

TOWN OF HAMILTON
Board of Selectmen and Finance & Advisory Committee
FY'13 Audit
MAY 27, 2014

The Board of Selectmen met at Hamilton Town Hall at 6:30 p.m. on Tuesday, May 27, 2014 with Scott Maddern, Marc Johnson, Jennifer Scuteri and Jeff Hubbard present. Members of the Finance & Advisory Committee: John McWane, Charles Chivakos, Nancy Gerardi-Walsh and Rick Sprenkle. Town Manager Michael Lombardo and Finance Director Deborah Nippes-Mena also present.

Call to order

Scott Maddern called the Board of Selectmen meeting to order at 6:30 p.m. John McWane called the Finance & Advisory Committee meeting to order at 6:30 p.m.

Review and approve FY'13 Audit

Chris Rogers, principal at Clifton, Larson, Allen, presented information on FY'13 audit. Rogers summarized overview of financial statement and mentioned new pronouncements including changing name of statement, new terms: deferred inflows and outflows, audit standards, and auditor's opinion that was unmodified.

Full accrual for Town included net assets of \$16 million for governmental activities: \$11 million capital assets, \$3.7 million restricted CPA funds, and \$1.5 million in unrestricted balance. The Town's net OPEB obligation was \$1.6 million at the end of the year. FY'13 was the first year for the Hamilton Development Corporation and the one transaction was \$173,000 from the Town. This component unit of the Town will be included in Town's financial statement.

At the end of the year the Town had \$4.2 million in its General Fund: \$80,000 for future OPEB benefits, \$614,000 for FY'14 budget and continuing appropriations for FY'14, \$200,000 for encumbrances, and \$3.3 million in unassigned fund balance or 13.5% of total revenue sources. This upward trend of unassigned fund balance is favorable toward Town's AAA bond rating. This amount includes \$737,000 of General Stabilization Fund and rest is Free Cash based on statutory calculation. The net increase in fund balance is \$640,000 resulting from \$450,000 positive variance in revenue, and \$700,000 positive variance in expenditures. The Town used \$730,000 in reserves to fund FY'13 operations: \$587,000 of Free Cash, \$18,000 in overlay, and \$133,000 in encumbrances. At the end of the year the Town had \$2.2 million in CPA fund.

For the water and waste enterprise funds the net assets at the end of the year were \$4.4 million. This consisted of net investment in capital of \$4 million with unrestricted amount of \$430,000. For the year the water enterprise increased by \$106,000 and was included in \$230,000 subsidy from General Fund for debt service consistent with prior years. For waste removal enterprise, the total net assets at year end were \$63,000. The net investment in capital assets was \$29,000 and unrestricted amount was \$34,000. This includes a subsidy from the General Fund of \$334,000.

Also noted was outstanding long term debt of \$5.2 million for total government and total water debt of \$1.5 million. The total general fund debt service compared to total expenditures was 2.8% consistent with prior years. The HWRSD assessment not debt is included in this calculation. The education expenditure in the financial statement includes all money paid to regional school district for the year including Hamilton's share of the debt.

Discussion ensued about debt capacity and how the Town is well below what it could borrow, and that school debt is not included due to regional school system. In response to discussion, Rogers offered to provide information on what debt would look like if Hamilton did not have a regional school system. In FY'15, Hamilton will be paying nearly \$500,000 toward annual school debt. HWRSD has debt that has not been issued and is currently in BANs.

Also regarding the landfill closure and recapping project, the estimated liability reported is \$1.7 million with \$540,000 post closure, statutory mandated, care costs for 30 years. The capping should be substantially completed in October with final seeding next spring.

In regard to the Town's net OPEB obligation and federally required contribution number, Hamilton's liability is \$5.6 million and Town has accrued \$1.6 million liability in five years. Rogers said GASB is in process of finalizing standard where OPEB obligation would be included on Hamilton's books. In FY'15 a similar obligation is occurring for pension. Hamilton paid \$160,000 toward retiree health insurance this year. Based on actuarial valuation, Hamilton should have been paying \$590,000 annually. The Town is paying 27% of what it should be paying if it was funding OPEB over a 30-year period.

Discussion ensued about the reporting standard versus no state or federal mandate stating that Hamilton has to fund OPEB over a 30-year period. The Town has a current cost where it matches the benefit with the service. Governments have worked under

concept of matching revenues with expenses but many have not put the revenue aside for this cost. Rogers explained that if a municipality had the money to put aside in an irrevocable trust there could be a different interest rate. Also mentioned was whether or not Hamilton should get a bond and invest it to reach a 7% discount rate but this has not been done in Massachusetts. In addition, if the interest rate is not reached this creates another liability.

Discussion addressed how a Home Rule petition would be required to get bonding for OPEB, and if a committee would be formed possibly including HWRSD which has the greatest OPEB liability to work on this matter. Also, that FinCom could follow up on this topic with Rogers. Discussion spoke to how the OPEB liability is proportionate to the number of employees. Hamilton has changed its co-payment structure where the Town pays 55% of retiree healthcare expense and it does not contribute to retiree dental cost. Also mentioned was that this topic has to be part of collective bargaining discussion to limit the liability and stay true to retirees. Hamilton currently has \$80,000 set aside for OPEB.

In regard to financial controls and financial reporting, Rogers stated that consistent with prior years there are no findings for Hamilton.

He spoke to the Management Letter relative to comments and recommendations for strengthening controls: ECO operations grant that had a deficit of \$37,000 and need for timely reimbursement, capital asset inventory not completed and updated timely throughout the year, deficiencies in the Recreation Department including lack of using pre-numbered registration forms and no formal policies and procedures relating to activities where a manual should be created, water billing adjustments and how employees with access to the system could make unauthorized adjustments to bills so controls parameters should be set up in MUNIS and department head approval process implemented, that the Town should develop financial policies and procedures manual, and risk assessment monitoring should be done to create a formal process to assess where assets could be misappropriated and to protect the Town's assets. Discussion ensued about implementing the risk assessment monitoring process and that it could be done as part of a three-year process to reduce the amount of staff time involved.

Also addressed was pension accounting and reporting and in FY'15 the Town will have to report its long term liability obligation for pension (\$7.5 million) on its books. Discussion addressed if the Town could operate by hiring people who do not ultimately retire from the Town. Also mentioned was that Essex Regional Retirement System is considering moving to an actuarial allocation versus basing community's pension

assessment on salary survey. In addition, that the pension liability has to be fully funded by 2035 and the discount structure is 7% to be more conservative in consideration of 2008 market collapse. It was noted that ERRS is doing better with its investments since they have been managed by the state's PRIT fund.

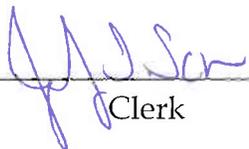
Discussion revisited OPEB and Rogers stated that he had not heard of any state mandates associated with this liability. Also, that municipalities are focusing on getting pensions funded versus statutory requirement for OPEB. Town officials acknowledged that for every year no funding is allocated for OPEB, the Town will get behind due to lack of matching for service.

The next FinCom meeting is scheduled for Tuesday, June 17 to address year-end transfers. Also addressed was need to reconcile cash receipts for the Recreation Department relative to program sign-ups. An online registration system is being put in place. Rogers mentioned letter to be given to Selectmen that summarizes the auditor's process and findings. The Board of Selectmen will meet next on Monday, June 2.

Maddern entertained a motion at 7:45 p.m. to adjourn. Jeff Hubbard so moved. Marc Johnson seconded motion. VOTE: Unanimous. McWane entertained a motion at 7:45 p.m. to adjourn. Charles Chivakos so moved. Rick Sprenkle seconded the motion. VOTE: Unanimous.

Respectfully submitted by Jane Dooley, Minutes Secretary

ATTEST:



Clerk