FY22 Audit Questions

1. Page 30, Restated General Fund Balance. Why was the fund balance restated? Was there a budget deficit on July 1, 2021 when the fund balance was restated in FY21?

   ANSWER: The FY22 fund balance restatement was due to an error in classification and accounting. The total reduction of $541,140 represents deferred property tax revenue that was recorded as equity but should have been recorded as a liability per GASB 34 (superseded by GASB 63). This would have been presented in the deferred inflows of resources on the FY21 balance sheet.

   Deferred property taxes are monies received by the Town but attributable to future periods. The funds were not lost, but simply re-classified. Furthermore, this does not mean there was a deficit as of July 1, 2021, because this adjustment affects the balance sheet only, not the income statement. There was no impact to revenues or expenditures. The FY21 surplus of $321,816 and FY22 surplus of $628,442 remain intact.

   In general, fund balance restatements are common and not to be interpreted as anomalies. The GASB pronouncements governing financial statement disclosures change regularly and often require retroactive restatements. Admittedly, the explanatory note on page 110 is vague. Thus, in all future years where a fund balance is restated, we will seek to provide more thorough commentary, as necessary.

2. Page 132, Retiree Healthcare (OPEB). What are the “changes in assumptions” that caused the decrease in the total liability?

ANSWER: All this information is in the GASB 74/75 report for FYE June 30, 2022. The assumptions are the baseline parameters necessary framework for the actuaries to provide the valuation. Typically, there are two types of assumptions: economic and demographic.

- Economic: current interest rates, salary increases, inflation, investment markets, etc.
- Demographic: participant group make-up, life expectancy, age at retirement, etc.
- It is important to note that actuaries may need to change these underlying assumptions based on inputs from the municipality, as each fiscal year is different from the previous.

The Town of Portsmouth’s actuarial firm, GovInvest, summarized the net decrease as follows:

> ### Changes Since Prior Valuation
>
> The Town’s Net OPEB Liability has decreased from $20,646,961 as of June 30, 2021 to $17,353,096 as of June 30, 2022, which is attributable to a combination of the following factors:
>
> 1. Less favorable actual asset performance compared to expected.
> 2. Slightly less favorable actual demographic experience that is offset by lower healthcare cost increase than expected for a net liability decrease.
> 3. Differences in actuarial methodology due to a change in actuary and assumption changes as outlined in Section 7 that produces a net liability decrease.
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All these changes contributed to a net ***decrease*** of $2,850,557 in the total OPEB liability.

For a complete explanation of these changes, and all other assumptions, see pages 3 and 24-29 of the GASB 74/75 here, and also pages 69 and 135 of the financial statements.

3. Page 171, Non-Major Governmental Funds. Why are we running deficits in the Town Capital Fund?

ANSWER: The deficit of $924,390 in the town capital fund is due to an accounting error. The Town Council approved the use of a mixture of prior year surpluses, COVID relief funds, town contingency funds, and other federal grant money to fund capital projects for fiscal years 2020-2022. Unfortunately, not all the funds were properly transferred to the town capital fund during FY22. Thus, there is a deficit on paper, but not in reality.

Rather than open our books and restate previous years, we will transfer the proper amounts into the capital fund this fiscal year, and the FY23 financial statements will reflect this deficit elimination.

For the record, the Town has never willfully spent capital funds into a deficit. We recognize the oversight, and we will revise our internal controls to minimize these types of errors in the future.

4. What has driven the increase in the total pension liability from $73m to $109m from 2012-2022? Why has the Actuarially Determined Contribution increased so much over this time span?

ANSWER: The Total Pension Liability (TPL) is driven by several variables:

1. Demographics
2. Plan normal costs
3. Actual v. expected experience
4. Market changes
5. Mortality estimates
6. Salary increases
7. Census changes
8. Benefits changes

These variables do not always move directly with one another, and some are subject to change yearly. It is a flawed premise to expect the TPL to remain constant over the life of the pension plan.

As such, these questions should be directed to the Pension Investment Committee for further discussion.