RECEIVED
2025 MAY 12 PM 02:05
NANTUCKET TOWN CLERK
Posting Number:T 440

MEETING POSTING

TOWN OF NANTUCKET
Pursuant to MGL Chapter 30A, § 18-25
All meeting notices and agenda must be filed and time stamped with the Town Clerk's Office and posted at least 48 hours prior to the meeting (excluding Saturdays, Sundays and Holidays)

Committee/Board/s	Audit Committee
Day, Date, and Time	Wednesday May 14, 2025 @ 4:00pm
Location / Address	**IN-PERSON PARTICIPATION at 131 Pleasant Street, (Room B)** **REMOTE PARTICIPATION VIA ZOOM** **The meeting will be aired at a later time on the Town's Government TV YouTube Channel** **https://www.youtube.com/channel/UC-sgxA1fdoxteLNzRAUHIxA**
Signature of Chair or Authorized Person	Brian E. Turbitt
WARNING:	**IF THERE IS NO QUORUM OF MEMBERS PRESENT, OR IF MEETING POSTING IS NOT IN COMPLIANCE WITH THE OML STATUTE, NO MEETING MAY BE HELD!**

AGENDA

Please list below the topics the chair reasonably anticipates will be discussed at the meeting

Join Zoom Meeting
https://us06web.zoom.us/j/89163577079?pwd=XBg3Jbh8zecPC4IjZ6uMSAoVquuapx.1

Meeting ID: 891 6357 7079
Passcode: 313363

1. Call to Order, Roll Call
2. Audio/Video Announcement
3. Approval of Agenda
4. Public Comment
5. Introduction of Auditors: Tony Roselli, Roselli, Clark and Associates
6. Fiscal Year 2024 Audit Exit Conference – Presentation by Roselli, Clark and Associates
7. Revie and Discussion of Fiscal Year 2024 Management Letter
8. Adjournment

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF NANTUCKET, MASSACHUSETTS

Management Letter

Year Ended June 30, 2024

RCA CPA

TOWN OF NANTUCKET, MASSACHUSETTS

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2024

TABLE OF CONTENTS

Roselli, Clark & Associates
Certified Public Accountants
500 West Cummings Park
Suite 4900
Woburn, MA 01801
Telephone: (781) 933-0073
www.roselliclark.com

TRANSMITTAL LETTER

Select Board
Town of Nantucket
Nantucket, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Nantucket, Massachusetts, (the "Town") as of and for the year ended June 30, 2024 in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and may not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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. This communication is intended solely for the information and use of management, the members of the Select Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 24, 2025

EVALUATION OF TOWN OPERATIONS

OVERVIEW

The Town continued to perform well financially. The option to pay-go a larger than normal annual amount of capital contributed to a reduction in fund balance for the first time in a number of years, however this is a prudent way to use reserves in lieu of financing through debt and thus an acceptable use of reserves. The Town expects to continue such strategy, with the goal to keep reserves above the rating agency metrics.

This strong financial performance has allowed the Town to maintain a credit rating at Aaa, the highest investment grade bond rating on the Moody's scale, one of only 15 communities in the Commonwealth to maintain this rating.

Key financial highlights:

1. Unassigned fund balance decreased to about $35.5 million. This is about the same as 2022.
2. Stabilization funds increased to $12.9 million (A subset of the unassigned fund balance).
3. Balanced budget for fiscal 2025.
4. OPEB Plan assets increased to $7.6 million.

Key challenges:

Continue to monitor evolving Fed policy with respect to:

1. Proposed regulations regarding municipal bonds.
2. Possible supply chain issues from tariffs.
3. Increasing costs of goods.
4. Elimination of certain Federal Grants.
5. Recessionary fears.
6. Stagflation.
7. Stock market volatility impacting pension and OPEB.

We urge the Town to monitor these situations very closely and plan accordingly as it sets forth in its fiscal 2026 budget process and capital planning.

The remainder of this letter addresses items of interest that we are communicating to the Town in the form of "Informational Items"; (these are not considered findings) and a section labeled "Findings and Recommendations", which are our observations in areas that the Town is encouraged to devote attention to. Improvements in these areas are recommended in an effort to improve internal control and efficiency.

INFORMATIONAL ITEMS

<u>Other Postemployment Benefits (update)</u>

The Town's OPEB liability was approximately $115.9 million as of June 30, 2024. This is an improvement over the prior year by about $10 million as the Town was able to use a higher discount rate. In addition, an increase in contributions and a very strong investment performance led to this result. The current funded ratio is now over 6%, which places the Town closer to the mean when compared to its peer communities. In addition, the County, which is a component unit of the Town, was able to fund near 92% of its OPEB liability and is expected to fully fund it by the end of fiscal 2025.

<u>Investment Income</u>

The Town Treasurer continues to take advantage of a robust investment environment. The Treasurer's aggressive approach to creating a competitive process with its banking network directly led to the Town doubling last year's earnings by recording nearly $6.4 million in interest. Turning the Town's cash into a revenue producing asset has paid off well and we encourage these efforts to continue.

<u>Network Security (annual reminder)</u>

In the prior year, we alerted the Town to continue to monitor its network security (the Town had a network security assessment completed recently). We remind the Town that given the remote processing of its financial transactions during this social distancing period that network security becomes more vulnerable and should continue to be evaluated on an ongoing basis.

FINDINGS AND RECOMMENDATIONS

Water Inventory

The ending balances for water inventory exceed $1 million for fiscal year 2024, accordingly it was determined that a water inventory on site observation of the year-end count was necessary.

Typically, in an inventory intensive operation, proper controls include maintaining a perpetual inventory ledger and comparing the amounts included on this ledger to the actual count. This should be completed at least quarterly.

The following observations were made:

1. We determined that while actual counts are completed, they are not compared to the perpetual records.
2. We counted meters and pipe independent of the water personnel and determined that approximately $430,000 was on hand, yet the perpetual ledgers reflected approximately $495,000. This discrepancy of $65,000 was not reasonably reconciled and thus resulted in an unexplained write-down of inventory.
3. We determined the stock room is not counted and costed. The perpetual ledger amount was about $680,000.
4. We determined that PVC pipe is not inventoried.
5. We determined that the inventory is maintained in an unorganized manner throughout the grounds and facility.

Per discussion with Finance and the Water Department Superintendent, the Town is contemplating the construction of a warehouse on the facility. The intention is for this warehouse to hold all inventory and secure it with locks, alarms and surveillance. Once organized, the inventory is expected to be counted quarterly and compared to the perpetual records. Finance will do spot audit counts to determine if intended processes are followed.

Chapter 90 (repeated)

Chapter 90 and other roadwork balances have accumulated a deficit of over $1.3 million. This is approximately the same amount as the prior year. There has not been a reimbursement from the State DOT in nearly three years.

We discussed this with Finance, and it was determined that a process is in place during 2025 to file all reimbursement requests such that the amounts due from the State are all collected by June 30, 2025.

Receivables (repeated)

The Collector's Office continues to maintain receivables that are historically many years in default. While some improvements were made in Motor Vehicle and Boat Excise the last few years, Personal Property goes back to 1989, and Real Estate to 1995.

Many of these balances are immaterial in relation to the overall Town activity and the only means of collection enforcement is through small claims court or enforced through nonrenewal of business permits.

In order to address this further, the Collector's Office can create a schedule and identify the holder of each account. This could then be cross-referenced to the Town Clerk's Office where business permits are maintained. In doing so the Town could learn which businesses are still active and if in default, either revoke the business permit or not renew the business permit on next renewal.

Once these efforts have been exhausted, a request to the Assessors to abate the tax under MGL Chapter 59 Section 71 makes most sense using the following steps:

a) If the collector is satisfied that a tax on tangible personal property is uncollectible because of death, absence, poverty, insolvency or other inability of the person assessed to pay, he/she may notify the assessors under oath that these taxes cannot be paid. The assessors must decide within 30 days after receipt of the notice whether to abate the personal property taxes.

b) If an abatement is granted, the assessors must certify the abatement in writing to the collector. The certification will discharge the collector from any further obligation with respect to this tax.

Tax Liens (updated)

The Town's tax lien outstanding principal balance amount continues to show improvement. Principal balances which were over $3 million a few years ago have now been reduced to under $2.3 million at the end of 2024. We are encouraged by the Town's increased efforts in this area and recommend the Town to continue allocate the necessary resources to continue to improve this process.

Stagnant Special Revenue Accounts (update)

As of June 30, 2024, the Town maintained about 100 special revenue accounts that had no activity yet totaled over $3.0 million in fund balance. A few years ago, the Town completed a project to clean-up a lot of old accounts by reviewing these with department heads to see if they still have applicable uses or if they should be closed out. We understand the Finance Office is reviewing these in an attempt to resolve them.

DESE/Chart of Accounts (repeated)

The Massachusetts Department of Elementary and Secondary Education (DESE) requires all school districts to maintain an accounting system in accordance with 603 CMR 10.03(3)(a) which states:

> Each school district shall utilize a financial reporting system that permits the reporting of all school district expenditures by fund source, object and function and

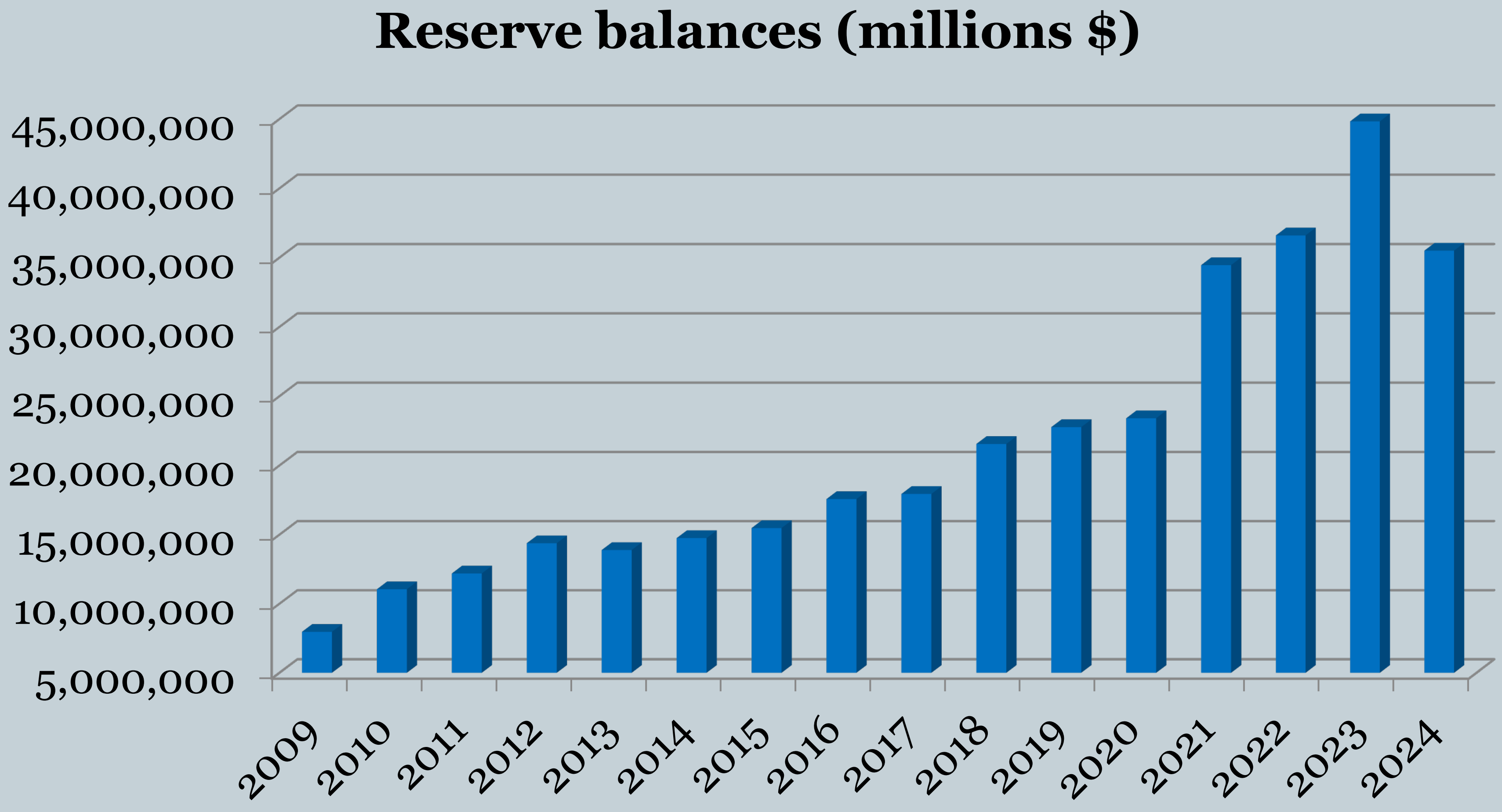
> permits the reporting of certain costs by program and school. The fund source, object, function, program, and school classifications for which reporting shall be required shall be those identified and described with specificity in the guidelines published by the Department.

The current MUNIS general ledger chart of accounts utilized by the Town and School does not include the DESE object codes and utilizes the DESE function codes inconsistently. As a result, the School is not in compliance with DESE regulations. In addition, the completion of the annual DESE End of Year Financial report is made more cumbersome as many costs must be allocated using multiple spreadsheets. We recommend that the School update its chart of accounts to comply with DESE guidelines. This will most likely be a project that takes more than one fiscal year due to the need to redesign the chart of accounts and to have MUNIS implement the changes while keeping the historical activity in the general ledger. This would also be an opportune time for the Town to examine whether non-school accounts should also be updated to enhance reporting capabilities.

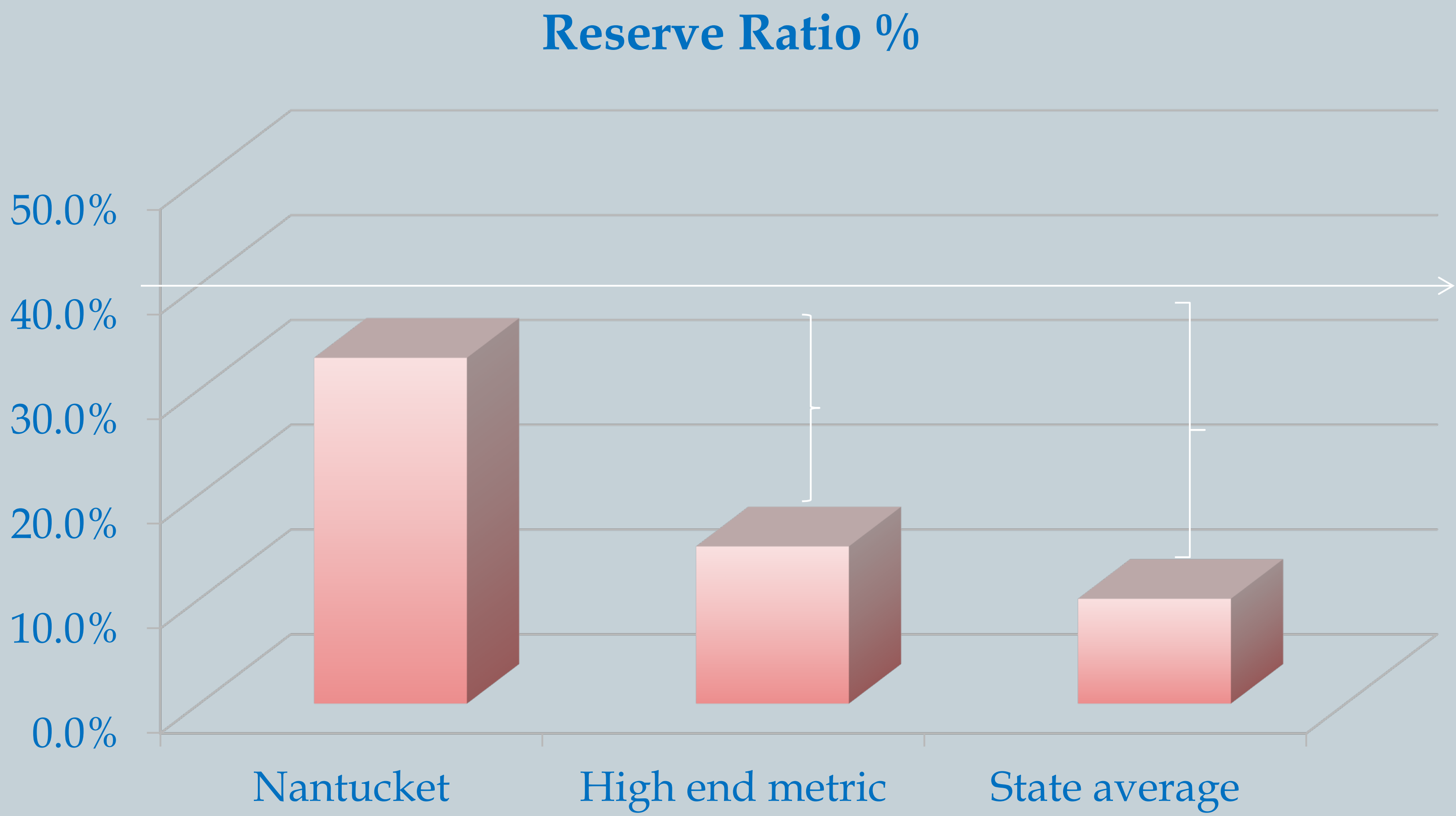
Town of Nantucket

AUDIT EXIT CONFERENCE – SELECT BOARD
ROSELLI, CLARK & ASSOCIATES
MAY 14, 2025

Economic Trends



Economic Trends



Economic Trends

- Financial trends remain excellent
- Metric significantly exceeds high-end credit rating floor of S+P 15% modelling and 30% Moody's modelling.
- Metrics exceed State averages significantly
- Continue walking the line between reserves and levy capacity very well

Economic Trends

- Target bond rating Aaa has been achieved with Moodys in 2018
- Town has been rewarded for the diligent efforts of its financial and management teams
- One of 15 communities State-wide to achieve this goal
- The Town is and will continue to experience significant savings in the form of reduced interest expense as it continues its ongoing capital improvement program
- Important to maintain this momentum and maintain consistency in reserves

Informational Items

- OPEB
  - $115 million
  - Plan Assets about 6% of liability
  - County expected to be fully funded by end of 2025
  - Investigate opportunities to reduce liability on the Town side

- Network Security
  - Remain vigilant
  - Employee training and awareness

- Investment Income – increasing significantly due to diligent investment procedures in the Treasurer's Office - $6.4 million in 2024 which more than doubled the prior year

Findings and Recommendations

- Water Inventory
- Chapter 90 reimbursement process
- Delinquent general receivables
- Stagnant balances
- DESE chart of accounts

Findings and Recommendations

- Pay attention to the macro climate
  - Bond market – very volatile.
  - Stock market – very volatile – could impact pension and OPEB.
  - Possible supply chain issues due to tariffs.
  - Federal grants in question.
  - Recessionary fears.
  - Stagflation

Questions