

Minutes for Audit Committee Meeting of May 13, 2010
Held at the Fire Department Meeting Room
Approved June 9, 2010

Members Present: Ernest Welker (EW), Glenn Rosenberg (GR), Stephen Kuhn (SK), Ray McCarthy (RM), Jim Moran (JM), Joe Occhuiti (JO) & Jim Shriver (JS)

Members Absent: None

Others: None

The Chair called the meeting to order at 7:10 p.m.

Minutes

Minutes of the April 15, 2010 meeting were approved with a minor edit.

Audit Correction Report

GR and JS reviewed the most recent draft of the ACR as developed by the Town's Finance Director - Paul Pasterczyk (PP). GR stated that PP determined the priority order of the comments based on his experience while also reviewing them with the Town Manager. GR stated that PP mentioned he had received input on the comments from all related parties. GR also mentioned that PP would like to present this draft of the ACR at the next Select Board (SB) meeting schedule for May 17, 2010. Each member of the Audit Committee (AC) provided their feedback and suggested changes to the format, content and the priority order of the comments contained in the draft ACR. After some discussion it was determined that the ACR was still a work in progress and some edits and changes were needed prior to the report being finalized. The AC was generally satisfied with the priority order of the comments, but EW suggested that some way was needed to indicate high importance of an identified issue that is ranked quite low because it might take many years to adequately address, mentioning policies and procedures manuals as an example.

The general consensus of the AC was that the ACR should be a collaborative effort between PP and the AC and that, although it would be the town management's ACR it should be submitted to the SB only after the AC had an opportunity to review and offer suggestions. Based on previous dates selected, GR mentioned the first ACR was due to be presented to the SB on July 1, 2010. GR stated that he would attend the May 17, 2010 SB meeting with PP and present the draft ACR and discuss next steps. GR requested that JS also attend however due to a previously scheduled appointment he was unable to attend but RM volunteered to attend in his absence.

Other Business

To close the matter of the AC's statement at the Annual Town Meeting on Other Post Employment Benefits (OPEB), EW noted that the Town Moderator (TM) rejected the AC's proposed draft handout and the TM offered suggested revisions and invited re-submission for possible approval. The TM stated that he was disinclined to allow

handouts expressing viewpoints that could be orally presented from the floor. The AC decided not to revise its statement. The statement that EW read in support of Article #6 is appended to these minutes. AC members thank EW for his work on describing and bringing to light the OPEB liability issue to the town's citizens at the Annual meeting.

EW & JO discussed the need for the Town to adopt and implement a "whistle blower" policy. JO felt it was a very important issue and he would like the AC to pursue this as a new project in the coming year. AC members agreed it was an important issue and would put it on the list of future projects.

AC Membership and potential vacancies

EW requested that those AC members whose terms were expiring to consider re-applying for membership to the AC. The status of the members was as follows -

- JO – Associate Member, 1 year term expiring June 2010 stated he would re-apply.
- JM – Associated Member, 1 year term expiring June 2010 stated he would not re-apply.
- RM – Clerk & Member, 3 year term expiring June 2010 stated he would not re-apply.
- JS – Member, 3 year term expiring June 2010 stated he would probably re-apply.

EW noted that there would be 2 potential vacancies that would need to be filled and the AC would need to recruit and solicit candidates for those positions.

The date for the next AC meeting was set for June 9, 2010 @ 7pm in the Fire Department Meeting Room

Meeting adjourned 8:35 p.m.

Respectfully submitted,
Ray McCarthy, Clerk

Addendum to the Minutes

AC Oral Statement in Support of Article 6, Annual Town Meeting, May 11, 2010

I am Ernest Welker, Chair of the Audit Committee, speaking for the Audit Committee.

The Audit Committee endorses the recommendations of Town management, the Select Board, and the Finance Committee for passage of Article 6, which would appropriate \$150,000 as the Town's first deposit into a Trust established to accumulate funds for paying the Town's obligation for paying retiree benefits other than pension (retirement income) promised to employees who meet eligibility requirements for such benefits. In terms of cost to the Town, most such benefits are for health insurance.

The Audit Committee is concerned that only a relatively few residents understand the origin and magnitude of the Town's large unfunded liability for such retirement benefits

– referred to as OPEB (short for Other Post-Employment Benefits) -- even though the matter has been discussed at numerous Select Board meetings. Hence this added explanation.

First, the Town's recently accepted audited financial statements for FY2009 (ended last June 30) includes a disclosure note that the Town had an unfunded OPEB liability of \$45 million as of Dec. 31, 2007. The figure of about \$30 million was often used in earlier OPEB discussion. That amount would have been used in the note if the actuarially called for additional funding (discussed later in this document) were deposited to the OPEB trust in FY 2009 and there was reason to believe it would be deposited in following years also.

Until FY2009, Longmeadow (along with like-size communities) was not required to report in its financial statement the amount of the OPEB liability (the Town's IOU). Having not been mandated, the amount of the liability was never actuarially calculated before and thus was completely unknown. No shenanigans were involved.

Each year, the Town simply paid the annual insurance premiums for active employees and for retirees. Nothing was set aside during employees' working years to pay the cost of health insurance premiums in their retirement years. Not pre-funding the OPEB liability meant that the Town could spend the money that would have been set aside each year on other needs, which the Town always has had in excess of available revenues.

(By the way, the FY09 Audit Report can be accessed at the Town's website, click on Finance Dep't, scroll down to Audit Report – FY2009.)

As stated above, the Town's OPEB unfunded liability was reported as \$45 million as of Dec. 31, 2007, the data date for the actuarial study conducted to estimate the liability. In FY09, the net change in OPEB liability was an increase of \$1.2 million.

The OPEB liability is an estimated amount based on many assumptions -- such as number of employees, their ages and tenures, health-care cost trends, health services covered by insurance, mortality rates, rates of return earned on funds set aside (if any) to pay the future premiums, and insurance premium sharing arrangements, to name some. Some of these are totally outside the control of the Town, yet the Town can control some of them – at least to some extent.

According to OPEB rules, Longmeadow will have to have another OPEB actuarial report done using data and suitable assumptions as of December 31, 2009, and no later than every 2 years after that.

There currently is no requirement that Longmeadow make annual payments to fund the liability. But principles of financial prudence do apply.

The actuarial report now in hand shows that to prevent the OPEB liability from increasing and to pay down the unfunded liability to zero over 30 years, Longmeadow's

annual budgetary commitment for employee health insurance would have to be increased by about \$600,000.

In supporting Warrant Article 6, the Audit Committee recognizes that the \$150,000 amount for FY10 is far short of the annual additional \$600,000 called for (and nothing is included in the proposed FY11 budget), yet it is a start and is more than most other communities are doing. It also is a signal to prospective creditors and bond raters that Longmeadow takes its liabilities seriously, and this should help the Town retain its double-A bond rating.

Thank you for your attention.