



## **Committee on Finance and the Northampton City Council**

*Councilor David A. Murphy, Chair  
Councilor Maureen T. Carney  
Councilor Marianne L. LaBarge  
Councilor James Nash*

**City Council Chambers, 212 Main Street  
Wallace J. Puchalski Municipal Building  
Northampton, MA**

**Meeting Date: February 28, 2017**

**Time 5:00 p.m.**

### **MEETING MINUTES**

**1. Meeting Called to Order:**

At 5:00 pm Councilor Murphy called the meeting to order.

- 2. Roll Call:** Present were committee members: Councilors Murphy, LaBarge, Nash and Carney. Also present from the City's financial team was: Finance Director Susan Wright, City Auditor Joyce Karpinski, Tax Collector/Treasurer Kris Bissell, and City Assessor Joan Sarafin. Mayor Narkewicz was also present.

Tom Scanlon, Jr. was also present to present the FY2016 Year – End Audit Report to the City Council Committee on Finance. Also present with Mr. Scanlon was Mr. Jeff Gendron.

- 3. Financial Orders:** None

**4. 2016 Year End Audit Review by Scanlon and Associates, LLC**

Mr. Scanlon indicated that the sole purpose of an audit is to opine on the City's financial statements. He reports that the accountants gave a clean audit opinion about Northampton which is very good. There were no disagreements with management during the course of the audit. There were no problems and only a couple items were highlighted where it was felt that there were opportunities to strengthen internal controls to improve operating efficiency.

## **Report on the Examination of the Basic Financial Statements:**

The Statement of Net Position reflects the city government in its entirety. The first column, marked Governmental Activities, takes incorporates grants that the City has received, taxes, special revenue funds, special projects, capital assets, etc. The financial statement reflects full accrual financial accounting. Under governmental activity, the unrestricted net position it shows a negative \$67,969,430. Usually negative numbers in net position is not desirable; however, there are key drivers that are part of the reason why. Under non-current liabilities, the Other Post Employment Benefit (OPEB) Obligation Payable and Net Pension Liability are the key factors for the negative number. OPEB, is on a pay-as-you-go system and this is the health insurance promised to employees upon retirement. In 2009 GASB started to require municipalities to account for the promise of paying insurance premiums on the balance sheet. The position of a city can trigger multiple health insurances. The only true way to remove the pay-as-you-go system in order to minimize this expense is for people to die. Mr. Scanlon recognizes that the Northampton has done some things to lower the liability, including establishing an OPEB Trust, evaluating health insurance plans, and restructuring the plans in accordance with the law. Mr. Scanlon notes that the OPEB Trust Fund should grow to an amount whereby it can be drawn upon to fund the City's budget (a \$10,000,000 figure was suggested). Mr. Scanlon notes that this particular line item should be looked at from a long term perspective.

The second major line item that is triggering the deficit is the Net Pension Liability. As with OPEB, last year was the first year that this item appeared on the balance sheet. Again, it has always been there, just not appearing on the balance sheet. The city is on a funding schedule to pay every year to the Retirement System; over time this liability will reduce. Mr. Scanlon notes that the standard is now changed; the amount will go from \$46 million to about \$100 million in one year because the full amount of the liability must appear on the balance sheet now. He notes this is a risk that the management team must start dealing with but the requirements are not unique to Northampton. Every municipality will now show a negative net position.

### **Balance Sheet and Statement of Revenues, Expenditures, & Changes in Fund Balances**

These statements are not full accrual and do not contain fixed assets. Bonding companies review these documents because it measures liquidity and reserves. Under Unassigned Fund Balance it shows a positive \$12,884,771. This figure includes stabilization funds, free cash, and an overlay in which the State treats as an allowance account. These components complete the \$12.8 total. The overlay is an average of the past five years and takes into account certain exemptions, including elderly and veteran exemptions and abatements. Generally speaking, there are account receivables; the state allows a municipality to set up an "allowance account" for certain purposes. It is like a reserve account that is maintained so that if refunds are needed due to statutory abatements, or property tax abatements, etc. the funds will be available and taken from this overlay fund. At one time there was an account for every fiscal year; now they are combined.

On the P & L Statement looking at the general fund, the net change from last year shows an increase of \$3.2 million dollars. Bonding companies consider this when they provide a bond rating.

The increase is directly related to the City's commitment to increase reserves, which is the stabilization funds and free cash. The non-major funds are included on page 69-70 of the book; these include revolving funds, grants, and other special revenue.

#### Budget Vs. Actual (Pg. 22)

Mr. Scanlon notes that this statement reflects the development of free cash. The first column shows what is carried forward from the previous year budget. Under the column marked "Original Budget", this is the summary of the budget that was voted upon at the beginning of the fiscal year while the "Final Budget" reflects all of the transfers that were made throughout the year. The fourth column shows "Actuals"; The second to last column shows the encumbrances—those expenses that were incurred during the year but not paid for yet. When looking at the final variance, Northampton shows a positive variance of almost \$4.3 million. This amount reflects free cash.

Free cash for the previous fiscal year was due to a mix of higher than anticipated revenue and lower than budgeted expenses. Mr. Scanlon notes that the city is conservative when it comes to budgeting market-based revenue, like hotel and meals tax. This is helpful. On the expense side the City is about \$2.2 million less than budgeted. Some reasons include vacancies in the Public Safety that resulted in less payroll expenses. He expressed that on a \$92 million budget it is a good sign to end up with \$2.2 million less in expenses.

Regarding free cash, this is something that should be used only to fund one-time expenses. When you use free cash you want to be sure to backfill the same amount at the end of the year. What would not be advisable would be to use free cash to backfill for operating expenses and then not replenish the money. Overtime this could have a detrimental effect on bond ratings. Finance Director Susan Wright indicates that the stabilization funds are used as a rainy day fund for emergencies. It is the City's policy to add a percentage more to the capital stabilization account. Even though funds are taken out to support the capital plan, the balance continues to grow. Right now that amount maintained is 2.5% of the City's overall budget. Each year that amount increases by 0.1%.

Mr. Scanlon points out that the Finance Team presents its policy to the City Council each year and one of the benefits of the audit is to evaluate that the policies of the city are reflected in the financial statement. He points out that the city's reserves are well managed compared to where they were ten years ago.

#### **Schedule of Expenditures of Federal Awards & Independent Auditors' Reports Required Under the Single Audit Act Amendments of 1996**

Since the City receives and spends in excess of \$750,000 in federal awards, a compliance audit is required on certain grants up to 50%. Federal Awards include the CDBG grant, Title I, School Lunch, etc. The total amount of federal grant money that the City received in FY2016 is just under \$3.5 million. The grants selected for testing are selected on a "risk" basis. Fifty percent of the

Federal Expenditures need to be tested as part of this audit. The grants that met the criteria are: School Lunch, School SPED grant, Title I Grant and CDBG. These are the four grants that were tested. There were no findings.

### **Management Letter**

The auditing firm plans and performs the audit of the basic financial statements and when they raise a concern the concern is categorized as a “significant deficiency”, a “material weakness” or “other matter”. Northampton does not have any items that fall into either of the first two categories; however, there were “other matters”.

Mr. Scanlon points out that on pages 4 – 5 of the management letter, there are informational items that are provided. He notes that there is a push on at the federal government level to focus on internal control and documenting the internal controls. He suggests that internal controls should be documented to provide reasonable assurance that a federal grant recipient will achieve its objectives through effective and efficient operations; reliable reporting; and compliance with applicable laws and regulation. Mr. Scanlon suggests using frameworks that are generally accepted as a best practice, such as the one issued by the Committee of Sponsoring Organizations (COSO). The City does have controls in place; however, they are not documented.

Councilor LaBarge noticed that one of the “other matters” identified had to do with the accounts receivable subsidiary records for water and sewer not being reconciled to the general ledger. Mr. Scanlon reports that there were commitments that were being posted twice to the general ledger. He feels as though the reconciliation process wasn’t functioning correctly. The problem was not on the customer end (people’s accounts were not affected) but rather on the GL side. The recommended course of action is to train staff to implement monthly reconciliation procedures. Director Wright reports that reconciliations will likely be done quarterly.

Regarding ambulance receivables, another “other matter”, Mr. Scanlon suggested keeping closer ties to the third party billing agency to be sure that bills are sent out on a regular basis. Also, steps should be taken to be sure that monthly ambulance receivable reports are cross checked to the general ledger. Director Wright commented that monthly billing reports are being forwarded directly to the auditor now.

A third “other matter” centered around breaking out revenue sources within the enterprise funds to show investment income versus interest charged on late payments. While investment income is not expected to be huge, Mr. Scanlon suggests providing this additional detail in future fiscal years.

On the Health Insurance Withholding Account, it was noted that the account balance was not being properly reconciled. This could be the result of new staff in the Human Resources department; Scanlon & Associates will be coming in to work with new staff on the proper procedures; moving forward it will be up to the City to be sure this is done in a timely fashion.

Mr. Scanlon reviewed the concerns of previous years: all of the matters identified by the firm during the last audit have been addressed.

Councilor Murphy asked Mr. Scanlon if he would be willing to come to the full City Council meeting to present the audit report. Mr. Scanlon stated that he would be willing to return, however, he may not be able to come to a meeting until after April 15<sup>th</sup>.

Councilor LaBarge feels that it is important to have Scanlon and Associates come to a City Council meeting. She feels it would be beneficial for new councilors and to continue to provide transparency for the public.

Director Wright reminded the committee that the audit is posted on the City's website.

Councilor LaBarge moved to accept the audit report; Councilor Nash seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

5. **New Business:** None
6. **Adjourn:** At 5:38 p.m. Councilor LaBarge moved to adjourn the meeting; **Councilor Carney seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.**

*Prepared by:*

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