

**MINUTES OF THE CHESHIRE TOWN COUNCIL AUDIT COMMITTEE MEETING
HELD ON THURSDAY, FEBRUARY 2, 2016, AT 6:00 P.M. IN ROOM 210, TOWN
HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410**

Present

Sylvia Nichols, Chair; Thomas Ruocco; Absent: Liz Linehan

Staff: Finance Director James Jaskot; Deputy Finance Director, Gina DeFilio;
CFO, BOE Vincent Masciana

Guests: Scott Bassett and Paul Sabetta, RSM LLP.

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

Those present Pledged Allegiance to the Flag.

**3. ACCEPTANCE OF FY 15-16 COMPREHENSIVE ANNUAL FINANCIAL
REPORT/AUDIT.**

Scott Bassett reviewed the audit report. Mr. Bassett stated there are no adjustments; Town and BOE staff were very cooperative; 750 man hours of RSM team members performed the Cheshire audit; the team worked with Mr. Jaskot and Mr. Masciana; and the report is a 200 page document.

Pages 7-8 - from an operating standpoint FY 15-16 was a quiet year; a consistent year for fund balance, high tax collection rate, and Cheshire met the new measurements of GASB pension standards from July 1 2015 to June 30 2016.

Net Investments - there was a minimal return on the market for 12 months, and had the return been measured in September 2016, it would have been recovered. The pension plan is complicated with many moving parts, actuaries have more to do, information is sometimes delayed, and Mr. Bassett commented on municipal accounting becoming more complex. There are now 83 GASB standards, with more standards for investments and consultants, with a call for full accrual basis for accounting statements...which are very complex.

Cheshire Finance Department records are clean, and there is accurate reporting to the Town Council.

Fund Balance of 8.35%, and this meets the Cheshire policy of 8% fund balance requirement.

Internal Service Fund - the self insurance fund for medical benefits was at a deficit in 2015, and made a strong comeback this year to a \$1 million surplus. This fund works with peaks and valleys depending on health claims and trends.

Pension Fund - this position had a \$3 million decrease (as compared to prior year). Benefits remained the same; there are investments made in equity and mutual funds. GASB 72 was a new disclosure regarding investments this year, which cites how to get a measure of market value of an asset. Cheshire has \$70 million in investments; \$46 million is Level 1; \$15 million is in permanent investments, and not readily available. Mr. Bassett reviewed the Financial Statements with the committee. It was stated by Mr. Jaskot that the results of the actuarial valuation reflects losses in the report, and he was hoping for a better picture.

Mr. Ruocco said it is hard to look at this year to year, and increase funding. The Town is spending \$1 million on pension contributions. He asked how this affects the overall reporting, rating; and if returns drop, the value does not increase, or do we increase funding of the plans or reduce services in another area of the operating budget.

At this time Mr. Bassett said the pension funds are down 2%-3% in the current year, but in 2014 it had a 15%+ return.

Page 47 Pension Footnote - There was a refunding of bonds with savings; \$6 million in bonds was refunded in March 2016; cash savings was \$380,000; Cheshire is looking at the market and taking advantage of rates.

Page 49 Note 7 - Mr. Bassett cited the new valuation of 7.5%. Mr. Jaskot noted the valuation percentage has not changed, but he has heard about lower rates of return. There is no actuarial pressure to go lower, but this is a conversation to be had at some point in time.

According to Mr. Bassett, the actuaries do most of the work. The RSM internal actuaries looks at the assumptions, and is telling of a funding rate at 7.0%. Cheshire is using 7.5%, which is on the high end, and 7% to 7.25% is the average rate.

Mr. Jaskot commented on the rating agencies wanting municipalities to make required contributions, and to use a more representative rate of return.

From a pension plan standpoint, Mr. Bassett stated the Town many not have an option in the upcoming years, as most of the new mortality tables show increasing levels. The municipal pool/public sector is having a study done right now, and the new tables will make a huge difference. Some of the existing tables are from 2000 to 2002. Cheshire will have to use adopted standard tables, with an impact on the pension OPEB.

