

MINUTES OF THE CHESHIRE TOWN COUNCIL AUDIT COMMITTEE MEETING
HELD ON MONDAY, FEBRUARY 22, 2016 AT 6:00 P.M. IN ROOM 210, TOWN HALL,
84 SOUTH MAIN STREET, CHESHIRE CT 06410

Present

Sylvia Nichols, Chairperson; Liz Linehan and Thomas Ruocco.

Staff: James Jaskot, Finance Director; Gina DeFilio, Deputy Finance Director; Vincent Masciana, Dept. of Education Director of Management Services.

Guest: Scott Bassett, RSM.

1. ROLL CALL

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

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. ACCEPTANCE OF FY 14-15 COMPREHENSIVE ANNUAL
FINANCIAL REPORT/AUDIT

Ms. Nichols stated the focus of the meeting is to review and discuss and approve the annual financial report as of June 30, 2015.

Scott Bassett, RSM Partner, stated his firm conducted the audit for the Town of Cheshire; gave a clean, unmodified opinion on the financial statements; and they were presented in accordance with generally accepted financial principles. In addition to the audit there was audit of federal and state awards the town receives, with 4 or 5 programs audited with an opinion presented on the town's compliance with them. There was no opinion on internal controls which were looked at during the audit. There are three levels of findings - material weakness, inherent deficiencies, control deficiencies or observations of little things seen, which are communicated in written or verbal format.

Deficiencies cited in the audit were insignificant. Mr. Bassett explained the auditors visit different schools during the summer, ask for documentation. Some could not be found for two small transactions, but was subsequently found and were accurate.

Student Activity funds pose an inherent risk, but are immaterial to the town as a whole. There is money from 10 different directions, flows through central office, and the BOE has good controls in place at this level, which filters down to the schools. These are all looked at in each audit.

Cost benefits, segregation of duties, etc. in small departments where there is not much segregation of duties.

Neither of the comments are significant, but are a by-product of the audit.

700 man hours were involved in the audit for the Town and Dept. of Education. It is important to look at the numbers adjoining entries. In Cheshire there were no adjusting entries made to the trial balances; the numbers, figures and projections are accurate. The town received a clean opinion.

Financial Statement - Mr. Bassett reviewed areas of the statement with the committee.

Page 15 - this year there was a new accounting system, GASB 68 -- which has to do with how liabilities associated with pension plans are recorded. In the past GASB 25 and 27 had liabilities disclosed, but not measured. As of July 1, 2014 this changed where the liability makes its way to the full balance sheet. The long term liabilities are \$113 million, up \$25 million from prior year; there is (\$23 million) deficit situation due to the net pension liability brought forward. The town has always done a good job with contributions, 100%, sometimes over 100%; the liability is measured; the assets used are the value as of June 2013; so it's a fair value method against which the liability is measured. The actuary smoothed earnings over 5 years. The rate of return in 2015 is 1.5% area.

Pages 16 and 17 - these two pages are an accounting method, seen by the town once a year; the standard is GASB 34. The town has increased the fund balance by \$6 million.

Pages 18, 19, 20 - General Fund is the operating fund of the town; all revenues and expenditures are through this fund. \$9.1 million fund balance, 8.24% of expenditures; policy is to keep fund balance at 8%; these are what the rating agencies look at. Page 19 shows a decrease of \$219,000 in the general fund. Column #2, the \$15.6 million loss is the function of how the money is borrowed, and once things are financed this number is eliminated.

Pages 22 and 23 - The town retains some risk for health benefits up to the stop/loss; the town is self insured; the monthly charge is put into this fund; at year end, the fund had a \$333,000 deficit. These funds are in good shape even with a small loss shown. These funds should be reviewed on a quarterly basis.

Mr. Jaskot advised the town is looking at workers compensation and self funding the program and stop/loss insurance.

Mr. Masciana reported Cheshire is looking at a group of towns to form an insurance company (through CREC) with a stop/loss product, and this would eliminate private insurance.

Page 25 - Pension Trust Fund, about \$70 million, and portfolio information. Alternative Investments include low risk, diversified investments, hedge funds and private equities. The Pension Board maintains the funds; and there is a fund investment policy.

Page 43 - Notes to Financial Statements. Note #6 lays out activity for year end 6/30/15.

AUDIT COMMITTEE MEETING

2/22/16 PAGE 3

Page 44 - Long term obligations; there are long term liabilities out there and the audit looked at them. OPEB accounting will be changed in two years with the liability disclosure in the GASB 34 statements. The town has some long term, manageable, liabilities out there...i.e. Heart & Hypertension.

Page 45 - Long term obligations; town will be refunding \$55 million with savings of \$254,000.

Pages 50 and 51 - Retirement Systems; net pension liability of the town as of 6/30/15; Town Fund funded at 78% level; Police Fund at 62%; Volunteer Fire at 36%. Discount rate used to measure total pension liability is 7.50%.

Page 51 shows the impact of the discount rate; town liability is \$11.6 million.

Page 53 - lists the investments.

Page 57 - OPEB benefits, \$28 to \$29 million liability; with new standard will be increase of \$20 million liability shown; it does not change benefits; it is an accounting disclosure; there is no change to the plans, union contracts...just a disclosure to the balance sheets. The future OPEB calculations could increase the liability.

Mr. Jaskot commented on the Town of Cheshire being in good shape compared to many other communities. The benefits are capped to Medicare eligibility; other than the CPD the cap is \$2,500 a year; CPD has insurance benefits to age 65 for officer and spouse, with larger self-contribution. These are matters to be discussed during the budget process.

The teacher retirement plan through the State uses 8.5% disclosure rate and the Town has no liability for this plan.

Tax collection rate of 99.7% is very high and the town has a strong 10 year history of high tax collections.

Key Issues - Fund balance is something the rating agencies look at for credit rating, and how it is managed. Cheshire does a good job with its fund balance. The town has the ability to raise and collect taxes, and 99.7% is a strong collection rate.

Internal Service Fund - agencies do not want to see huge deficits in this fund, because the money must come from only one place...general fund.

Budgetary Basis - the town does very well; there is no big swing to balance the budget.

Pension funds - these are well funded with a history of funding which is key; the town makes required contributions each year; rating agencies look at this.

Internal Controls - Town and BOE. The BOE has good student activities fund, payroll, federal and state grants received an opinion.

The Town of Cheshire is in good financial position, and Mr. Basset said there are no surprises. The Town and BOE do a good job and all information is accurate. Mr. Basset noted there will be more future reporting requirements, with new standards next year for the municipal audit. Cheshire has good internal controls, and good management of the financial process is very important.

Mr. Jaskot commented on the town's AAA credit rating from two agencies, with agencies looking at the strong management team, collection rate, funding of pension obligations.

The town has new software for internal controls, and the Building and Planning Departments use more cash means.

Mr. Masciana reported on the new software purchased by the BOE, the on-line link for payment of field trips, school lunches etc. "School Bucks". With credit card transactions there are some fees involved.

Mr. Jaskot pointed out that Parks and Rec, Library, Artsplace, Tax Department use this software, and future users would be the Building and Planning Departments and Town Clerk's office.

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

MOVED that the Audit Committee accepts the Comprehensive Annual Financial Report/Audit for FY 14-15, and forwards it to the full Town Council for approval.

VOTE The motion passed unanimously by those present.

Ms. Nichols thanked Mr. Jaskot, Ms. DeFilio, Mr. Masciana and the Finance Department staff for their hard work and oversight of the finances of the Town.

4. ADJOURNMENT

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

MOVED to adjourn the meeting at 6:58 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk

