

**Audit Committee
Meeting Minutes
July 11, 2013**

The Bethany Beach Audit Committee held a meeting on Thursday, July 11, 2013 at 10:00 a.m. in the Town Meeting Room.

Members present: Patrick Sheplee, Chairman, who presided; Monte Wisbrock, and Thomas Defibaugh.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Council persons, Jerry Dorfman and Joseph Healy; Auditors from TMG Group LLC, Roy Geiser and Herb Geary; Administrative Secretary, Lisa Kail; and other interested members of the public.

Herb Geary, of TMG Group LLC, stated that the Town had another great year. Roy Geiser agreed and reported that the audit went well, they had several good staff members on the job and the town was well prepared. He mentioned that new clarity standards resulted in a slightly different format on pages 3 to 5, in which they give the Town an unqualified opinion. This is the highest level of assurance that they can give that the statements are free of material misstatements.

Mr. Geiser referenced the Management's Discussion and Analysis (MD&A) on pages 6 through 20 as having excellent information. Mr. Geary agreed that this section was well written and is a good narrative for citizens.

Mr. Geiser summarized some key areas of the statements that follow the MD&A:

- The Government-wide statements on pages 21 and 22 show that net assets increased \$1.1 million to \$22.3 million.
- Governmental fund statements on pages 23 to 26 show that the fund balance increased \$543,000 to \$4.9 million. Reserves and committed funds are shown on page 23 indicating that the Town holds a much higher amount in reserve than the two months of operating reserves recommended as an absolute minimum by the Governmental Finance Officers Association (GFOA).
- Business-type activities statements on pages 27 to 29 show that net assets increased by \$252,000. The Water Fund showed net operating income of \$48,000 while the Sanitation fund showed a net operating loss of \$80,000.

Mr. Sheplee asked about the Sanitation operating loss. Ms. Connery referenced page 16 of the MD&A where it states that the Town increased sanitation rates as of April 2013, which should result in an \$80,000 increase in revenue. This shows that the Budget and Finance Committee expected this loss and already took appropriate action.

Mr. Geiser continued his report and made the following points:

- Note 6 on pages 39 & 40 shows capital purchases made by the Town, which are explained very well in the MD&A.
- Note 7 on page 41 shows the start of the loan on the water tower project. This project will result in the need for a single audit next year and possibly the year after. The Town's intention to repay this loan over a shorter term than the 20-year term is noted in the statements.

- Note 10 on pages 43 to 45 shows the Town's post-employment healthcare benefit liability with \$183,000 in cash set aside for \$473,000 in actuarial accrued liability leaving \$290,000 currently unfunded. He noted that the funded ratio is now 39% and growing significantly each year. Mr. Geary added that very few municipalities are actually funding this liability, which may cause them problems in the future.

Mr. Sheplee asked for confirmation of his understanding of this post-employment benefit, noting that it covers only three people for the cost of health insurance premiums. The Committee confirmed that this is accurate added that the amount of the liability is calculated every three years and recently declined due to the death of a retiree. In fiscal year 2013 the Town paid \$8,000 in insurance premiums for this benefit.

Mr. Healy mentioned that he thought the information on page 49 would be more clear if it had a heading. He suggested "Employee Post-Employment Healthcare Benefit". The Committee agreed and the auditors will make that addition.

Mr. Geiser repeated that next year's audit will include the additional single audit report required when Federal funding exceeds \$500,000, as it will for at least one year due to the water tower loan. This is a compliance audit and involves more work as they will need to target all grants received by the Town for additional review. The Town will need to provide additional information on the source of all grant funding.

Mr. Sheplee asked about the final paragraph of the Audit Communications report, which limits use of the report to the Audit Committee, Council and management. The auditors confirmed that this limit is solely for the Audit Communications and does not limit use of the Financial Report.

Mr. Healy praised several areas of the report for the detail of information provided, specifically pages 9, 18, 38 and 43 through 45. He questioned note 2 on page 30 regarding whether the Town used private-sector guidance, as he prefers to treat the Town as a business. Mr. Geary clarified that the note is correct as written since the prepared statements comply with the Governmental Accounting Standards Board (GASB) and not the standards used by the private sector.

Ms. Connery spoke on her drafting of the MD&A, stating that she continues adding information to this narrative each year to try to make it a comprehensive source of information for any interested property owners. She explained that she goes beyond the minimum information required and has found that many governments are much larger in size include much less information. She asked that the Committee and Council let her know if they want anything added or removed.

Ms. Connery said that the Budget and Finance Committee will be reviewing the statements at their meeting next week. The final comments and changes should be ready by July 22nd and it should be available on the Town's website by the end of the month. Printed copies should arrive by early August.

Mr. Sheplee asked if the Committee's recommendation to increase the purchase order threshold was put into effect by the Town Manager. Ms. Connery replied that it has not as of this time.

The meeting was adjourned at 11:15.