

MINUTES OF THE TOWN COUNCIL AUDIT COMMITTEE MEETING HELD ON
TUESDAY, JANUARY 22, 2013, AT 7:00 P.M. IN ROOM 210, TOWN HALL,
CHESHIRE, CT 06410

Present

Michael Ecke, Chairman, and David Schrumm and Andy Falvey, Committee Members
Staff: James Jaskot, Finance Director and Gina DeFilio, Deputy Finance Director
Guest: Scott Bassett, McGladrey LLP

1. ROLL CALL

At 7:00 P.M., Mr. Ecke called the roll and a quorum was determined.

2. PLEDGE OF ALLEGIANCE

The meeting started with the Pledge of Allegiance to the Flag.

3. FY 11-12 AUDIT

Mr. Jaskot handed out a Summary of the Comprehensive Annual Financial Report (CAFR) / Federal and State Single Audit Reports for the Year Ended June 30, 2012, a copy of which is attached to these minutes. He stated that the Summary provides an overview of the financial activity of the Town of Cheshire for the fiscal year and also of the various audit reports.

Mr. Bassett presented an overview of the 2012 audit. He stated that the auditors McGladrey LLP expressed a clean opinion on the Town's financial statements. He noted three control deficiencies were reported to the Council, none of which were significant deficiencies or material weaknesses. One comment had to do with some purchase orders in the Public Works department that were issued after services were performed or goods received. Another observation was one instance where an expenditure request form was not signed by a student activity coordinator. Also, there were some instances where there was a lack of segregation of duties between collection and deposit preparation from cash receipts recording, a repeat comment from the prior year. Jim Jaskot said that the first two comments were reviewed with respective departments and they will work to ensure that proper controls are followed. Correcting the lack of segregation of duties would not be cost effective due to the size of the departments involved, but collections reports are reviewed by management on a regular basis.

Next, Mr. Bassett highlighted some of the financial activity during the year. The Town established an other postemployment benefit (OPEB) trust during the year and funded it with \$500,000. The Town also had a refunding bond sale during the year which saved \$361,000 in debt service payments. Unassigned fund balance in the general fund was

TOWN COUNCIL AUDIT COMMITTEE MEETING
01/22/2013 page 2

8.5% of expenditures, versus 8.0% in the prior year. The Town reported over \$.5 million of FEMA grants for storm reimbursements. There was a collection rate on the current levy of 99.6%.

Mr. Bassett noted on page 32 of the CAFR, that the Town had over \$11 million in alternative investments (hedge funds) and from an audit perspective, there is an increased risk due to valuation concerns. Mr. Falvey asked if some hedge funds are riskier than others. Mr. Bassett said some are, but there is still an overall audit risk. Mr. Jaskot mentioned that the Retirement Board is looking at private placements.

Mr. Schrumm asked about rates of return and the return assumption that the Town was using for its pensions. Mr. Jaskot stated that the plans were assuming an 8.25% return. Scott said that this assumption was trending lower, and 7.50% to 8.0% is more common.

Mr. Bassett said there were no findings or questioned costs pertaining to the Town's grant programs, nor were there any audit adjustments. The Town Council is receiving good financial information on a monthly and quarterly basis. The audit went smooth and was filed on time.

Mr. Schrumm asked about the fund balance. He said it would have been higher, but the Town has been in the practice of using some of it to fund reserves and other expenses, approximately \$600,000 this past year. Mr. Ecke said that some Town's were as high as 15% of expenditures and wondered if that made any sense. Mr. Bassett said he did not have any clients with fund balance percentages that high, they are mostly in the 7% to 12% range. He said that at 8.5%, Cheshire was right in line.

MOTION by Mr. Schrumm; seconded by Mr. Falvey, that the Audit Committee recommend the FY 11-12 Comprehensive Annual Financial Report (CAFR) to the full Town Council for acceptance.

VOTE The motion passed unanimously.

4. ADJOURNMENT

MOTION by Mr. Ecke; seconded by Mr. Schrumm.

MOVED that the Audit Committee adjourn at 7:25 P.M.

VOTE The motion passed unanimously.

Attest:



James Jaskot, Finance Director

TOWN OF CHESHIRE
SUMMARY OF
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) /
FEDERAL AND STATE SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2012

- Letter of Transmittal (Introductory Page i)

This letter contains a formal transmittal of the CAFR, profile of the Town, information useful in assessing the Town's financial condition, and awards and acknowledgements.

- Management's Discussion and Analysis (MD&A) (Page 3)

This narrative introduces the government-wide and fund financial statements and provides an analytical overview of the Town's financial activities. The primary focus of the MDA is the government-wide financial statements and fund financial statements with emphasis on the Town's major funds.

- Statement of Net Assets and Statement of Activities (Pages 11 to 12)

The Town is required to provide financial statements on a government-wide basis. The primary purpose is to determine the net assets of the Town, taking into consideration both short and long term assets and liabilities, and accounting on a full accrual basis. As of June 30, 2012, the net assets of the Town were \$121,316,196, an increase of \$2,743,641 over the prior year.

- Unassigned Fund Balance (Page 67)

The Town had an operating surplus of \$909,696. This operating surplus, less \$600,000 committed for the year ending June 30, 2013, increased the Town's budgetary fund balance by \$309,696, from \$8,770,676 to \$9,080,372. This represents 9.28% of actual budgetary expenditures. The unassigned fund balance of \$8,854,447 on page 67 is presented on a Generally Accepted Accounting Principles (GAAP) basis. Accordingly, the Town's budgetary fund balance is reduced by certain GAAP adjustments, including a reserve for prepaids of \$83,655, a payroll accrual of \$91,130, and the effect of GASB 54 of \$51,140.

For the detailed budgetary results of operations, see revenues beginning on page 61 and expenditures beginning on page 64.

- Tax Collections

The tax collection rate for the current list year was 99.6 %, exceeding the 99.0% projected in the development of the 2012 budget. See pages 74-75 for more details.

- Certificate of Achievement for Excellence in Financial Reporting (Introductory Page ix)

The Government Finance Officers Association has presented the Town with a Certificate of Achievement for Excellence in Financial Reporting for the past nineteen years.

TOWN OF CHESHIRE
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- Independent Auditors' Report (Pages 1 - 2)

The Independent Auditor's Report gives the financials a "clean" opinion for the year ended June 30, 2012. The third paragraph states: "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cheshire, Connecticut, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America." In addition, reports on compliance with grant requirements and internal controls (included with Single Audits, under separate cover) expressed that there are no material weaknesses in controls and that the Town was in compliance with applicable laws, regulations, contracts and federal and State grants.

- Notes to Basic Financial Statements (Beginning on Page 23)

The notes should be read when reviewing the Basic Financial Statements (Government-Wide Financial Statements and Fund Financial Statements, Pages 11 to 22) to gain a better understanding of the financial statements and the financial condition of the Town.

- Statistical Section (Beginning on Page 99)

This section contains information on financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information.

- Federal and State Single Audits (Under separate cover from the CAFR)

There were no findings or questioned costs pertaining to the grant programs administered by the Town. Also, there were no material weaknesses or significant deficiencies on the Town's internal control over financial reporting or over compliance with grant programs, both federal and State (Federal and State Financial and Compliance Reports, Schedule of Findings and Questioned Costs, Pages 6 and 16).