

**TOWN OF BELMONT  
PERMANENT AUDIT COMMITTEE**

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BELMONT, MA

Minutes: Tuesday, November 17, 2015, BMLD Conference Room 4, 9:00 AM  
Present: Members Frank Caruso, Robert Forrester, Robert Keefe, ex-officio member Town Accountant Chitra Subramanian, ex-officio member Town Treasurer Floyd Carman and ex-officio member Selectmen Jim Williams  
Absent: James Finn  
Also Present: James Goulet and Heather Isaacs from Goulet, Salvidio & Associates, P.C.  
Jim Palmer and Maria Klubnichkina from Belmont Municipal Light Department

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

Heather Isaacs presented an overview of the BMLD audit (Attachment A) how Goulet, Salvidio and Associates, P.C. will conduct the 12/31/2015 BMLD Financial Audit.

Heather Isaacs updated the Committee on the new GASB pronouncements that will become effective with the FY 2015 and FY 2016 issuance of audited financials.

FY 2015

- GASB 68 significant changes to the accounting and reporting benefits.
- GASB 71 Pension Transition for contributions made subsequent to the Measurement Date – amendment of GASB 68 paragraph 137.

FY 2016

- GASB 72 Fair Value Measurement requires investments classified into a hierarchy of 3 levels.
- GASB 73 Accounting and Financial Reporting for pensions and related assets that are not within the scope of GASB 68 – amendments to certain provisions of GASB 67 and 68.

The Committee members asked various questions which were responded to by BMLD personnel and the auditors.

Next meeting 4/27/2016 – Final BMLD 2015 Audited Financial Presentation.

Respectfully submitted,

Floyd S Carman



**Goulet, Salvidio & Associates, P.C.**

Certified Public Accountants

**2015 Audit Plan  
Belmont Light  
November 2015**



# 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



# Timing of the Audit

- \* Interim procedures
  - \* Audit planning procedures are in progress
  - \* We will conduct preliminary audit work prior to December 31, 2015.
  - \* Quantity of Inventory Testing and audit confirmation for Accounts Receivable to be conducted in January 2016.
- \* Audit fieldwork will be scheduled for February 2016.
- \* We plan to issue our audit reports by March 31, 2016.
- \* DPU report is anticipated to be filed by March 31, 2016. 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.



# Phases of the Audit

- \* **Audit Planning (October 2015)**
  - \* 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



# Phases of the Audit

## \* Audit Fieldwork

### \* Preliminary Audit Work (November-December 2015)

- \* 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



# Phases of the Audit

- \* Audit Fieldwork (continued)
  - \* Quantity of Inventory testing and audit confirmation for Accounts Receivable to be conducted in January 2016.
  - \* 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



# Areas of Audit Effort

- \* **Cash**
  - \* 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 conducted in January 2016 to final year-end inventory valuation
  - \* Price Testing
- \* **Fixed Assets**
  - \* Utility Plant Assets
  - \* Depreciation
  - \* Construction Work In Process
  - \* Disposals/Retirements



# 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
  - \* Customer Deposits



# Areas of Audit Effort

- \* Revenue
  - \* Sales of Electricity
- \* Purchased Power Expenses
  - \* MMWEC
  - \* ISO
  - \* Energy New England
- \* Payroll
  - \* Reconcile total Payroll Expense to Trial Balance
  - \* Reasonability Testing
  - \* Capitalized Payroll
- \* Expenses
- \* Surplus/PILOT



# GASB

## Pronouncements

Summary of Statements No. 68 through 77



# Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27

Effective Date: For periods beginning after June 15, 2014.

- \* GASB Statement No. 68 significantly changes the accounting and reporting of pension benefits, including what's reported and how it's calculated.
- \* The new statement is designed to recognize pension liabilities that reflect the entire unfunded portion of pension obligations regardless of when the government intends to fund the obligations.
- \* The changes will require many governments to recognize a much larger pension liability than is currently being reported.



- \* Total pension liability (TPL) is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee services.
- \* The cost-sharing employer is responsible for a proportionate share of the collective TPL not covered by pension assets, which is an unfunded obligation, and the entity should report its portion of the amount as a net pension liability (NPL) on the statement of net position.
- \* The addition of this long-term liability to the statement of net position will reduce unrestricted net position.
- \* Cost-sharing entities will have to calculate their portion of NPL and record NPL and pension expense as well as disclose plan information.



- \* The TPL needs to be determined as of the measurement date (a date no earlier than the end of the employer's prior fiscal year, consistently applied from year to year).
- \* An actuarial valuation must be completed at least biennially.
- \* The measurement date of the TPL can be from either an actuarial valuation as of the measurement date or from updated procedures rolling forward amounts from an actuarial valuation as of a date no more than 30 months and one day earlier than the employer's most recent fiscal year-end.
- \* Employer contributions made subsequent to the measurement date of the NPL and before the end of the employer's reporting period will be reported as a deferred outflow of resources.



*Governments should coordinate with the pension plan to determine when information is needed.*

### **Important Dates to Note:**

- \* Reporting Date – employer’s fiscal year end
- \* Measurement Date – date as of which total pension liability, net pension liability, and pension expense are determined
  - \* No earlier than previous fiscal year end
- \* Valuation Date – date as of which total pension liability is determined
  - \* Actuarial valuations must be at least biennial
  - \* No earlier than 30 months plus 1 day from reporting date
  - \* If the valuation date is before the measurement date then total pension liability must be rolled forward to measurement date.



# Expectations for Pension Plan Audited Financial Statements – *Information provided by the actuary to the Plan*

Pension amounts are material to the financial statements and if actuarial valuations are not presented to provide sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement then a **Modified Audit Opinion** will be issued.

## Note Disclosures

### \* Descriptions of benefits:

- \* Name of the plan
- \* Description of the benefit provisions, including classes of employees covered
- \* Description of contribution requirements
- \* Whether a standalone pension plan financial report is available and, if so, how to obtain it



# Expectations for Pension Plan Audited Financial Statements – *Information provided by the actuary to the Plan*

## Note Disclosures

- \* Net pension and liability information:
  - \* Significant assumptions used in the measurement of the TPL
  - \* Detailed information about the discount rate (including a sensitivity analysis that shows the effect on the NPL of a one percentage point increase and a one percentage point decrease in the discount rate)
  
- \* Pension plans fiduciary net position information:
  - \* Elements of the plan's basic financial statements (or, if available, information on how to obtain the plan's financial statements and whether same basis is used)



# Expectations for Pension Plan Audited Financial Statements – *Information provided by the actuary to the Plan*

## Note Disclosures

### \* Additional information:

- \* Employer's proportionate share (in dollars and percent) of the collective NPL
- \* Measurement date of the collective NPL and date of the actuarial valuation used to calculate TPL
- \* Description of changes in assumptions, inputs or benefit terms that affected TPL
- \* Changes between measurement date of collective NPL and the employer's reporting date expected to have a significant impact on the employer's proportionate share of the collective NPL
- \* Amount of pension expense recognized during the period
- \* Individual components of deferred outflows and deferred inflows of resources.
- \* Schedule of each of the subsequent five years and in aggregate thereafter, the net amount of deferred outflows and inflows of resources to be recognized in pension expense
- \* Amount of revenue recognized for contributions provided by non-employer contributing entities (special funding situation (SFS)), if any



# Expectations for Pension Plan Audited Financial Statements – *Information provided by the actuary to the Plan*

## Required Supplementary Information

- \* Governments participating in pension plans will present the following as of the measurement date of the collective NPL:
  - \* 10-year schedule containing the employer's proportion, in percent of the collective NPL; employer's proportionate share, in dollars of the collective NPL; employer's covered-employee payroll; related ratios



# Expectations for Pension Plan Audited Financial Statements – *Information provided by the actuary to the Plan*

## Required Supplementary Information

- \* Governments participating in pension plans will present the following as of the employer's most recent fiscal year-end:
  - \* If statutorily or contractually established contributions, 10-year schedule presenting required employer contribution; contributions recognized by the plan; difference between required and contributed amounts employer's covered-employee payroll; related ratio
- \* Other Items:
  - \* Specific RSI is required if the employer has a Special Funding Situation
  - \* Notes to the schedules

Disclosure Example:

Schedules of Required Supplementary Information  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Teachers Pension Plan  
Last 10 Fiscal Years\*  
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net pension as a percentage of the net pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.**

Disclosure Example:

Schedule of District Contributions  
Teachers Pension Plan  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,649	\$ 1,176
Contributions in relation to the contractually required contribution	<u>(2,095)</u>	<u>(2,057)</u>	<u>(1,969)</u>	<u>(1,649)</u>	<u>(1,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.12%	12.33%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



# Governmental Combinations and Disposals of Government Operations

Effective Date: For periods beginning after December 15, 2013.

- \* Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, *Business Combinations*. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment.
- \* This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

**NOTE: GASB Statement No. 69 - N/A for our Light Departments**



# Accounting and Financial Reporting for Nonexchange Financial Guarantees

Effective Date: For periods beginning after June 15, 2013.

- \* In today's environment, state and local governments are guaranteeing the debt of other governments, not-for-profit entities, or private entities more often than they did previously. These are often considered nonexchange transactions – that is, no value is given (or not an equal value) in consideration of guaranteeing the obligation and indemnifying the holder of the obligation.
- \* The GASB proposal provides guidance on when a government guaranteeing an obligation would be required to report a liability and when a government receiving a guarantee would be required to recognize revenue as a result of being released as an obligor.

**NOTE: GASB Statement No. 70 - N/A for our Light Departments**



# Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

- \* **Effective Date:** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.
- \* This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.
- \* Purpose is to eliminate a potential source of understatement.



Statement No. 72

# Fair Value Measurement and Application

Effective Date: For periods beginning after June 15, 2015.

- \* This statement requires that investments measured at fair value be classified into a hierarchy of inputs that has 3 Levels:
  - \* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - \* Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
  - \* Level 3 inputs are unobservable inputs.
  
- \* This statement also requires the techniques used to measure the fair value of each level in the hierarchy to be disclosed.
  
- \* The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach.



# Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68- Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: For periods beginning after June 15, 2015.

- \* This applies to pension and pension plans that are not administered through a trust.
- \* **These do not apply to Light Departments**
- \* The requirements of this statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported.
- \* It requires that information similar to that required by Statement 68 be included in the notes to financial statements and required supplementary information.



# Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68- Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: For periods beginning after June 15, 2015.

- \* This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:
  - \* Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.- **Applies to our Light Departments**



# Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: For periods beginning after June 15, 2016.

- \* GASB 74 replaces the existing financial accounting and reporting requirements of OPEB (GASB 43 and 57) for plans that are administered through trusts and not administered through a trust.
  
- \* A plan is considered to be administered through a Trust if the following conditions are met;
  - \* The Trust is irrevocable
  - \* Assets are dedicated to providing OPEB benefits in accordance with benefit terms
  - \* Assets are legally protected from creditors and plan members

Note: This Statement contains guidance and requirements for the OPEB “plan”, not the employers contributing to the pension plans.



# Financial Reporting for PostEmployment Benefit Plans Other Than Pension Plans

Effective Date: For periods beginning after June 15, 2016.

- \* Other requirements set forth in this statement are:
  - \* Actuarial study must be preformed to determine net OPEB liability as of the Plan's most recent fiscal year-end or
  - \* The actuary may roll forward a study to the Plan's most recent fiscal year-end that is dated no more than 24 months earlier than the OPEB plan's most recent fiscal year-end
  - \* The Plan must prepare a financial statement which includes a statement of fiduciary net position, statement of changes in fiduciary net position, notes to the financial statements and required supplementary information.



# Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: For periods beginning after June 15, 2017

- \* GASB 75 replaces the existing financial accounting and reporting requirements of OPEB (GASB 45 and 57) plans that are administered through trusts and not administered through a trust.
- \* Employers will recognize 100% of the Net OPEB Liability
  - \* Actuary calculates Net OPEB Liability and Deferred Outflows/Inflows.
  - \* This will have to be disclosed on the face of the financial statement.
  - \* This will effect the Unappropriated Surplus (Unrestricted Net Position) of the Department.

Statement No. 75 (continued)



Goulet, Salvidio & Associates, P.C.  
Certified Public Accountants

# Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: For periods beginning after June 15, 2017

- \* New Disclosures and Required Supplementary Information similar to GASB 68 will be required to be included in the financial statements.
- \* Like pensions, actuarial studies for OPEB will have to be completed biannually, regardless of size.



# The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective Date: For periods beginning after June 15, 2015.

- \* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP).
- \* The sources of authoritative GAAP are categorized in descending order of authority as follows:
  - \* Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
  - \* GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)



# The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective Date: For periods beginning after June 15, 2015.

- \* Some of the Nonauthoritative literature that should be consulted when a situation does not fall into Category A or B is GASB Concept Statements, Pronouncements and other literature of the FASB, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, & IASB.
- \* In evaluating the appropriateness of nonauthoritative accounting literature, a governmental entity should consider the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.



Statement No. 77

## Tax Abatement Disclosure

Effective Date: For periods beginning after December 15, 2015.

- \* This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.
- \* This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**NOTE: GASB Statement No. 77- N/A for our Light Departments**

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