator, Dick Staiti, for his help with the appointments of new members to the Finance Committee.

Chairman Barker suggested the Finance Committee members review the Liaison list distributed in their meeting documents. At the next Finance Committee meeting the various departments would be allocated to the Committee members. He further stated that the Building Renovations Committee (BRC) was supposed to be meeting on Wednesday, June 20 at which time the Rink would be discussed.

Adjournment: A motion made by Mr. McKenna to adjourn the meeting at 8:07 p.m. was seconded by Ms. Thomas. Vote: 7-0-0

Minutes reviewed by: Tim McKenna

Respectfully submitted,



Rob Barker
Chairman, Canton Finance Committee

**Canton Finance Committee Meeting
Monday, June 18, 2018
Meeting Documents**

Please note: These meeting documents may also be found on the Town's website under the Posted Minutes section (Laser Fiche).

Some of the budget or Annual Town Meeting documents referred to in meetings may be found on the Finance Committee page of the Town's website.

Agenda dated 6/18/18. (1 page).

Town of Canton Management Letter, year ended June 30, 2017, Roselli, Clark & Associates (9 pages).

Town of Canton Single Audit Reports Pursuant to the Uniform Guidance, June 30, 2017, Roselli, Clark & Associates (12 pages).