



CITY OF DOVER

CITY COUNCIL - MINUTES

Meeting Type: Workshop
Meeting Location: Council Chambers - 288 Central Avenue, Dover, NH 03820
Meeting Date: **Wednesday, February 11, 2009**
Meeting Time: **6:00 pm**

Present: Mayor Myers, Deputy Mayor Trefethen, Councilors Callaghan, Carrier, Cheney, DeDe, McCusker, Scott and Weston.

Also Present: City Manager Joyal, City Attorney Krans and City Clerk Lavertu.

Mayor Myers said the Workshop for the independent auditor's presentation on the Fiscal Year 2008 Comprehensive Annual Financial Report (CAFR). He said Daniel Lynch, the City's Finance Director, was in the audience and available for questioning. He introduced Scott McIntyre of Melanson Heath & Company, to present the independent audit presentation to the Council.

1. FY08 CAFR AND INDEPENDENT AUDITOR PRESENTATION

Mr. McIntyre said he would be reviewing the City's June 30, 2008 financial statements, and Melanson Heath and Company's audit of those financial statements. He said he would go over the high points of the Comprehensive Annual Financial Report (CAFR), and then go over the recommendations. He said the report was 150 pages and was divided into three sections:

- Introduction, a profile of the government
- Financial Section, including various balance sheets
- Statistical Section, including 10 years of trend analysis

He said the reports were prepared in accordance with the Governmental Accounting Standards Board (GASB), Statement #34. He said the report consisted of two sets of financial statements: one is designed to be a long-term perspective and the other a short-term perspective showing the cash position for the City as of June 30, 2008. He said both perspectives essentially break even for the year. The long-term perspective showed a small decrease in net assets, and the short-term perspective showed a \$500,000 increase in the unreserved fund balance.

Mr. McIntyre directed the Council to certain pages of the report to discuss with them.

- Pages 13 and 14 of the CAFR, which was the independent auditor's report. He said all the other pages of the CAFR were created by the City of Dover. He said Page 13 told the City what was completed in the audit, and what the independent auditor's opinions were on the City's financial statements. He referred to the second paragraph, which said that the independent audit was conducted in accordance with auditing standards generally accepted in the United States and government audit standards. He referred to the second-to-last paragraph and said in essence it indicates that the independent audit is giving the City a clean opinion, that the City's financial statements are totally in accordance with generally accepted accounting principles for local governments.
- Pages 29, 30, and 31, which showed the long-term perspective financial statements. He said the unrestricted net assets had a balance of \$1,555,000, which has gone \$600,000 from June 30, 2007 to June 30, 2008. He said the main reason it had gone down was because the City was accounting for Other Post Employment Benefits (OPEB) liability.
- Page 32, which showed the short-term perspective financial statements. He said the unreserved fund balance is \$5,584,935, up \$500,000 over the prior year, which represents 6.9% of FY08 expenditures. He said the percentage of the City's budget was unchanged from 2007 to 2008. He discussed the reserve funds that were set aside for Arena and McConnell Center.



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- Page 34, which showed a change in fund balance of \$438,000. He explained the difference.
- Page 35, which has become an important page in determining positive or negative trends. It represented reconciliation between short-term perspectives and long-term perspectives. He referred to two numbers: 1. \$4.7 million for depreciation. 2. \$6,215,000 for repayment of debt. He said they look for repayment of debt to be greater than the amount of depreciation.
- Page 63, which showed a summary of amortization for debt. He said for the governmental side; the City is paying off 72% of its debt in the first ten years. For the business side, 74% of the debt is paid off in the first ten years. He said that was a very large percentage and a very positive attribute.
- Page 74, the actuarial evaluation.

Mr. McIntyre then went over the audit recommendations for the City, which was in the Management letter.

- Pages 1 and 2 were an introduction to the Management letter, which showed what was done in the audit and what wasn't done in the audit. He said the audit did not look at every single transaction of the City.
- Page 4, Issue #1: obtain Capital Asset Software
- Page 5, Issue #2: establish a receivable collection and abatement policy
- Page 6, Issue #3: review revenue classification
- Page 6, Issue #4: accelerate the year-end closing process
- Page 7, Issue #5: monitoring the McConnell Center and School lunch program to avoid losses.
- Page 8, Issue #6: Federal Trade commission "red flag" rules, and the need for a written policy on suspicious activity.

Mayor Myers asked if there was anything specific in the delays for the year-end closing process. Mr. McIntyre said the delay in 2007 was caused by the City not having a Finance Director for seven months. In 2008, capital assets accounting was one of the principle issues for the delay. Mayor Myers asked the City Manager for an update on the status for the new financial software. City Manager Joyal said Dan Lynch, Laurie Verville, Annie Dove and Councilor Cheney met last year to lay out the initial framework choosing a system. He said there have been some vendors that have come in to make various proposals. The staff has putting together various RFPs and pulling together different pieces, which will be sent back to the committee. He said he hopes it will be ready to put out for bids later this spring, and then they'll go through an evaluation process.

Deputy Mayor Trefethen asked when it would be implemented.

City Manager Joyal said it will most likely be this fall.

Deputy Mayor Trefethen asked if the Council should expect the same timeframe for reconciliation for FY2009.

City Manager Joyal said he expected the Council to see improvement regardless of the software issue. He said Dan Lynch has created a checklist for year-end activities, which he has allocated to different staff members to complete.

Councilor Callaghan referred to Page 57, Issue #2: \$488,000 for ambulance fees. He asked for a comparison with other communities, and if they are behind in collections.

Mr. McIntyre said having an overdue balance for over 120 days is not uncommon for a community of this size.



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Councilor Callaghan asked if there was anything in the audit that the City should implement immediately to prevent ID theft.

Mr. McIntyre said there was nothing immediate that needs to be addressed.

Councilor Scott referred to Page 74; the actuary liability has gone from \$31 million three years ago to \$42 million, a 36% increase.

Mr. McIntyre referred to a second actuary report, which was completed by the City. He said he felt people were living longer now. He said there were two pieces for this figure: the population that is already retired, and the current employees that are earning that benefit now for when they will retire.

Councilor Scott referred to Page 72, the contribution to the State Pension Fund, in which the City's portion had gone up \$900,000 in 2008, while the Plan Members' portion had gone down. City Manager Joyal said there was a significant rate increase for the City, while the employees' rate hasn't changed.

Councilor Scott referred to Page 136, revenues and expenditures. He said there was a \$1.5 million surplus, and asked where the funds go.

Mr. McIntyre said \$1,093,000 was transferred to special revenue funds, which left the net of \$438,000.

Councilor Scott asked if he had a worksheet showing the disposition of those funds and I asked if he would provide it

Mr. McIntyre said he did.

Councilor Scott asked if he had them for prior years.

Mr. McIntyre said he had 2007, and said it was in the CAFR, Page 34, which is outlined in detail on Pages 90 through 99.

Councilor Scott asked if this was audited.

Mr. McIntyre said it was audited.

Councilor Scott asked if the payroll was audited.

Mr. McIntyre said they look at the internal controls structure that the City has surrounding the process, and take a representative sample of transactions to trace back to its supporting documentation.

Councilor Scott asked if this had been done consistently for the past four or five years.

Mr. McIntyre said that was correct.

Councilor Scott referred to Page 135; the amount of bond issuing was left blank for 2008.

Mr. McIntyre said no bonds were issued in FY2008.

Councilor Scott referred to the debt service, which was \$9.5 million in 2008, and \$7.4 million in 2007.

Mr. McIntyre said in 2007 the City issued over \$18 million in debt, but did not begin making principal payments until 2008.

Mr. Lynch said the Council was putting the auditor in an awkward position by asking him to answer questions that he might not know the answer to. He said the first year was interest only. He said in this case the bond was issued in June 2007, and in 2008 principal and interest was paid. He said the City also made a change to amortize over 20 years, and the City didn't defer the principal, but paid the principal amount owed.

Councilor Scott asked Mr. McIntyre to provide a worksheet explaining this.

Mayor Myers said that would require a decision of the whole Council, to direct the City Manager to request that worksheet. He asked Councilor Scott to bring it up in Council Matters of Interest.



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Councilor Weston said she was concerned about the unfunded liability Mr. McIntyre referred to, and his comment that some municipalities budget for it and some do not. She asked, if it wasn't budgeted for did it come out of the fund balance.

Mr. McIntyre asked if she meant when it was paid for on an annual basis. He said the \$2.5 million that he referred to was the annual required contribution that the actuary recommended by put aside, and was a net number. He said the actuary actually said to put aside \$3 million, but the City already pays \$500,000 out of the General Fund.

Mayor Myers said the Council has to approve the use of fund balance.

Councilor Weston gave the example of someone retiring today and the City owes them money for acquired sick time. She asked if that money came from fund balance.

Mr. McIntyre said there was an appropriated amount within the annual budget for what is expected to be paid out for retirement.

Councilor Weston asked if the City should fund this reserve fund.

Mr. McIntyre said it would look favorable with credit rating agencies.

Mayor Myers said \$200,000 is appropriated every year.

Councilor Callaghan referred to Page 7 of the Management Letter, the debt for the McConnell Center, and asked if that was actually spent, or if it was absorbed as debt.

Mr. McIntyre said the \$354,000 was the excess in expenditures over revenues for FY2008.

Councilor Callaghan said the report also showed the McConnell Center having a negative cash position of \$433,000. He asked if the numbers should be added together.

Mr. McIntyre said no. He said in FY2007 there was an \$80,000 deficit; add that to the \$354,000 for 2008, and you get the total negative cash position of \$433,000.

Councilor Callaghan asked about the procedure for the audit, and how much was actually looked at.

Mr. McIntyre said it was very broad. He said they tested all accounts. He said they tested 300 to 350 samples.

Councilor Callaghan asked what the failure rate was.

Mr. McIntyre said he didn't have that number. He referred to the Management Letter and their recommendations.

City Manager Joyal asked Mr. McIntyre to discuss quality control.

Mr. McIntyre said they follow two auditing standards, and every few years they go through an audit as well. They hire another CPA firm to go through their work and determine if they are following the auditing standards.

Councilor Cheney asked for clarification that everything other than the Management Letter was created by the City.

Mr. McIntyre said that was correct.

2. ADJOURN TO REGULAR MEETING

Councilor Cheney made a motion to adjourn to the Regular Meeting Session; seconded by Councilor Weston.

Vote: 9/0.