TOWN OF BELMONT
PERMANENT AUDIT COMMITTEE

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Minutes: Wednesday, November 15, 2017, BMLD Conference Room #1, 9:00 AM
Present: Members Frank Caruso, Robert Forrester, Robert Keefe, Glenn Logan, ex-officio member Town Accountant Chitra Subramanian, ex-officio member Town Treasurer Floyd Carman and ex-officio member Selectmen Adam Dash
Also Present: James Goulet and Heather Isaacs from Goulet, Salvidio & Associates, P.C. Craig Spinale and Maria Makar-Limanov from Belmont Municipal Light Department

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Chairman Robert Keefe called the meeting to order at 9:00 AM.

James Goulet and Heather Isaac reviewed the 2017 Audit Plan (see attachment). Permanent Audit Committee Members asked various questions which were responded to by Mr. Goulet and Ms. Isaacs and members of the BMLD.

Follow up:

- Chitra Subramanian to insure that Heather Isaacs from Goulet, Salvidio & Associates, P.C. has the OPEB and Pension information.
- Schedule 1/29/2018 @ 10:00 AM audit status readiness meeting between Town, BMLD, Goulet, Salvidio & Associates, P.C. and Robert Keefe, Chair of the Permanent Audit Committee.

Our next PAC/BMLD meeting will be Wednesday, 4/25/2018.

The meeting was adjourned at 9:55 AM

Respectfully submitted,

Floyd S Carman

Attachment: Goulet, Salvidio & Associates, P.C. 2017 Audit Plan presentation.

Goulet, Salvidio & Associates, P.C.

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2017 Audit Plan

Belmont Light

November 2017

Goulet, Salvidio & Associates, P.C.
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Scope of the Audit

* Role of the Auditor and Management
* Concept of Materiality
* Reports to be Issued:
  * Independent Auditors' Report on the Financial Statements
  * Report on Internal Control
  * DPU Compilation Report

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Timing of the Audit

* Interim procedures
  * Audit planning procedures are in progress
  * We will conduct preliminary audit work prior to December 31, 2017.
  * Quantity of Inventory Testing and audit confirmation for Accounts Receivable to be conducted in January 2018.
* Audit fieldwork will be scheduled for February/March 2018.
* We plan to issue our audit reports by April 2018.
* DPU report is anticipated to be filed by March 31, 2018. DPU will grant an extension if necessary.
* Presentation to the Board will be coordinated with your Light Board upon completion of the audit.
  * Required communications will be made.
  * Review of Internal Control Report, Financial Statements, and DPU report.

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Phases of the Audit

* Audit Planning (October - December 2017)
  * Obtain signed engagement letter.
  * Develop initial audit plan based on information obtained from management and prior year experience.
  * Prepare the "Provided By Client" (PBC) listing of schedules to request for audit fieldwork.
  * Complete fraud brainstorming session with GSA audit staff
  * GASB - Review new pronouncements and applicability

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Phases of the Audit

* Audit Fieldwork
  * Preliminary Audit Work (November-December 2017)
    * Materiality based on annualized figures
    * Revenues - Inquire of rate changes made during the year. Recalculate bills and review billing histories for employees and board members who live in Town. Cash receipts testing.
    * Fixed Assets – Vouch additions/bid testing
    * Review minutes/legal invoices – prepare legal confirmations if necessary
    * Discuss recent changes with management (employment status, electric rates, power contracts, etc.). Update narratives and organization chart based on inquiries.
    * Vouch purchased power invoices and tie out purchase power schedule to general ledger

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Phases of the Audit

* Audit Fieldwork (continued)
  * Quantity of Inventory testing and audit confirmation for Accounts Receivable to be conducted in January 2018.
  * Audit Final Fieldwork
    * Analytical review & tests (A/R, A/P, purchased power, variance analysis to prior year, etc.)
    * Review of MD&A and notes to the financial statements.
* Report Preparation, Issuance & Presentation to the Board

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Areas of Audit Effort

* Cash and Investments
  * Confirm with the Bank/Town
* Accounts and Other Receivable
  * Reconcile Accounts Receivable Aging to the Trial Balance and conduct analytical work.
  * Analysis of Allowance
  * Analysis of Miscellaneous Accounts Receivable
  * Subsequent cash receipt testing for non responsive A/R confirmations
  * Review Billing Adjustments
  * Analysis of Major Customers
* Inventory
  * Physical count analysis to final year-end inventory valuation
  * Price Testing
* Fixed Assets
  * Utility Plant Assets
  * Depreciation
  * Construction Work In Process
  * Disposals/Retirements

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Areas of Audit Effort

- Prepaid
  - Insurance
  - Purchased Power
- Notes Payable/Bonds
- Accounts Payable
  - Reconcile Open A/P Listing to Trial Balance and conduct analytical work
  - Search for Unrecorded Liabilities
- Accruals
  - Payroll
  - Rate Stabilization
  - OPEB Liability
  - Net Pension Liability
  - Customer Deposits

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Areas of Audit Effort

* Revenue
  * Sales of Electricity
  * Grants
* Purchased Power Expenses
  * MMWEC
  * ISO
  * Energy New England
* Payroll
  * Payroll and Benefits Testing
  * Reasonability Testing
  * Capitalized Payroll
* Expenses
* Surplus/PILOT

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GASB

Pronouncements

Summary of Statements No. 83 through 87

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Statement No. 83

Certain Asset Retirement Obligations

Effective Date: For periods beginning after June 15, 2018.

* An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources.

* The determination of when the liability is incurred should be based on:
    1. The occurrence of external laws, regulations, contracts or court judgments. Laws and regulations may require governments to take specific actions to retire certain tangible assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants.
    2. The occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events included the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

NOTE: GASB Statement No. 83 - N/A for our Light Departments

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Statement No. 84

Fiduciary Activities

Effective Date: For periods beginning after December 15, 2018.

* A government should report an activity as a fiduciary activity if the government controls the assets of the activity and one or more of the following criteria is met:
  1. The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary.
  2. The assets are to be provided to individuals that are not required to be residents or recipients of the government's goods and services as a condition of being a beneficiary.
  3. The assets are to be provided to organizations or other governments that are neither part of the financial reporting entity nor recipients of the government's goods and services.
  4. The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement.

* A government controls assets in a fiduciary capacity if (1) the government holds the assets or (2) the government has the ability to administer or direct the use, exchange, or employed the present service capacity of the assets in any other way that provides benefits.

* Governments should report fiduciary activities in the fiduciary fund financial statements of the basic financial statements as follows:

  * Statement of Fiduciary Net Position: Used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of pension (and other employee benefit) trust funds.

  * Statement of Changes in Fiduciary Net Position: Used to report additions to or deductions from pension (and other employee benefit) trust funds. A government that reports a pension plan or OPEB plan in a pension (or other employee benefit) trust fund should report changes in the plan's fiduciary net position in accordance with Statement 67 or Statement 74, as applicable.

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Statement No. 85

Omnibus 2017

Effective Date: For periods beginning after June 15, 2017.

* ## Implementation and application issues addressed by Statement No. 85:
  * A component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation. – N/A for our Light Departments.
  * Reporting amounts previously reported as goodwill and "negative" goodwill. – N/A for our Light Departments.
  * Classifying real estate held by insurance entities. – N/A for our Light Departments.
  * Measuring certain money market investments and participating interest-earning investment contracts at amortized cost. – N/A for our Light Departments.
  * Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
  * Recognizing on-behalf payments for pensions or OPEB in employer financial statements. – N/A for our Light Departments.
  * Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
  * Classifying employer-paid member contributions for OPEB.
  * Simplifying certain aspects of the alternative measurement method for OPEB.
  * Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. – N/A for our Light Departments.

* Postemployment Benefits
  * Timing of the Measurement of Pension or OPEB Liabilities and Expenditures Recognized in Financial Statements Prepared Using the Current Financial Resources Measurement Focus
    * Liabilities to employees for defined benefit pensions or defined benefit OPEB should be measured as of the end of the reporting period.
    * All expenditures for defined benefit pensions or defined benefit OPEB should be measured for the reporting period.

  * Presentation of Payroll-Related Measures in Required Supplementary Information by OPEB Plans and Employers That Provide OPEB
    * For both single-employer and cost-sharing multiple-employer defined benefit OPEB plans, the measure of payroll that is required to be presented in schedules of required supplementary information should be covered payroll. Covered payroll is the payroll on which contributions to the OPEB plan are based. If contributions to the OPEB plan are not based on a measure of pay, no measure of payroll should be presented.
    * For employers that provide OPEB through OPEB plans that are administered through trusts, the measure of payroll that is required to be presented in schedules of required supplementary information should be (1) covered payroll if contributions to the OPEB plan are based on a measure of pay, or (2) covered-employee payroll if contributions to the OPEB plan are not based on a measure of pay. Covered-employee payroll is the payroll of employees that are provided with OPEB through the OPEB plan.

* Postemployment Benefits (Continued)

* Classification of Employer-Paid Member Contributions for OPEB

* Payments made by the employer to satisfy contribution requirements that are identified by the OPEB plan terms as plan member contribution requirements should be classified as plan member contributions for the purposes of Statement No.74.
* Payments made by the employer to satisfy contribution requirements that are identified by the OPEB plan terms as plan member contribution requirements should be classified as employee contributions for the purposes of Statement No.75.

* Alternative Measurement Method

* In place of an actuarial valuation, the total OPEB liability may be measured using the alternative measurement method if fewer than 100 employees are provided with benefits through the OPEB plan as of the beginning of the measurement period.
* If the alternative measurement method is used, the following should be recognized in expense in the current reporting period:

1. The change in the employer's proportion of the collective net OPEB liability since the prior measurement date.
2. The difference between the employer's contributions paid during the measurement period and the employer's proportionate share of contributions.

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Statement No. 86

Certain Debt Extinguishment Issues

Effective Date: For periods beginning after June 15, 2017.

* This statement's objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. Defeasance is a provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt.

* Debt is considered defeased in substance for accounting and financial reporting purposes if the government irrevocably places cash and other monetary assets, acquired with only existing resources, with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt.

* The trust is restricted to owning only monetary assets that are essentially risk-free including:
  * Direct obligations of the U.S. government
  * Obligations guaranteed by the U.S. government
  * Securities back by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder.

NOTE: GASB Statement No. 86 - N/A for our Light Departments

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Statement No. 87

Leases

Effective Date: For periods beginning after December 15, 2019.

* This statement's objective is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

* A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. Short-term lease payments should be recognized by the lessee as outflows of resources. Contracts that transfer ownership of the underlying asset to the lessee should be reported as a financed purchase of the underlying asset.

* The lease liability should be measured at the present value of payments expected to be made during the lease term. The lease asset should be measured at the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

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