



# Warner Trustees of the Trust Funds

Meeting Minutes  
Wednesday, May 20, 2020

**DRAFT**

## **1. Covid-19 Preamble**

Kimberley Edelmann read the following into the record:

"Good morning. As host of this meeting of the Warner Trustees of the Trust Funds, due to the COVID-19 Coronavirus Crisis and in accordance with Governor Sununu's Emergency Order #12 pursuant to Executive Order 2020-04, I'm acknowledging that an emergency currently exists in the State of New Hampshire and therefore invoking the provisions of RSA 91-A:2, III (b). Therefore, this Board is currently authorized to meet electronically, and these reasons shall be reflected in the minutes.

Federal, state, and local officials have determined that gatherings of 10 or more people pose a substantial risk to our community in its continuing efforts to combat the spread of COVID-19. Concurring with their determination, I find that this meeting is imperative to the continued operation of the Town of Warner government and services which are vital to public safety and confidence during this emergency.

Please note there's no physical location to observe and listen to this meeting contemporaneously. This is authorized pursuant to the Governor's Emergency Order. In accordance with the Emergency Order, I can confirm that we have or are:

- A) Providing audio public access to the meeting via telephone.
- B) Providing video public access to the meeting via the Zoom platform.
- C) Provided proper public notice of the necessary information for accessing the meeting.
- D) Providing during this meeting a mechanism for members of the public to alert this public body that they wish to speak or be recognized during any public comment.
- E) Provided a telephone number for the public to call in order to alert this public body during the meeting should they experience problems with access.
- F) Adjourning the meeting if the public is unable to access the meeting.

At this time, I welcome members of the public accessing this meeting remotely. Even though this meeting is being conducted in a unique manner under unusual circumstances, the usual rules of conduct and decorum apply. Any person found to be disrupting this meeting will be asked to cease the disruption. Should the behavior continue, that person will be removed from the meeting.

Please note that all votes that are taken during this meeting shall be done by **Roll Call** vote.

Let's start the meeting by taking a Roll Call attendance. When each Trustee of the Trust Fund committee member states their presence, please also state whether there is anyone with you who is within audio or visual range of this meeting. This information is required under the Right-to-Know law, specifically RSA 91-A:2, III (c)."

## **2. Role Call**

The meeting began at 11:08 am. Committee members in attendance via Zoom teleconference were Trustees Nancy Bassett, Kimberley Edelmann and David Hartman.

Members of the public also in attendance via Zoom teleconference included Ken Cogswell (Cemetery Trustee), Kelley Henley (Bookkeeper), Jonathan Lord (Selectman), and Tammy R. Webb, CPA from Vachon Clukay & Company PC.

### **3. The Annual Audit Process**

Tammy Webb gave a presentation about the audit process for the Trust Funds. This was done using Zoom's "Share Screen" feature, allowing all attendees to view the presentation while she spoke.

The presentation is shown below.

**THE AUDIT PROCESS** TRUST FUNDS

**What is an Audit?**

An audit consists of an independent third party examining the financial statements of an entity with the purpose of providing an opinion as to whether the financial statements are “fairly presented” in accordance with GAAP.

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**The Entity**

The annual audit is being performed on the Town of Warner, NH

The Town’s audit encompasses:

- ❖ the various departments governed by the Board of Selectmen

AND

- ❖ other officials with financial responsibility

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**The Audit Process**

As part of every audit we assess an entity’s internal control structure over financial reporting.

Our testing includes, but is not limited to:

- ❖ Control testing over cash receipts, cash disbursements and payroll on a rotating basis

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## The Audit Process (continued)

- ❖ Risk-based auditing and unpredictable testing continue to be the basis for quality auditing.
- ❖ Our focus continues to be on areas that are deemed to be high-risk for:
  - ❖ Potential fraud
  - ❖ Material misstatements in the financial statements

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## What about the Trust Funds?

- The following accounts held by the Trustees of Trust Funds are included in the Town's financial statements:
  - Expendable Trust Funds
  - Permanent Funds
  - Private-Purpose Trust Funds

As of December 31, 2019, the Trustees are responsible for approximately \$2 million – the majority is for Expendable Trust Funds.

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## Trust Funds

• We start with the figures on the Trustees' annual MS-9 to audit. These are your financial statements, and we are opining upon the information presented.

• In order to obtain preliminary trial balances, we summarize this information into the separate reporting units (Expendable, Permanent, and Private-Purpose).

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## Trust Funds (continued)

• Similar to the MS-9 format, we obtain the following subtotals :

- ❖ Beginning balances
- ❖ Additions
- ❖ Gain/loss on funds
- ❖ Interest
- ❖ Withdrawals
- ❖ Ending balances

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## Trust Funds (continued)

• Once we have the figures in a traditional "trial balance" format, we are ready to start the audit process. The order in which these are done will vary by auditor:

- The beginning balances are traced/tied back to the audited balances from the previous year's audit.
- Substantiate the ending balances to the year end bank statement balances and/or investment statements.
  - We confirm material cash and investment balances with a third party.

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## Trust Fund Additions

❖ For Expendable Trust Funds, any addition to a fund must be authorized at the annual Town meeting.

- Review the results of the annual meeting to identify the amounts approved to be added to various funds
- Reconcile the additions per the Trustees with the Town's separate accounting indicating what was "transferred out" to the Expendable Trust Funds

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## Trust Fund Additions (continued)

- ❑ Note: If an amount was approved by the voters to be remitted into an Expendable Trust Fund, but it did NOT occur prior to year end, an audit adjustment will be made.
- ❖ “Additions” into permanent funds or private-purpose trust funds are typically bequests from a will.
  - Those additions deemed to be material will be selected for testing

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## Trust Fund Withdrawals

There are two manners in which funds may be withdrawn from an Expendable Trust Fund:

- ❖ Authorized per a separate warrant article at the annual Town meeting
- ❖ The Board of Selectmen has been authorized at an annual town meeting to be agents to expend without further approval

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## Trust Fund Withdrawals (continued)

- Review the results of the annual meeting to identify the amounts approved to be withdrawn from an expendable trust fund

OR

- Verify that the Board of Selectmen are “agents to expend”

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## Trust Fund Withdrawals (continued)

- It is here where the control testing of the Town's cash receipts, cash disbursements and, if applicable, payroll disbursements apply to the Trust Funds:

- The amounts requested to be withdrawn from the Expendable Trusts are FIRST expended out of the General Fund.
- Material withdrawals will be tested by examining the supporting documentation
- Amounts may NOT be withdrawn that exceed what was actually expended out of the General Fund

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## Trust Fund Withdrawals (continued)

- Reconcile the withdrawals per the Trustees with the Town's separate accounting indicating what was either “reimbursed” or “transferred in” from the Expendable Trust Funds
- ❑ Note: The MS-9 is prepared on the cash basis, and the Town's financial statements are prepared in accordance with GAAP. If an amount was expended by the General Fund prior to year end and is to be funded from an Expendable Trust Fund, an audit adjustment will be made to record a payable to the General Fund.

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## Trust Fund Withdrawals (continued)

Many disbursements out of the Permanent Funds or Private-Purpose Trust Funds are separate from the Town's accounting functions.

- ❖ Material disbursements will be tested by examining the supporting documentation.
- ❖ Determine the reasonableness of the disbursement based on the purpose of the established trust.
- ❖ Inquire if monies were withdrawn out of the principal portion of the established trust.

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## Trust Funds - Other Procedures

- Additional reported activity, such as interest income and gains/losses, are subject to analytical procedures.
- Any funds held in investment accounts (other than CD's > 90 days) are adjusted to the "fair value" at year end to account for unrealized gains/losses.

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## Trust Funds - Note Disclosures

- Trustees' policy for cash and investments
- Investments categorized by type (mutual funds, corporate bonds, equity securities, etc.)
- Investments categorized by ratings (AAA, AA, A, etc.) as measured by a nationally recognized organization
- Investments categorized by type AND by remaining length in maturity
- The use of fair value measurements on investments

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## Thank You

- In conclusion, a lot of time and effort goes into the audit of a Town's Trust Funds.
- It is important to remember that we are auditing YOUR records that have been provided to us.
- Although we are currently working remotely from home, any requested documentation may be sent to us through our secure portal.

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During the presentation, Tammy told the Trustees that Vachon Clukay had a cloud-based portal which could be used to upload data for the audit.

David Hartman commented that the presentation showed a well-established process. He noted that even while being a Selectman, he never had such a clear picture of the process. He found it comforting that there was an accepted process being used. He recalled that there had been audits in the past which addressed internal controls.

David asked what the Trustees of the Trust Funds needed to do to prepare for the audit. He had thought an audit was about internal controls and corrections to what was found to be amiss. The Town had done that on occasion. He wasn't sure how much preparation work would be needed prior to the audit. Or would the auditors come into the Town, inspect the books, and inspect how things were being done? With a remote audit, David wondered how that would work.

Tammy noted that when she had visited Warner in years past, she would be given a huge folder with all of the bank statements and invoices and all sorts of data. But that can't be sent to via the portal. Therefore, this year's audit will make use of bank statements (December 2019 and January 2020). Also, the Charter Trust investment report. Fidelity's report would also be used. Certificates of Deposit annual activity reports would be requested, as well. This information would be official documents from financial institutions.

Kimberley shared the list of audit items Tammy had forwarded to the Trustees earlier in the month (shown below). She pointed out that most of the items could be scanned on the Xerox machine in the Selectmen's office and then uploaded to Vachon Clukay.

#### ***Audit Check List for Trustees of Trust Funds –***

- o A COPY of the State MS-9 and MS-10 reports for the year ending December 31, 2019.
- o A COPY of the Trustees' investment policy updated during 2019. Please include a copy of the minutes from the meeting at which this investment policy was approved and adopted.
- o A COPY of the December 2019 statement detailing how the monies are invested. This report should indicate the cost basis and the fair market value of funds held in money market accounts, common stock, corporate bonds, etc.
- o A COPY of the December 31, 2019 Charter Trust Company Investment report for the Trustees invested funds.
- o A COPY of the 2019 Fidelity investment report for the Trustees invested funds of the Runnels Trust.
- o Please include a LISTING of the applicable bond ratings for any corporate bonds held at year end.
- o A COPY of any Certificates of deposit held as of December 31, 2019. Please include a statement indicating the balance at year end and the maturity date.
- o ACCESS to all ORIGINAL certificates of deposit, bank statements and investment statements for the year.
- o A COPY of any bank collateralization agreement / pledged securities as of December 31, 2019.
- o A COPY of the disbursement requests and supporting invoices for the various invoices that were paid by the Trusts during the year.
- o ACCESS to the various deposits and invoices for the year.

Tammy added that until the audit was underway, it was impossible to know what additional information may be requested.

Kimberley asked if this was the first year Vachon Clukay conducted remote audits. Tammy confirmed that it was and that they had already started doing audits from home. So far, it was going well.

Nancy commented that the information on the checklist was available at the Town Hall. The materials could be put into the scanner. However, the information was in the old format.

Tammy shared that during a recent audit, a treasurer explained she was overwhelmed with the quantity of records that needed to be uploaded. To help, Tammy got in her car and collected the files to process herself. When she was done, she had the files returned.

Kimberley said we would try uploading first. Nancy noted the use of "we".

Warner's audit date had not yet been scheduled. Kimberley felt it was great the Trustees had time to prepare. As a new Trustee, she said wanted to learn about the audit process and was glad Tammy was willing to meet with the Trustees.

#### **4. MS-9, Dollars & Cents**

Tammy's presentation brought up the important role of the annual MS-9 report. Kimberley shared that this report was filed with the Department of Justice (DOJ) via their fairly new New Hampshire Trustees of the Trust Funds portal.

The MS-9 report shows the beginning of year (BOY) balances for all funds, a summary of changes through the year, and the end of year (EOY) balances.

Once the MS-9 for a given year was accepted by the DOJ, the EOY figures were rolled forward automatically to be the BOY figures for the next annual MS-9 report.

Kimberley shared that while preparing to submit the 2020 MS-9, she noted that some of the BOY figures in the portal did not match the BOY figures she was provided by David Karrick during the handover of information.

Working with the support people from Axiomatic (the company that designed, wrote, and supports the portal),

she learned that some of Warner's MS-9 information was uploaded into the portal by Greg Colby, CPA and that some of those figures were rounded to the nearest dollar.

Kimberley shared that as a result of this information, she had been in communication with Tammy Webb from the auditors office as well as Audrey Blodgett from the DOJ. Bank statements for the trust funds were not rounded to the nearest dollar. And since the DOJ portal allows for pennies, it only made sense to be as accurate as possible in both the spreadsheets maintained by the Town of Warner and the MS-9 reports.

To return to accurate figures vs rounded figures, two corrective action approaches were offered:

- A) Resubmit the 2019 MS-9 (summary of fiscal year 2018) and then roll the updated EOY figures into the 2020 MS-9 as new BOY figures.
- B) Leave the 2019 MS-9 as is and correct the BOY figures that had been rolled forward in the portal.

In both approaches, the DOJ and the auditors would be made aware of the changes and would make a note of them. With only 61 accounts listed in the MS-9, Kimberley speculated that the maximum variation in the totals would be less than \$31.

The auditors and the DOJ agreed either approach would work. Kimberley said she would go with Option B, thus not having to modify the 2019 MS-9 showing fiscal year 2018 figures.

Kimberley said that the MS-9 would be done within days, unless another roadblock was encountered.

Tammy also uses the NH TTF portal. Kimberley told Tammy that instruments were not in the portal yet.

## **5. Q & A with Tammy**

Kimberley asked Ken if he had any questions for Tammy. He said he did not at the moment, but might in the future.

Kimberley asked Jonathan if he had any questions for Tammy. He asked what was the process when you find a perpetual fund that hadn't been used. He had worked with Dale Trombley in 2017 and found three perpetual funds that were not on the list she had provided him. He had done enough research to learn about cy-près and the court processes around it.

Tammy noted that if an account was not listed on the MS-9, the only way they would know about it would be via a bank statement or other document. Jonathan said he found the funds listed in the 1954 Town Report page 58.

Tammy added that banks usually inform the auditors about all accounts associated with a given Tax ID number.

Jonathan said the bank associated with the funds was defunct.

Nancy asked if maybe Terry Knowles could answer Jonathan's question. Kimberley suggested NHMA would be able to help. Ken noted that it was a question the Cemetery Trustees would be interested in hearing about, too.

Kimberley thanked Tammy for her time. Tammy signed off.

Kimberley told Nancy that once the MS-9 was done, she would help prepare for the audit.

Nancy asked about the MS-10. Kimberley said that the MS-10 was a report based on Charter Trust data as far as she knew. She would be learning more about that soon enough.

## **6. NH TTF Portal & Instruments**

Using Zoom's "Share Screen" feature, Kimberley showed the attendees a glimpse of the portal.

For each fund, the portal provides the opportunity to add "Instruments". One example of an instrument is evidence of why and how a fund was created. For example, an acceptable instrument would be a snippet of Town Meeting minutes describing that the Town voted to create a new Capital Reserve Fund.

Kimberley noted that adding instruments was something that the Trustees needed to do. However, priority was on submitting the MS-9. Adding the instruments would be done at a later date.

## **7. Adjournment**

No additional meetings were scheduled for the time being.

David Hartman made a **motion**, seconded by Nancy to adjourn the meeting. Role call vote: Bassett - Yes, Edelmann - Yes, Hartman - Yes. The meeting adjourned at 12:18 pm.

Respectfully submitted,

Kimberley Brown Edelmann

Recording Secretary