

**Audit Committee
Meeting Minutes
July 10, 2015**

The Town of Bethany Beach Audit Committee held a meeting on Friday, July 10, 2015 at 10:00 a.m. in the Bethany Beach Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE.

Members present: Patrick Sheplee, Chairman, who presided; Richard Slavkin and Thomas Defibaugh.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Roy Geiser, TGM Group, LLC; Council persons, Rosemary Hardiman, Joseph Healy; Jerry Dorfman; Administrative Assistant, Molly Daisey; and interested members of the public.

Mr. Sheplee called the meeting to order at 10:03 a.m.

Approval of the Agenda

Mr. Slavkin made a motion to approve the agenda. Mr. Defibaugh seconded the motion and it was unanimously approved.

Approval of Minutes from the May 8, 2015 Meeting

Mr. Defibaugh made a motion to approve the minutes dated May 8, 2015. The motion was seconded by Mr. Slavkin and unanimously approved.

Report by Accounting Firm TGM Group LLC As To This Year's Audit and Financial Statements

Mr. Geiser introduced himself as a partner in TGM group saying he has been with the company for 15 years. He reported that Town staff was very well prepared and that the audit went smoothly as always. They are able to give us a clean, unmodified audit opinion, which is the best they can give. They compiled the draft financial statements that the committee is reviewing today using information provided by Town staff. He said that the Management's Discussion and Analysis section prepared by the Town is comprehensive, well written and one of the best they have seen.

Review of the draft Financials Statements

- Page 21 shows the total net position of the Town is \$24.7m with \$15.6m invested in capital assets, \$541k in restricted funds leaving \$8.6m unrestricted.
- As of the statement date the governmental funds had no debt.
- The Statement of Activities on page 22 is basically the Town's income statement. The net position of governmental activities increased \$901k and the net position of business-type activities increased \$363k.
- The Governmental fund balance increased \$832k to \$6.4m.
- The Statement of Cash Flows of business-type activities on page 29 shows a \$141k increase in cash. The net cash used is mainly from investing in new assets, specifically the water tower.

- Page 38 shows the Town's cash and investment status. The majority of funds are held in CDs. All the Town's funds are either under FDIC insured limits or collateralized.
- The Town's capital assets are reported on pages 39 & 40. The assets of business-type activities increased significantly from construction of the water tower which is shown in Construction in Progress.
- The Town's debt is shown on pages 41 & 42. Currently the only debt is the \$2.3m for the water tower, which the Town will begin to pay off in the current fiscal year.
- Note 8 on pages 42 & 43 discloses the Town's post-employment healthcare obligation. The Town decided to fund this liability over ten years, and now that we're five years in it is 50% funded. A new actuarial study will be needed in FY 2016.
- Note 9 on pages 44 & 45 reports on the town's pension plans. Mr. Geiser said that this note will change drastically for next year as GASB 68 takes effect, which requires governments to show the amount of unfunded liability if any. The two State of Delaware plans that the Town takes part in are over 100% funded. Ms. Connery added that she estimated the over funding to be worth around \$116k, which may be treated as an asset next year depending on how the details of GASB 68 are interpreted.

Review of the Audit Communication

- This is a required report that is done every year.
- This is where they would report if they had any difficulties during the audit, they did not.
- The only change specific to this year is that it mentions the upcoming GASB 68.

Review of the Compliance Report

- This is also known as the Single Audit.
- It is required when more than \$500,000 in federal funds passes to the Town.
- The main purpose is to test compliance with grant and loan conditions. They found no indications of noncompliance and so gave a clear opinion.
- Mr. Sheplee asked why the Town does not qualify as a low risk auditee, he recalled that after the discussion last year he thought we would be considered low risk this year. He asked that Mr. Geiser check on if one or two years of prior single audit is required and if the Town can't be considered low risk then to add the reason to the report, similar to how it was done last year.

Review of the Audit Presentation

- Mr. Geiser compiled some multi-year comparisons similar to the statistical section of CAFRs prepared by larger governments.
- Sch 1 shows that the Town's net position has increased from \$20m in FY 2011 to \$25m in FY 2015, so the Town is growing healthily.
- Sch 2 shows the changes in net position over the past five years.
- Sch 3 tracks the total governmental fund balances. The GFAO recommends that Town holds reserves of at least two months of expenses, our Town holds almost a year's worth.
- Sch 4 compares revenues and expenditures over five years.

- The hotel project had a significant effect on the Town this year. We recorded \$791k in revenues from their building permit, transfer tax and water impact fee. The Town agreed to accept these funds over four years so at the end of FY 2015 there was a receivable of almost \$600k. \$198k was paid in July of 2014, \$198k is due later this month and then \$198k in July of 2016 and 2017.
- The capital assets of the Town increased mainly from the water tower project. We've used \$2.3m of the \$2.6m loan funds available and do not expect to draw down anymore. This project is fundamentally complete, but is waiting for the final testing once the pump station is complete.
- The Town decided to hold the \$113,000 received last year from the municipal street aid grant so that the money can be combined with the current year's grant and used for a larger than usual paving project on Half Moon Drive.
- Town-wide revenues were \$9.3m and expenses were \$8.1m, so the town received \$1.2m more than its costs. However \$791k of this came from the Ocean Suites hotel project so was one-time revenue. The Town Council plans to discuss whether some of these funds should be put into a reserve for storm emergencies, which could help the Town recover faster from hurricanes.
- Last year the summer season brought in roughly \$3.0m in revenue, but cost \$3.1m. The main cost increases were from increasing lifeguard staffing to improve safety, enhancement of the beach wifi system, repairs to the Comfort Station and replacement of the handheld parking ticket writers. The Budget Committee and Town Council reacted to these cost increases by approving a \$0.25 increase in hourly parking rates so that summer sourced revenue will again be sufficient to cover summer related costs.
- The water department had a net operating loss of \$134,000 last year, which prompted the increase in water rates which will be seen on this coming October's bills. The Sanitation department had net operating income of \$20,000 this year and \$14,000 last year, so fees are still sufficient to cover costs.
- Overall the statements show that the town remains in very good fiscal condition and is achieving its goals of maintaining adequate reserves, keeping debt to a minimum and adjusting fees when necessary so that the appropriate people are paying the costs of the services the Town provides.

Mr. Sheplee said that the Town is obviously in good financial shape and credited the Council and Town staff. He asked Mr. Geiser if there was anything they should specifically keep their eye on. Mr. Geiser responded that from an auditors standpoint the change in software system will add complexity to their audit as they will need to review changes in controls, procedures and reports. He asked me how software implementation was going. Ms. Connery replied that we are progressing but not rushing so that we can get it right. She told them that she had 20 hours scheduled the week after next to go through the business process study of our core financial needs so that they get the basics set up which will allow us to expand into all the side modules. We'll have some pieces in place before the end of this fiscal year so next year's audit will be very different. The full process of changing over will require many changes to procedures and internal controls, which will probably take two years to completely document.

Motion to Adjourn

Mr. Slavkin made a motion to adjourn the meeting. Mr. Defibaugh seconded the motion and it was unanimously approved. The meeting was adjourned at 11:07 a.m.