

**MINUTES OF THE CHESHIRE TOWN COUNCIL AUDIT COMMITTEE MEETING
HELD ON WEDNESDAY, FEBRUARY 21, 2018, IN ROOM 210, TOWN HALL, 84
SOUTH MAIN STREET, CHESHIRE CT 06410**

Present

Sylvia Nichols, Chairperson; Jeffrey Falk and Thomas Ruocco.

Staff: Finance Director James Jaskot and Deputy Finance Director Gina DeFilio.

Guests: Scott Basset and Paul Sabetta, RSM (Auditors)

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 16-17 COMPREHENSIVE ANNUAL FINANCIAL
REPORT/AUDIT**

Mr. Basset gave an overview of RSM's responsibilities as the auditor for the Town of Cheshire. They include an external audit, and he said the opinion is clean and unmodified, with no exceptions to the procedures used by the Town. RSM looks at internal controls, gives comments on material weaknesses, control deficiencies, and there were no such comments this year. Everything done at the Town and Board of Education were in order, and reports from the Finance Department are accurate. In the current year the only significant change from 2016 is more disclosure, more talk about OPEB which are the larger numbers. Until 2008-09 no one knew about the OPEB numbers, and now actuaries do a full evaluation of future costs. This is a new statement in the report for this year, and next year this liability will make itself to the face of the financial statement. The audit went very well, and everything was in order and ready for the auditors when they arrived at Town Hall.

There is a changing world and Mr. Jaskot commented on internal control procedures being stepped up, electronic payments, and it being common for fraud to occur. Cheshire now has a limited insurance to cover such a fraud situation. The Town completed a questionnaire stating its procedures and external caution has been implemented, with a second set of eyes for approvals.

According to Mr. Basset there cannot be any exceptions to procedures, and education and training can prevent fraud from happening. Cheshire's controls are very good. The tax collections can be traced and most are electronic payments.

Page 13 – Statement of Net Position. This information measures long term assets and liabilities; Town assets exceed liabilities by \$112M.

Page 65, Note #8 – OPEB obligation is \$9M. There are new GASB rules as of July 2016.

Page 66 – GASB 74 Disclosures. \$31M New OPEB liability; Town \$19M; Police \$11M. This reduces to \$20M under new GASB standard effective July 2016.

Page 14 – shows change in net position of \$3.5M increase in the current year. Ending net position of \$111M.

The State changed the actuarial assumptions in 2017; the State's contribution and calculations increased; this plan has no cost to the Town; the percentage increase to education increased this year; this is a paper transaction, in and out.

Page 15 – Balance Sheet-Governmental Funds. The unassigned fund balance for the Town is 7%; General Fund is \$8.4M; \$2.5M is assigned; 1M was used to balance this year's budget.

Mr. Jaskot stated the Town Council usually hears 8%-9%; there is an overview in the report of the budgetary results.

Mr. Basset stated Cheshire has a managed fund balance, is keeping it within a range; rating agencies look at how the fund balance is managed; debt service reserve account is \$7M, and rating agencies also take this account.

Page 17 – Revenue/Expenditures. This page shows ins and outs of revenues and expense flows; it is close to the cash basis; there was small growth of about \$500,000 in the general fund; Cheshire has a 99.7% tax collection rate; this report shows the ins and outs of revenues and expenditures.

Page 21 – The Town is self-insured for medical benefits; the increase is \$1M in the current year; there is a \$2M net position in the fund; yearly claims were about \$13M; this fund shows the ups and downs based on claims.

Mr. Jaskot noted this is for two funds - medical and heart and hypertension.

Page 23 – Trust Fund, Pension and OPEB. Investments are consistent; there is a good mix of investments; the year ended with \$71M trust assets.

Mr. Basset reported that notes to the statements are consistent with prior years.

Page 45 – Long Term Obligations. Other than bonds and notes there are pension liabilities which decrease from the prior year. Pension liability is \$36M. Total obligations are \$159M.

Page 75 – Investment rate of returns are cited for 2014 to 2017; this is a measure of the return based on fund assets; 7.5% is the rate assumption; Mr. Jaskot expects this rate of return to increase as the last six months have been good.

Page 51 – Employee Retirement Systems. Town is funded at 76%; Police at 56%; Firefighters at 45%; the average pension plan is funded at a little lower than 70%. In Connecticut, a defined pension plan is not required to be funded at a certain level. The Town's funding levels are favorable.

Page 72 Note 12 – new GASB requirement for tax abatements in the current year. There was \$62,321 in abated tax amounts for year ended 6/30/17; total of \$180,000 between the two tax abatement plans.

Page 91 – Budgetary Results of Last Year's Operation – Mr. Jaskot reported on the \$1.247M surplus; \$1M used to defray the cost of the FY 2018 budget; the year ended with 9.47% fund balance; much of the surplus is due to the high tax collection rate. There was a hold back on C.N.R. contributions; \$100,000 favorable variance in the debt line item due to savings from refunding done in the prior year; individual Town departments had favorable variances.

Mr. Basset stated the new tax law did have an impact on municipalities and refunding with a limit on the refunding. \$1.8M federal funds and \$19.5M State funds for Cheshire is consistent with the last few years. He advised that the audit is obligated to look at state and federal grants requirements. The auditors tested 6 or 7 grants, and gave a clean, unmodified opinion on them.

It was stated by Mr. Jaskot that there are more disclosures and more sophisticated disclosures in the audit reports now. The audit preparation work does affect the work and time of the Finance Department staff.

From an RSM internal standpoint, Mr. Basset said the actuaries develop the numbers as of June 30th. The numbers are checked, the report is done, and it gets to the auditors.

Mr. Jaskot reported that the Town pension plan is funded at 100%. The Police pension fund is still catching up; the new contract will have a good impact going forward; there is an increase in the employee contributions.

The committee was told by Mr. Basset that, overall, the audit went smoothly. The staff submits the information requested, and the Cheshire team did a good job.

Mr. Jaskot reported the BOE audit also went very well.

Ms. Nichols expressed appreciation to Mr. Jaskot, Ms. DeFilio and the Finance Department staff for their extra work and response to the auditors who conducted the audit.

Mr. Jaskot commended the RSM auditors who did a good and professional job, and were great to work with during the audit process.

4. APPOINTMENT OF AUDITOR FOR FY 17-18

Mr. Jaskot commented on the excellent and professional job performed by RMS for the financial report/audit. He noted that few firms do this work and RSM is one of the best.

A few years ago there was an RFP for a three (3) year contract. RSM was the low bidder with pricing. The contract had an option to renew for another two years, one year at a time. Mr. Jaskot advised that the recommendation is to keep the current service firm, RSM, as they provide good service to the Town.

MOTION by Mr. Ruocco; seconded by Mr. Falk.

MOVED that the Audit Committee recommends the auditing services of RSM US LLP to the Town Council for approval.

VOTE The motion passed unanimously by those present.

5. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Mr. Falk.

MOVED to adjourn the meeting at 7:47 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk