

TOWN COUNCIL /BUDGET MEETING
January 21, 2013

The Town Council meeting was held in the Moose Hill Council Chambers, Town Hall, 268B Mammoth Road, Londonderry, NH.

PRESENT: Chairman, John Farrell; Vice Chairman Tom Dolan; Councilors: Jim Butler; Joe Green; Tom Freda; Acting Town Manager, LPD Chief William R. Hart; Finance Director, Sue Hickey; Executive Assistant, Margo Lapietro.

Call to Order

Chairman Farrell opened the meeting at 7:00PM with the Pledge of Allegiance. This was followed by a moment of silence for our newly elected leaders, first responders, and those in service here and abroad .

Public Comment

Yearly Audit Review – Melanson Heath – Acting Town Manager, LPD Chief Hart said he met with the audit team and they are here tonight to give a full review of how things look. Frank Biron, President, and Karen Snow the Audit Supervisor for Londonderry were in attendance. F. Biron reviewed the Comprehensive Annual Financial Report, (CAFR) and the Management Letter where they have some recommendations for improvements. He explained the CAFR is a very detailed report and less than 10 towns in the State of NH do it. He reviewed the 4 major sections of the CAFR: Introduction; Financial Report; Management Discussion Analysis; and Basic Financial Statements. He proceeded to explain each section. Their CPA firm is responsible to provide an opinion on the financial statements and their opinion is that these financial statements are in accordance with generally accepted accounting principles. He explained the Supplementary Statement and Scheduled section provides a lot more detail than what appears in the basic financial statements. It provides a summary of each of the funds for the town and results of operations for the year. It also provides a detailed analysis of the budget for revenues and expenditures for the year in the General Fund. The Statistical Section contains a lot of historical trend information for the town for the last 10 years. F. Biron pointed out that the long term assets and the largest are the Capital assets which are our fixed assets. Fixed assets are primarily buildings, equipment and furnishings that are being depreciated over their useful lives. Long term liabilities include the largest of bonds payable of \$16,125,000. Compensated absences are after that, land fill post closure of \$130K and other post employment benefits. He explained this liability was calculated by outside actuaries to determine what the future cost of health insurance benefits would be for current and retired employees for the years after they are no longer employed. The overall liability is about \$8M. The actuaries are required to provide a 30 year funding schedule for that \$8M. You are not required to fund it however the amount you do not fund on an annual basis has to get reported on the liability page. The \$2.4M that appears in the report represents the first 5 years of that 30 year funding schedule that the town has not funded yet. He reviewed the balance sheet. He pointed out that the Property Tax Receivables of \$1,048,235 are the receivables for property taxes that have not been paid yet as of 6/30/12. They were delinquent receivables and are all liened. The town will ultimately collect

on all those receivables because they are liened. The Unassigned Fund Balance of \$4,084,022 is probably the most important number in the financial statement. That is the surplus that is in the general fund presented on a generally accepted accounting basis. He pointed out that it is different than the way that the NH Department of Revenue will calculate that same number. They will take that number and they will add Deferred Revenues in the amount of \$1,444,000. That Deferred Revenue represents receivables that are uncollected two months after year end. The DRA considers property taxes to be revenue when they are levied, not necessarily when they are collected. The DRA comes to the conclusion that we have about \$5M in surplus which is \$1M more than general accepted accounting principles would show. The town has been very consistent with the balance for the past 4 years – bonding agencies like to see consistency in that balance. Councilor Dolan asked how we compare with other towns. F. Biron responded that figure is a very strong balance; bonding agencies see the Town of Londonderry in a very good position because of strong bonding. F. Biron pointed out the Statement of Revenues, Expenditures, Changes in Fund Balance the figure of \$335,896K and said it is a positive thing; if we were a business it would be our net profit for the year. The Revenues for the General Fund beat our expenses by \$335,896K. He pointed out that the revenues of \$338,068 beat the budget by \$338K. Overall the town beat the budget by \$462,904. He pointed out that they will have new government accounting standards for statements in the upcoming years. Pension costs beginning in FY15 will require the town to report a liability for the unfunded pension from the State of NH Retirement System. The entire amount is going to have to be reported in the first year. Councilor Dolan asked what are the actual implications of actually funding that line; F. Biron responded there are no implications of the funding. You are actually funding it now on an actuarial basis and you will continue doing that. It gives the bonding agencies a method of comparing one community from another. Councilor Freda questioned if it is perceived that that reliability is excessive it will increase our borrowing power. F. Biron responded it could potentially. Chairman Farrell asked how much Londonderry is underfunded and said he wanted to know quickly. He explained we need more insight to help our representatives. Karen Snow responded she did not have that information and we would have to talk to the NHRS. Chairman Farrell said the NHRS downshifted \$450K to the taxpayers of Londonderry; we would like to be in a position to take a pre-active approach. Any assistance you can provide to our Finance Director would be helpful. K. Snow said they would do their best. Councilor Freda stated that he found it hard to believe that the NHRS doesn't have the numbers. K. Snow responded they would have to have it determined by actuaries. Discussion ensued.

Karen Snow reviewed the Management Letter that was comprised of 6 comments and explained it is their opportunity to bring to the town's attentions some areas where you have the opportunity to strengthen some of your internal controls.

#1 Improve Segregation of Duties Issues Related to Shared Town Finance and Treasury Functions – This is very common in NH communities whereby functions fall to the default of the Finance Office because the Treasurer is not a full time position but an elected position. It is a reminder to make sure that internally within the Finance Office there is an adequate segregation between the function of treasury and the function of reporting on the general ledger. The Finance Department is doing their best to adhere to this. Councilor Freda said that situation has existed for a long time. K. Snow responded yes, it is very common in NH communities where the Treasurer is an elected position. Councilor Freda asked if this comment was made before in prior management letters. K. Snow responded yes. She said the Finance Department has had

some turnover whereby that stability was lost; now that there is some stability back in that office again that segregation is more complete.

#2 Develop a More Formal Risk Assessment Process – the risk assessment process is ongoing, often informal. When you have a department head meeting and discuss areas of risk they should be documented.

#3 Formalize Policies and Procedures Over the Accounting and Administration of Impact Fees – the records are there but not complete. You need to have a fiduciary duty to make sure records are complete in compliance with statutes. She explained that Escrow Accounts are treated the same. Councilor Freda said the impact fee was a long standing problem and asked if the CPA firm make a recommendation in prior years. K. Snow responded no, an audit is based on materiality and risk and this has not been traditionally a big risk area. This was not a recommendation that came to their attention in prior years. Chairman Farrell asked if they were told not to look at this area in the past, K. Snow responded no. Chairman Farrell clarified that it was not in the scope of work in which you were defined to do. F. Biron responded it was part of the overall accounting records of the town and when they determine the testing they do in their audit it is always risk based. They focus on the areas where they think there may be difficult risk that the financial statements are material in error. The impact fees in the past have not been considered a risk area. He said they audit 150 municipalities and it has never been a risk area anywhere else in the 25 years they have been auditing municipalities. Obviously there were some problems here some of that may relate to clarifications in the state statutes that occurred very recently. The wording of the statutes were somewhat vague until this past year when they got clarified. The whole issue of impact fees was not a high risk area. Chairman Farrell asked why it was not a high risk area. F. Biron responded everything we do in an audit is sample testing, making sure that the general ledger balances with the cash balances. Sample testing is not a high risk area. Councilor Freda said that they didn't test to see if the impact fees had expired and were supposed to go back. He said F. Biron must have been sure they knew they had a 6 year life. F. Biron responded that was not identified during the audit. Chairman Farrell asked if they are going to check these things now in the future here and in other towns. F. Biron responded absolutely it has now been raised to a major high risk area now in all their municipal audits. Councilor Green questioned that they knew what impact fees were and they are part of our financial documentation. He asked didn't you see the money just sitting there. F. Biron responded in hindsight it seems like an obvious error, it was one of many various accounts in the town's books. That was not one area that they focused in on they just checked that the balance in the ledger tied out with the cash balance, the refund issue did not get raised during the audit. The cash balances were in hand and the town did have the money to refund. Chairman Farrell said this was a learned process and this can't happen to other municipalities going forward. Councilor Green asked if there are other things that are below the radar. F. Biron said the segregation of duties in the Finance Department is a high risk area. Councilor Green said he wants some kind of action plan for other hot items listed in the Manager Letter. Acting Town Manager, LPD Chief Hart said he and staff took a look at the 6 areas of concern, there is a response from the town to all those concerns. The letter was written months ago and since then we have taken steps in all 6 areas. He explained that almost all the receipts go thru the Town Clerk/Tax Collectors office. There is routine communication among department heads with monthly meetings and e-mail. The department heads send monthly reports to the Finance Department. They have taken steps on completing and re-completing the impact fee status and it might be re-drafted again. The escrow fees have a protocol and policy manual. Acting Town

Manager, LPD Chief Hart stated that the 6 areas will be part of a report to the new Town Manager. Councilor Green questioned the protocol for handling money. Finance Director S. Hickey explained the Controller does the reconciliation work and she does an overview/internal audit. There is someone in the Finance that takes in the incoming money, logs it in a book which gets tied out along with expenditures. There is no one person collecting revenue and reconciling the bank account. Councilor Dolan asked what systems are set up for cash transaction. K. Snow explained the town has a centralized collection process. It goes to the Town Clerk who is responsible for depositing it. It goes through the cash receipt process and then gets posted to the general ledger. The Controller and the Finance Director reconcile those revenues through the actual bank statements. They routinely look at one or two department every year that collect cash and test departmental records to check and trace it as it goes through the system. There have been no issues in the Town of Londonderry, the system seems to work well. Councilor Dolan asked if their scope includes the library, K. Snow responded they do test there. Councilor Freda asked if the impact fees are part of the report, F. Biron said it is on page 33 included in the escrow deposits.

#5 Formalize Policy for General Fund and Sewer Fund Encumbrances and Fund Balance and #6 Reclassify Certain General Ledger Activity are related there are certain accounts in the general fund that once the Finance Department moves them out of the general fund into their own separate fund, this encumbrance issue will be less of a problem. Once you are not talking about the general fund special funds by nature their fund balances are restricted so it is not necessary to encumber those funds. They are recommending that the town formalizes a policy for approving encumbered funds every year so the town knows those numbers and what they are made off.

Councilor Green said numbers 2-6 seem to have the adoption process in place. Number 1 didn't seem to be completely adopted that is why he brought it up. Chairman Farrell said the firm was asked to do the forensic audit and asked for an explanation of how it works within the firm. F. Biron explained that project is being handled by one of the partners of the firm, John Sullivan who is a certified fraud examiner. He specializes in forensic audits – it is a completely different team. J. Sullivan is working on compiling an overall accounting of the impact fees going back 18 years.

Town Clerk Meg Seymour reminded the public that the filing period for open positions begins 1/13/13 and ends 2/1/13. Paperwork for open positions should be field in the Town Clerks' Office and explained the procedure. Supervisors of the Checklist will be in the Town Clerk's Office on 1/22/13 to register townspeople to vote. She proceeded to listed all the positions available on the upcoming ballot.

Dog Park Update – Scott Benson, Snowflake Lane who is the Planning Board Liaison to the Dog Park Study Committee was in attendance. He explained the Committee looked at 5 parcels of land, but have not made a decision yet. Currently they are looking at a site on South Road which consists of 68 acres. They need 1 acre based on what the town of Derry has. Their next step is to talk to the Conservation Commission who manage the area.

LPD Cruiser Presentation – Acting Town Manager, LPD Chief Hart said Councilor Butler asked him to address the issue of the number of police vehicles. Capt. Robert Michaud and Sgt. Russ Goodnow helped put the slide presentation together that he was showing tonight. Currently the police department has 17 leased vehicles and this March they are planning to lease 16. He

proceeded to break down the use of each leased vehicle. Prior to March they owned 4 vehicles in March of 2013 it will be reduced to 2. Donated vehicles totaled 3. Ford of Londonderry, Continental Paving and Charles George Trucking have been instrumental in making generous donations. He explained staffing is at its lowest level in 16 years and proceed to review staffing levels. They have three shifts per day with a minimum of 3 officers and 1 supervisor on duty. Two thirds of the cars are used for police work at any given time. The balance of one third of the cars are used for everything else. They have 5 detectives spread out days/weekends supervised by a detective sergeant. During the day there is a shift commander on staff. He explained the town has 52 miles that has to be covered. He reviewed the costs of the lease/maintenance/equipment since 2002. He explained the costs stayed level over 11 years and pointed out that we paid the same amount this year as we did in 1994. The rate could go up because of the build-out in the lease but we expect that it will flatten at or below what we have paid in the last few years. That could also change with extra staffing. He explained that this is a lease decrease in total costs of 15.47% over 11 years. Russ Goodnow makes sure the vehicles are in excellent shape which reduces maintenance costs. He explained the figures do not include the vehicle outfitting. When doing details, an administrative fee of \$4.00 is charged which goes into a fund to take care of the outfitting. He explained why people see a lot of cruisers in the parking lot one day and not many another day. The vehicles are used approximately twice a week. He also said the lease purchase has worked.

William Carney 15 Fieldstone Drive, told the Councilors the elderly exemption has not been changed in 3 years. He asked them to take a look at it again and take in consideration the fact that social security and the cost of living is going up. Councilor Green asked if it was based on a percentage. W. Carney said the social security limit was \$46,500.00 for a married couple. He is just asking to keep things level. Chairman Farrell said everything is state regulated. Councilor Dolan said we have several exemptions on property taxes and they are state regulated. In the area of the elderly it is means tested. He suggested that the Town Manager bring in the Assessor to update us on what the current town policy is for all exemptions. We can then as a Council make a decision on what we want to do. Chairman Farrell explained to W. Carney that the budget process is over, but Council will look into it.

Public Hearing

None

Old Business

Signing of FY14 Warrant & MS-6 – The Council proceeded to make the script assignments for the Deliberative Session. He added his vote to the articles.

NEW BUSINESS

Order #2013-04– An Order Relative to Expenditure of Maintenance Trust Funds for Various Projects - Councilor Dolan read the order and **made a motion to adopt, second Councilor Green. Councils vote 5-0-0.**

APPROVAL OF MINUTES

Council meeting minutes of 01/14/13 – Councilor Green made a motion to approve second Councilor Freda. Council’s vote 5-0-0.

OTHER BUSINESS

Liaison Reports –

Town Manager Report –

Board/Committee Appointments/Reappointments –

ADJOURNMENT

Councilor Freda made a motion to adjourn at 8:45 PM, second Councilor Dolan. Council’s vote 5-0-0.

Notes and Tapes by: Margo Lapietro Date: 01/21/13

Minutes Typed by: Margo Lapietro Date: 01/22/13

Approved by: Town Council Date: 02/11/13