

TOWN OF HOLLISTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2016

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Board of Selectmen
Town of Holliston
Holliston, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Holliston, Massachusetts (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 14, 2016

I. OVERVIEW

Fiscal year 2016 proved to be another financially positive year for many Massachusetts municipalities. Employment rates throughout the Commonwealth, particularly in areas east of Route 495, steadied several years ago and unemployment rates are approaching records low. The June 2016 unemployment rates in Middlesex county and the Commonwealth of Massachusetts were 3.6% and 4.3%, respectively. The June 2016 unemployment rate for the Town was 3.5%.

Furthermore, the housing market, particularly within the Town and many of its surrounding communities, has been robust over the past several years. Residential real estate valuations are at all-time highs in many of the Town's neighborhoods.

In its governmental funds financial statements, which most closely resembles the Town's statutory accounting records, the Town's unassigned fund balance in its general fund approached \$7.6 million at June 30, 2016. This is an approximate \$1.9 million increase from the prior year and is indicative of strong revenue growth. Included in the unassigned fund balance at June 30, 2016 and 2015 was approximately \$4.9 million and \$3.0 million in stabilization funds, respectively.

Liquidity in the general fund is often measured by comparing both the unassigned fund balance to the current year's total fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2016, the unassigned fund balance in the general funds approximated 12.5% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 14.9% of that same amount. The Town's reserve ratio of 12.5% at June 30, 2015 is strong and was a significant improvement over the prior year's reserve ratio of 9.2%.

The Town has been at the forefront in Massachusetts in establishing and funding an OPEB trust to assist the Town in funding its future postemployment health benefits to its employees. At June 30, 2016, the Town's OPEB trust totaled nearly \$6.5 million. These funds are principally invested in the State Retirees Benefits Trust Fund, which is managed by the Pension Reserved Investment Management Board of the Commonwealth of Massachusetts, or PRIM.

The Town's budgetary flexibility, strong reserve ratio and planning/funding for its future obligations has undoubtedly been seen as positive factors to S&P. In connection with a refunding (i.e., refinancing) of long term general bond obligations in February 2016, Standard & Poor's Rating Services, or S&P, reaffirmed its credit rating of AA+, which is one step below S&P's highest rating of AAA. This high credit rating enables to Town to enjoy very favorable terms in the municipal bond market.

The remainder of the report reflects informational items and findings and recommendations. This discussion is intended to provide the Town and its management with recommendations for improvement in accounting and financial operations. The Town should review these recommendations and, if determined to be cost-effective, implement these improvements. Items that have been repeated from past letters to management are so indicated.

II. INFORMATIONAL ITEMS

Transparency of Financial Information

As noted in our December 2015 letter to management, the Town's Board of Selectmen has approved a number of important financial policies and procedures and have posted these on the Town's website for public inspection. In addition, the Town has begun posting its audited financial statements and S&P ratings reports.

The public often hears government officials espousing the need for transparency in government. Placing these policies and procedures as well as other significant financial documents on the Town's website is a great step in meeting the public's desire for transparency and we applaud the Town's decision and action to do so.

We continue to recommend that the Town enhance its financial policies and procedures, particularly in long-range capital planning and reserve policies. These are policies that credit rating bureaus such as S&P place in high regard.

New Financial Statement Disclosures – Tax Abatement Disclosures

The Governmental Accounting Standards Board, or GASB, issued Statement No. 77, *Tax Abatement Disclosures*, to improve financial reporting by giving users of financial statements essential information regarding the nature and magnitude of tax abatement programs to assist in determining how tax abatements affect the Town's future ability to raise revenues and meet its financial obligations. This Statement is effective for the Town's fiscal year 2017 financial statements.

Tax abatements, as defined in the Statement, result from an agreement between the Town and an individual or entity in which the Town promises to forgo tax revenues and the individual or entity promises to subsequently take specific action that contributes to economic development or otherwise benefits the Town or its citizens. Tax abatement agreements may be in writing or may be implicitly understood by the Town and the entity.

This Statement requires Town's that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by the Town, other than to abate taxes, as part of a tax abatement agreement.

The disclosures are organized by major tax abatement program and the Town may, but is not required, to disclose information for individual tax abatement agreements. It is important to note that tax abatements for valuation disputes or tax exemptions for qualified taxpayers are not covered by this Statement and no disclosure of these types of transactions is required.

While this new accounting standard does not pose a significant use of the Town's resources to comply, we recommend that the Town begin to compile the pertinent information above regarding all tax abatement agreements that may require disclosure so that the Statement may be efficiently implemented in fiscal year 2017.

New Accounting Principle – OPEB

The Governmental Accounting Standards Board, or GASB, issued a new pronouncement related to other postemployment benefits, or OPEB, that is substantially similar to the pension standard adopted in fiscal year 2015. OPEB typically includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town presently contributes 60% of the cost of retirees' comprehensive medical insurance offered through its health plan providers.

The Town currently reports a net OPEB obligation in its government-wide financial statements calculated under GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. However, this new accounting standard will change the manner in which OPEB is accounted and reported in the Town's government-wide financial statements. GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*, will require that the net OPEB liability, which can be substantially larger than the net OPEB obligation, be reported in the government-wide financial statements beginning in fiscal year 2018.

While this new accounting standard will likely materially affect the Town's government-wide financial statements, the Commonwealth has not passed legislation requiring municipalities to begin setting aside monies for this unfunded obligation like it has with pensions.

As we have indicated in several previous letters to management, the Town should continue to include OPEB in its long-term planning.

Changes to Single Audit Requirements – Need for Internal Control Framework

In our December 2015 letter to management, we notified the Town that there were a number of changes made to single audits. One of the requirements under the new Uniform Guidance (the successor to the OMB A-133 compliance supplement) is that all federal award recipients are required to establish an internal control system based on a recognized internal control framework such as the Green Book or COSO.

We understand that the Town Accountant has an internal control document that contains much of what is required to document the Town's internal controls and provide guidance for ongoing monitoring. The proper implementation of any internal control system requires coordination or resources between not only the Town Accountant, but the School Business Office (the primary recipient of federal awards) and the Town Treasurer.

We recommend that the Town's finance team prioritize this matter to properly establish their internal control system before the start of its next series of large federal educational awards in the summer of 2017.

Municipal Modernization Act

In August 2016, the Municipal Modernization Act was signed into law. This law streamlined many of the financial legislation used throughout the cities and towns in the Commonwealth. The two portions of this Act that will likely affect most (if not all) Massachusetts municipalities include:

1. Creating a single overlay reserve to cover the costs of potential abatements or exemptions granted by assessors or ordered by the ATB versus having to maintain individual overlay reserves by fiscal year. This portion of the Act became effective on November 7, 2016.
2. Changing the statutory treatment of premiums received when issuing debt. Prior to the Act, premiums (net of issuance costs) were general fund revenue. Effective November 7, 2016, premiums (net of issuance costs) are: (a) used to pay project costs and to reduce the amount of borrowings authorization by the same amount when the borrowing vote so authorizes; or (b) reserved for appropriation for capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for this the premiums were received.

The implementation of the changes to overlay accounts does not present much of an obstacle to most municipalities. However, future borrowings must contemplate the statutory changes to manner in which bond premiums are treated. Future bond issuances will require closer attention to these matters.

III. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

1. Custody of Cash

We understand that the School conducts an auction each year for the benefit of its student body. The proceeds of this auction are deposited into the Town's student activities agency fund. We also understand that the cash receipts from this auction are taken home by a Town employee for turnover to the Town Treasurer the next business day.

Town monies should never be taken home by an employee. This poses risks not only to the Town, but to the Town employee. These funds should be deposited into a School safe at the conclusion of the event, regardless of the hour of the evening in which the event concludes.

We recommend that this practice cease immediately and that the School and Town Treasurer work with each other to develop an acceptable alternative.

2. Departmental Reviews (repeated from the prior year)

The Town recently upgraded the Town Accountant's Office through two significant steps; first it hired a professional with both governmental accounting and public accounting experience, and second it hired a part-time assistant. These upgrades finally afford the Town the ability to perform periodic reviews of accounting processes at the departmental level (particularly those departments like Recreation, Council on Aging and the Library that are not housed at the Town Hall).

We recommend that the Town Accountant establish a rotation plan to review the accounting operations of the Town's departments and establish a monitoring plan for its decentralized departments.

3. Capital Asset Tracking and Reporting (repeated from the prior year)

The Town does not have a capital asset tracking and reporting system. In addition, the Town does not have a process in place to identify capital asset additions or disposals. Rather, it relies on its external accounting firm to track its capital assets.

Capital asset accounting systems have become increasingly affordable and it's likely that the Town could deploy a robust capital asset accounting system for a relatively minimum cost, which includes customization. The adoption of such a system would likely facilitate insurance reporting and provide a mechanism to safeguard the Town's capital assets.

We recommend that the Town investigate these solutions and include such a system in its fiscal year 2017 budget.

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