



Financial Audit Advisory Committee

Wednesday, December 10, 2025

Present: Councilor Malakie (Chair), Councilor Oliver, Citizen Representative Carl Valente, Citizen Representative Alex Jablon, and Citizen Representative Patrick Song

Absent: Councilors Micley and Lipof, School Committee Representative Rajeev Parlikar, Citizen Representative JP Nahmias

City Staff: Comptroller Stephen Curley, Deputy Comptroller Stela Zaloshnja

All Financial Audit Advisory Committee agendas and reports, both past and present, can be found at the following link: <https://www.newtonma.gov/government/City-clerk/City-council/special-committees/financial-audit-advisory-committee>.

For more information regarding this meeting, a video recording can be found at the following link: <https://youtu.be/l3cU2UOYyBI?si=ptEmPkINDjhGGrfp>.

Jim Piotrowski from CliftonLarsonAllen (CLA) noted that this presentation would review financial highlights, the management letter and special projects, and upcoming standards that will impact next year's annual comprehensive financial report (ACFR).

Zach Fentross from CLA presented the attached slides.

He explained that the City had received an unmodified opinion, which is consistent with prior years and the best opinion that can be received from an independent auditing firm. He noted that the "emphasis of matter" paragraph was added from the prior year. It needed to be included for the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 101 for compensated absences, but does not impact the unmodified opinion.

He reviewed financial highlights.

He first presented government-wide financial statements, which reflect a long-term financial view for the City. He explained that in the statement of net position, the City has liabilities of \$1.2 billion, which are primarily made up of long-term liabilities. He noted the City's bond payables came in at \$368 million, its net Other Post-Employment Benefits (OPEB) liability was largely unchanged from the prior year and came in at \$461 million, and its net pension liability came in at \$264 million with a \$32 million decrease from the prior year primarily due to 2024 investment income from the contributory retirement system.

The location of this meeting is accessible and reasonable accommodations will be provided to persons with disabilities who require assistance. If you need a reasonable accommodation, please contact the City of Newton's ADA Coordinator, Jini Fairley, at least two business days in advance of the meeting: fairley@newtonma.gov or (617) 796-1253. The City's TTY/TDD direct line is: 617-796-1089. For the Telecommunications Relay Service (TRS), please dial 711.

A councilor inquired about the difference in investment strategies behind OPEB and net pension funds, suggesting that one account's investments may be doing better than the other's. Mr. Fentross emphasized that each account's measurement dates differ by about 6 months, so it may not be appropriate to compare them. The retirement system's investment income is analyzed between January 1st and December 31st, whereas the OPEB's investment income is analyzed between July 1st and June 30th. He added that there was a long-term view of the two investment strategies in the note disclosure of the ACFR document. Comptroller Steve Curley added that they are both invested in the Massachusetts Pension Reserves Investment Trust (PRIT) Fund, so they are consistent in their investment strategies, which Pension Reserves Investment Management (PRIM) Board reviews with the Newton Retirement Board together a few times a year.

Mr. Fentross explained that for its statement of activities, the City saw an increase in net position of about \$128 million, largely due to the amortization of prior year deferred inflows for its net OPEB liability.

Total expenses were \$529 million, with \$353 million (67%) coming from education costs. Total revenues and transfers were \$657 million. They were made up of program revenues at \$160 million and general revenues and transfers at \$497 million, \$439 million of which came from real estate taxes.

He then presented governmental funds financial statements, which reflect a short-term financial view for the City. He noted the general fund's balance of \$137 million. He highlighted the unassigned fund balance of \$70 million which represents 12% of total revenues, an increase from prior years. He added that the Government Finance Officers' Association (GFOA) recommends about two months or 16.7% as a ratio.

A councilor asked whether the GFOA would recommend that the City place more funds in an "untouchable" account that earns interest. Mr. Fentross replied that both the City's stabilization and general fund unassigned would make up this unassigned fund balance. Mr. Curley added that budgeting more conservatively with higher revenues over expenditures would lead to the undesignated fund balance and ultimately, a higher Free Cash number which is "touchable" after it is certified.

Mr. Fentross reviewed the general fund's statement of changes in fund balance. Prior year carryforwards and reserves sat at \$60 million. He highlighted that the City had greater-than-anticipated revenues by \$22 million and lower-than-anticipated expenditures by \$47 million, totaling \$69 million. The resulting net change in fund balance is \$9.1 million.

A councilor asked where Newton stands in terms of their percentage of revenues compared to similar cities. Mr. Fentross answered that he did not have this information readily available, but CLA could investigate it.

Citizen Representative Alex Jablon asked whether GFOA's guidance would change in terms of what reserve percentage will be recommended given the changing landscape, or whether it would remain

unchanged year-to-year. Mr. Fentross replied that he has not seen this number changed throughout his career and is unaware of any plans to change it by the GFOA.

Mr. Fentross presented the City's proprietary funds financial statements, detailing liabilities, net positions, and changes in net position for the water, sewer, and stormwater enterprise funds as well as the internal service fund, which includes health insurance and workers' compensation. He detailed that the City's health insurance net position is at 2.2 months of claims, which is a good financial position given its target of 1.5 to 2 months.

He presented the fiduciary fund financial statements.

He explained that the pension trust fund's net position sits at \$587 million which primarily consists of cash and investments. The statement of changes in fiduciary net assets saw an increase in net position of \$55 million, comparable to the prior year's increase of \$57 million. He added that a driving force for this change was the net investment income increase of \$48 million, again comparable to last year's \$51 million increase.

He explained that the OPEB trust fund had a net position of \$47 million and saw a change in net position of \$8.6 million, with a City contribution of \$28 million.

He discussed the City's long-term debt. He noted that its total outstanding debt is \$409 million. He highlighted that new debt stands at \$86 million, \$85 million of which was issued for the City's governmental fund, and \$1 million for its stormwater fund.

He detailed that the largest governmental fund projects driving the new debt had been the Cooper Center construction at \$15 million, Lincoln-Eliot Elementary renovations at \$37 million, and Countryside Elementary School construction at \$20 million.

He noted that the City's OPEB liability stands at \$473 million as of June 30, 2025. He explained there was a slight increase from the prior year's \$466 million, but the number remains largely unchanged. He added that the City's pension liability stands at \$276 million which is a decrease from last year's liability of \$308 million, primarily due to investment performance.

He next presented information from the management letter.

The first comment was a repeat from prior years, that police detail billing is not integrated with the City's general ledger. CLA recommends that the City move forward with integration. Mr. Fentross provided a status update, explaining that the owner of DQH, the city's previous vendor, sold the company, and the Police department has transitioned to a new company, On Duty, which the department has used for previous projects. The Police Chief was cautiously optimistic that integration will be complete by summer 2026.

Regarding Information Technology (IT), CLA recommends that user access rights within MUNIS be reviewed on an annual basis, as they currently are not, and for the City to develop a disaster recovery plan with elements enclosed in the management letter, as they currently do not have one.

Mr. Jablon inquired about the broader IT and digital technology risk to the City, specifically what sort of risk is included within CLA's scope. Mr. Piotrowski answered that CLA's audit focuses on two components, one being the key financial systems of the City, and the other being the network of the City as a whole. CLA concentrates on digital technology related to the MUNIS and network components, rather than throughout every system in the City. Their primary goal is to understand the controls and policies in place from a high-level perspective and test the implementation with documented evidence.

Citizen Representative Carl Valente asked whether the City uses the MUNIS cloud for disaster recovery, which Mr. Fentross and Mr. Curley confirmed. Mr. Valente noted that though he agreed a disaster recovery plan was necessary, the City's financials are backed up in the MUNIS cloud at least daily. He expressed that this system is significantly better than it was 12 or 15 years ago, when CLA likely first investigated this finding. A councilor added that a lot of work had been done over the past 3 to 5 years to improve the system and mitigate risk.

Another councilor asked whether a disaster recovery plan would include procedures for employees to follow in the event of an unplanned disaster. Mr. Piotrowski confirmed that it would.

Mr. Curley stated that Chair Malakie had requested that he reach out to the IT department to obtain a response to the management letter. Mr. Curley read a draft response from Chief Information Officer Gregory Ansaldi.

Regarding the recommendation to implement annual review of user access rights to the general ledger software, he read that IT has several procedures in place to manage and monitor access, but they recognize the importance of formalizing these practices, which they are actively working on.

Regarding the recommendation to develop a disaster recovery plan, he read that the City already maintains documentation covering all key components outlined in the audit. Mr. Curley detailed current IT documentation and protocols and the steps being taken to formalize them into a formal disaster recovery policy document.

Finally, Mr. Curley read that IT recently developed and adopted a formal incident response policy which complements its disaster recovery efforts.

Mr. Fentross presented updates on special projects.

He went over the Gath Pool and Crystal Lake Beach project. CLA noted that both the Aquatics Manager, who performs daily cashout, and the Administration Manager, who reviews daily cashout,

are performing the internal controls correctly but are not documenting their work. CLA verbally recommends that they do so via a signature on supporting documentation.

He went over the School Building Revolving Fund project. He explained that CLA conducted a walkthrough of the internal controls over revenues and expenditure cycles, met with relevant staff, and tested a sample of deposits to trace from source documentation through the general ledger without exception.

He went over the Circuit Breaker project. He explained that CLA tested a sample of expenditures to assess their compliance with DESE guidelines and no exceptions were noted.

He lastly reviewed the new Governmental Accounting Standards Board (GASB) standards.

These standards are applicable to the City's June 30, 2026 audit and include changes in the GASB 103 financial report model improvements, which will impact the City's financial statement presentation, and GASB 104 disclosure of certain capital assets. He detailed some of the impacts to the City. Mr. Piotrowski noted CLA views these changes as relatively minor, and they will assist the City in dealing with these changes.

Mr. Piotrowski reviewed CLA's suggested timing for discussing the FY25 Single Audit results and FY26 audit planning.

A councilor inquired about the adjustment from last year's GASB 101 related to unused time off and whether it helped the City. Mr. Piotrowski replied that the adjustment would have helped the City for its 2024 net position, but this year focused on the additions and deductions to the measurement that brings the City to its ending 2025 balance.

In response to another question from the councilor, Mr. Piotrowski confirmed that the new estimate is more in line with the trends of sick leave use over the last few years and is a more realistic estimate for current conditions.

The Committee will meet on April 8th, 2025 at 8:00 AM.

Mr. Jablon suggested it would be prudent for the Committee to meet without the auditors as well, such as around February or March when the new Council has settled in.

He asked whether there was a management fee for the OPEB fund as well as the pension fund. Mr. Curley answered that this year's OPEB fees calendar year to date were about \$138,000.

A councilor asked what the City's intangible assets are. CLA noted that they could get back to the Committee on this question. After the meeting, Mr. Fentross provided the following information:

“It is one asset called the “Durant-Kenrick Museum Preservation Restriction. The addition appears to be from 2012 based on the description.”

The meeting adjourned at 8:53 AM.

Respectfully submitted,

Julia Malakie, Chair of the Financial Audit Advisory Committee