Page 61 (OPEB) - Cheshire is due for a new study on OPEB (last done July 2013). Under a new study, the standards changed for OPEB as far as measurement goes; there will be added disclosures to the report; how to record liabilities, similar to pension liabilities which are measured against any monies in the trust. The difference will be...in Cheshire's current plan calculating the liability...because of the contribution history, there can be use of the discount rate of 7.5% throughout the life of the plan. OPEB plans are not funded at the level of pension plan funding. A run out is done, using a

high rate of return, and once you get to the point of return, there is a drop down to the municipal rate of return, 1% or 2%.

Mr. Jaskot said Cheshire does not really fund its OPEB money on an actuarial basis, and will have to use a lower return assumption on them. Financial statement liability could be higher, with more pressure to fund an increase based on actuarial recommendations.

It was stated by Mr. Ruocco that he always thought funding OPEB should be done regularly.

There are many new standards out there, and Mr. Bassett said we are up to GASB 83 and OPEB is a big one. Next year will be a quiet year with new standards. Tax collection rate is at 99.77%. At the town level, Cheshire receives federal and state funding; most go through the BOE; these are the ones tested by the actuaries; there were no problems with everything in compliance with regulations for the Town and BOE.

Mr. Ruocco talked about loss of discretionary revenue which is something that cannot be taxed for, and if this is viewed as to the way the Town is run from an audit perspective.

In reply, Mr. Bassett said agencies look at the financial of the State; how much the town relies on State funding; some towns will look at the ability to raise taxes to fund revenue losses. Cheshire's funding from the State is not too large a part of its revenue; it is not something the town relies on; but this all factors into the report to the rating agencies.

Mr. Masciana stated the BOE has a \$70 million operating budget. ECS funding is \$9.4 million; and without State funding the average cost to the taxpayer would be another \$983 annually.

The State Teachers' Retirement Plan was using an 8.5% level of funding, and it is now down to 7.25%.

Appendix - Auditing Services was reviewed by Mr. Sapetta.

Accounting Policies and Practices - this is the report where there is disclosure of something adopted by the Town, which the auditors disagreed with or had related questions. Nothing was seen this year to show preferential accounting treatment, and everything was fine with this section.

Audit Adjustments - there were none in the audit.

Disagreements with Management - none during the audit.

Consultations with other Accountants - none in the report.

Significant Issues Discussed with Management - no significant differences noted.

Summary of Significant Accounting Estimates - Pension Plans. Pension and OPEB estimates involved in determining these liabilities and assumptions; there will be new mortality tables and discount rates to be watched.

Risk Management Self Insurance - another area where estimates are involved; must keep an eye on the estimates used; underlying data was tested as part of the auditing process to calculate liabilities.

Allowance for Doubtful Accounts - these estimates must be watched so what is owed to the Town is paid; there are no significant numbers.

Cost Sharing Plan and Assumptions - this is the Teachers' Retirement Board Plan; Cheshire has no say in the assumptions; and there is no liability to the Town.

Investment Valuation - this ties into GASB 72; there are some estimates that go into Level 3 plans; after the pension plan this is the most significant one because there are alternatives. The Town gets an audited financial statement, and there is roll out of 4 to 6 months to see where it is as of June 30th. They are at net asset values so there are many estimates included.

Mr. Jaskot reported that the Town received disclosures in December for this report.

On behalf of RSM's audit team, Mr. Bassett expressed appreciation to Town and BOE staff for their cooperation and work in getting the audit completed this year. The process went very well, and the report was issued on time.

MOTION by Mr. Ruocco; seconded by Ms. Nichols.

MOVED to accept the Comprehensive Annual Finance Report Year Ended June 30, 2016, and forward the report to the full Town Council for approval.

VOTE The motion passed unanimously by those present.

4. APPOINTMENT OF AUDITOR FOR FY 16-17

MOTION by Mr. Ruocco; seconded by Ms. Nichols.

MOVED to approve RSM, LLP as the Town Auditing Firm under year # of the Core Contract.

Discussion

Mr. Jaskot advised that the fee structure is from the proposal of a few years ago. RSM has been the Town auditing firm for about 10 years. There was a bid for auditing services out for a 3-year contract with 2+ years consideration. Cheshire and RSM are

in the 3rd year of the core contract; it can be extended 2 more years based on pricing from this contract; there must be formal Council approval of the appointed audit, as this is then forward to the State.

VOTE The motion passed unanimously by those present.

5. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Ms. Nichols.

MOVED to adjourn the meeting at 6:50 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk