

## **Special Meeting of the Town of Richmond Selectboard Tuesday, May 10, 2022**

**Members Present:** Bard Hill, David Sander, Jay Furr, June Heston

**Members Absent:** Jeff Forward

**Staff Present:** Josh Arneson, Town Manager; Duncan Wardwell, Assistant to the Town Manager; Connie Bona, Finance Director

**Others Present:** Meeting was recorded by MMCTV, Wendy Wilton, Cara LaBounty Marshall Paulsen

**Call to Order: 7:00pm**

**Welcome:**

Heston: Welcome to the public and Wendy Wilton who is here to provide some training in regard to NEMRC (New England Municipal Resource Center) Financial Reports.

**Public Comment:** None

Marshall: Many people in our village objected to the noise from Big Spruce that played until 10 pm on Thursday. It was intolerable. A family with kids could not put them to bed, read, or study. Many people agreed. I have met with Gabe, the owner of Big Spruce, and he agreed that it was too loud. Our neighbors will not accept this type of noise. While this noise was going on, I gave one of Selectboard members the business over the phone. He listened to me and was gracious. You all work hard enough to not have to deal with this. I am even more appreciative of what you do.

Hill: This is a reasonable agenda item for the future, and we do have a noise ordinance that we should revisit. Do we want to entertain any changes?

Heston: Yes, this is best for a future agenda.

Sander: I think it should be on the future agenda.

LaBounty: Please look at the permitting of businesses of what they are allowed to do. It is a business ordinance. It is a business noise issue.

**Financial Report Training from New England Municipal Resource Center (NEMRC)**

<http://www.richmondvt.gov/wp-content/uploads/2018/11/Understanding-Your-Town%E2%80%99s-Financial-Statements-NEMRC.pdf>

Arneson: Wendy Wilton from NEMRC will present information and then allow for Selectboard and public questions.

Wilton:

The purpose of government leaders is to look at this information and utilize it effectively. I plan to give you tips and strategies on how to read the audit and quarterly statements.

\*The Importance of the Annual Audit: Impartial review of financial data. Demonstrates and verifies the town's compliance with budget and town policies. Any audit helps prepare to compile with long term decisions.

\*The Audited Financial Statements 2021: Lists table of contents of where to find details to determine the information the increases toward the end of the statements.

\*Government Wide Financial Statements: Intended to show the user the "BIG picture" that combines activity for the entire municipal operation. Net position improved by \$1,859,145 in FY21.

Hill: What do we think we should have for assets and where we should sit in that number.

Wilton: You have active capital planning.

LaBounty: The municipality needs to have set level that cannot be determined with no end goal. Your net position needs to be set. A taxpayer may think you are pocketing that money. We used to buy a used piece of equipment but because we overtaxed, we are now going to buy a new piece of equipment. An increase in net position is a fine line between when taxpayers are feeling overburdened.

Wilton: Net position is cash and capital assets. When you talk about an operational level do you have too much cash? It is up to Selectboard to help determine replacement equipment. Sometimes holding onto older equipment requires additional maintenance costs.

\*Richmond Trend in Net Position (Table 1)

Shows Governmental and Business Type details for 2018 to 2021

\*Balance Sheet vs. Net Position

...Balance sheet is Assets – Liabilities

...Fund balance does not equal cash

...Net Position = (Total Assets + deferred outflows) – (Total Liabilities + deferred inflows)

\*Fund classifications in Government Accounting

Deferred outflow example is future pension costs.

Deferred inflow example is prepaid property taxes

Heston: A deferred outflow a liability. Why is it an asset in the net position equation?

Wilton: It is an adjustment to your assets. You are counting it for a liability

Furr: It counts as cash you haven't spent yet.

Wilton: There are costs in the future. If your net position is negative, it is a problem. Make sure it is trending positive. Otherwise, you do not understand what your projects are involved. Connie prepares management and analysis if you want to dig deeper.

\*Government Fund Balance Classifications: Three main types as Governmental, Proprietary & Fiduciary.

Government Funds include General, Special, Capital Projects, Permanent, Debt Service

Furr: Would ARPA funds be considered Special Revenue?

Wilton: Yes. A lot of Towns are claiming the ARPA funds as revenue loss for the upcoming audit. If you move that ARPA money to General Fund, then it will be considered spent. If you do not make a decision on it then it is unspent.

\*Fund Financial Statements Governmental Funds

Fund balance classifications for General Fund are important indicators of financial health, especially Unassigned fund balance.

\*Governmental Fund Balance Classifications

Non-spendable, Restricted, Committed, Assigned, Unassigned

Unassigned is the remaining fund balance not allocated to other categories

\*Trend in General Fund fund balances – Is there an unassigned fund balance policy?

General Fund and Highway Combined Balance Sheet

A rule of thumb is 15% of revenue is appropriate for Unassigned fund balance which for Richmond would be \$600,000.

This wasn't attained in 2019 or 2020 but was \$620,023 in 2021.

You are in a good range in my experiences.

Arneson: Do unassigned funds within the 15% range of revenues exclude Highway funds? To calculate the number of unassigned should we include Restricted even though it is just for highway.

Wilton: Take your General Fund including Highway and add it together to take 15% which is about \$600,000.

Heston: If we know the Restricted number we spend on Highway, then is it 15% or 7.5%?

Arneson: In our revenue 1 million of our 4 million is spent on Highway. Should we be taking 15% of revenue with or without Highway?

Wilton: This Unassigned needs to carry both of those funds. I don't think the State would be happy if you spent it elsewhere. Your ARPA money in your operating account. Revisit this after the ARPA money is gone. The ARPA money is Restricted money.

Furr: There is a sweet spot we are aiming for our Unassigned Funds.

Wilton: There is a sweet spot where you can end up with too much money that belongs to the Town. You want to be able to operate as a Town yet not making people spend too much on taxes.

LaBounty: Our previous auditors said our Unassigned funds are exceedingly high. Each Town can be different. You would not need Unassigned funds if you have excess cash from previous years when more expenses are coming in compared to revenue. The Selectboard is trying to prevent that error in the future. We have excess cash.

Wilton: We can know anytime how much the General Funds owes other funds or vice versa. The Unassigned fund balance is money for which there isn't claim which can be used to sustain the Town operations for 2-3 months. You need to span from tax payment to tax payment revenue.

Bona: Our Unassigned fund balances are where the Auditors have said they should be for 3 years. We do have a capital plan. We do have a budget put in place for next year. Next year it will be low, but we have vacancy savings. This is not readily available cash.

**\*Fund Financial Statements Governmental Funds**

If I were a Selectboard member I would want to look at the Detail of General Fun (w/ Highway) Revenue & Expenses. Does revenue exceed expenses?

LaBounty: Instead of a deficit, we have revenue of \$548,000.

Wilton: Connie has a great description and does a great job of explaining these types of situations.

Bona: We had significant vacancy savings, we had FEMA money that came in, a cruiser that we did not acquire until FY22. This is money we will be using in FY23.

Hill: I remember conversations about vacancy savings.

Sander: We postponed a significant paving project due to concerns about tax revenues.

Wilton: 2021 was the big COVID year. It doesn't shock me to see that this has happened.

Furr: We were surprised we didn't have lost revenue.

Wilton: Vermont delinquency levels did not increase in fact go a little better.

**\*Fund Financial Statements Proprietary Funds**

Proprietary Funds like Water & Sewer are Business-like activities. You should never be in position where this fund losses money or cash. These should be sub sufficient. Some communities make a profit and transfer to General Fund. Did revenue exceed expenses? On page 32, section E, Interfund Balances and Activity show the Water fund due to Sewer. If you look at pages 61-66, this is where you will see the offsetting asset. Connie does not want to reconcile a bunch of bank accounts.

Bona: The checking account serves as a cash flow but has a voted-on purpose.

Wilton: Fiduciary Funds are money held in trust for others

**\*Fund Financial Statements Fiduciary Funds**

You will not see the education tax custodial fund in your internal documents. It should always be zero at the end of the year as all money paid to the school. This money comes in because you are collecting taxes and then 20 days later you need to move that money to the school.

Furr: On page 19, do we draw interest on that money?

Wilton: For twenty days, you would not earn much. Do you have a sweep account?

Bona: I am not aware of ever discussing it. We have collateral, special interest, and special fee agreements with the bank. We get the majority of that property tax money within 5 days of the due date. We then have 20 days to transfer it to the school. Based on when the Selectboard meets to approve transfer to a sweep account it would be too late.

LaBounty: I am talking about sweeping your account on a daily basis throughout the year as other municipalities and non-profits.

Wilton: It is worth looking into.

\*Notes

If you want detail on interfund activity, then look at page 32 of the Notes.

The Town does not currently have a Stabilizing agreement which is a General Fund fund balance policy.

Bona: I have drafted an Unassigned policy addressing all the categories. I would like to present this to the Selectboard on Monday. If you provide me some guidance, I can have something ready.

Furr: I think we want to look at the goal of 2 months operating expenses.

Heston: I need some more time looking at best practices.

Bona: You can look at the Government Finance Officers Association (<https://www.gfoa.org/>) and the Vermont Board. One recommends 15% of revenue and the other recommends two months of operating expenses.

Heston: We should look at what to do if it goes too far above or dips too far below.

LaBounty: If you dip below then you have the ability to borrow short term money.

Hill: This topic is not on the agenda so we can bring it up at a future meeting. When I started with Water & Sewer Commission, revenue and fund balances were depleted and lots of deferred maintenance. The Water & Sewer rates increased in the past because we did not pay attention to funds available.

Wilton:

\*Internal Control Report & Compliance

There is a Material Weakness with Reconciliation of Balance Sheet Accounts. We recommend that all balance sheet accounts be reconciled to supporting documentation at least monthly in order to detect and correct errors. The auditor was coming so soon, that financial staff did not have enough time to have it all prepared. If you move that audit visit out a few weeks, then it would be helpful as it allows for more time to adjust final revenues for the year end.

Bona: The auditors this year are coming the second week of September so that will be much better.

Wilton:

\*Ideas for simplifying quarterly reports

Execute a Journal Entry to incorporate the General Fund fund balance classifications from prior year.

The recommended presentation for internal quarterly reports where balance sheets for each fund type (combined), focus on General Fund fund balance, prior year and changed to fund balance with current year activity. No need to produce Trial Balance as the Balance sheets and Year-To-Date budget present the same information. It will save over 200 pages per quarterly report.

Heston: It is electronic so we can still look at all those details. You can look for the detail in the Trial Balance.

Wilton: The same information is on the Balance and Year to Date.

LaBounty: We are talking about quarterly reports. Wendy is recommended changing those reports. Are you running a customized report? Are we tweaking those reports?

Wilton: I recommend a change in format so that it aligns with the audit presentation.

LaBounty: Can we re-run the previous quarterly report, so they are in the same form as the proposed change?

Wilton: Yes, you can re-run those reports.

LaBounty: Are we fully capable of customizing our reports?

Wilton: We need to work on the journal entries and fund type descriptions which would not take a lot of time. I done this already.

LaBounty: Do we have the ability in NEMRC to track a project by category or code over multiple fiscal years?

Bona: If it is a project, we establish a code for it like a construction of a road. When we pay bills for legal it only goes into one budgetary code for every single legal project.

Wilton: The system is flexible enough that you could set up a legal expense fund.

LaBounty: Can you split expense lines for Legal in different codes? Do we have the ability to add it into the general legal?

Bona: Department heads code the invoices and put it in as such. There is not an ability for me to break out into sub-categories for legal. If it is for a project, it will be coded for that project.

Wilton: You want to keep it pretty simple. You can setup up different vendors for different legal cases. You can personalize accounts in many ways in NEMRC. Great questions and you are managing your Town well.

Heston: Thanks for Wendy and Connie for all this information.

## **Adjournment**

*Sander moved to adjourn. Furr seconded.*

*Roll Call Vote: Furr, Heston, Furr in favor. Hill abstains. Motion approved*

**Meeting adjourned at 9:15 pm**

Chat file from Zoom: