

Audit Committee

Meeting Minutes

May 13, 2016

The Town of Bethany Beach Audit Committee held a meeting on Friday, May 13, 2016 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; Thomas Defibaugh, William Baxter and Richard Slavkin.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Roy Geiser and Shawn Bunting of TGM Group, Administrative Assistant, Molly Daisey; and interested members of the public.

Mr. Sheplee called the meeting to order at 10:00 a.m.

Approval of the Agenda

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

Approval of Minutes from the March 18, 2016 Meeting

Mr. Defibaugh made a motion to approve the minutes as amended. The motion was seconded by Mr. Baxter and unanimously approved.

Report by accounting firm TGM Group LLC as to this year's audit

Mr. Geiser reported that the audit is proceeding very well and Town staff was well prepared as usual. He should have a draft of the financial statements to Mrs. Connery by early June. This draft will be reviewed by Mrs. Connery who will make revisions and use it to write the MD&A. Once TGM group has reviewed the MD&A then the Audit Committee will be given draft statements to review, probably in late June. Mr. Geiser mentioned some local frauds in the newspaper and praised our setup of internal controls, internal auditor and audit committee, all of which should prevent the Town from being a victim of significant fraud.

One change going into effect this year is the accounting standard GASB 68, which requires a new way of reporting pension obligations. This requires us to record our Town's portion of the accrued liability of the State managed pension plans. This will have minimal impact on our town since the plans are near 100% funded; other governments such as Maryland have had to book significant liabilities. The required pension footnote disclosures will increase from 2 pages to around 10 pages and there will be additional information in the Required Supplemental Information (RSI) section of the financial statements.

Questions/comments by Audit Committee and Internal Auditor

Mr. Sheplee asked how the Town's new Storm Emergency Relief Fund (SERF) would appear in our statements. Mrs. Connery gave brief history of SERF. For the past year or so, the Council has been discussing how to create a fund that would be used if we had storm damage. At the July Town Council Meeting, 2015 it was voted to continue moving forward with creating SERF. It will be funded with seed money from the Hotel project (building permit & transfer tax) for a rough total of \$644,000. SERF is to be used for repairs, debris clean up and whatever would be needed to get the Town up and running following a weather disaster. It is not intended to be beach replenishment, that would require a much larger amount of money.

The Town Council recently changed our fund balance policy to define SERF's purpose, which is to accumulate funds to be used to aid the Town in recovering from a hurricane, nor'easter or other storm event. Use of these funds are restricted to debris clean up, repair of infrastructure, such as the boardwalk, replacement of equipment and operating expenses that are needed as a result of revenue lost in the aftermath of a storm. Access to SERF requires approval of a Super-majority, defined as 5 of the 7 Town Council Members."

This past March the Council discussed how it was being funded and where the funds were coming from. That discussion resulted in a property tax increase that will add \$100,000 a year, a rental tax increase that will add \$185,000 in combination with the seed money from the hotel project. When the parking lot on Garfield Parkway is paid off in a few years, there will be an additional \$200,000 a year that will go into the SERF fund. This fund will quickly gather a significant amount of money. In about 5 years there should be about \$2.5 million, in 10 years close to \$4.7 million.

Mr. Defibaugh asked if there was any 'ceiling' the Town was looking to reach. Mrs. Connery responded that as of right now, there is not a ceiling. That may be an item for discussion in a few years.

Mrs. Connery and Mr. Geiser have been discussing how to report this in the financial statement per Mr. Sheplee's encouragement. Mr. Geiser responded that it would be discussed in the Management's Discussion and Analysis (MD&A) section and shown on the Balance Sheet as \$644,000 in committed funds.

Mr. Healy asked if this could be classified as a long term investment. Mrs. Connery responded that we have no idea when a storm will hit (for example it could be within a year) in which case it would not be long term. After some discussion it was decided that the footnote disclosure on Cash and Investments would be enhanced to show how much of the town's investments in CDs is restricted for SERF or for Capital Replacements.

Mr. Slavkin asked if the Town has any idea on the cost association with things such as replacing the boardwalk, lifeguard station, bandstand area. He believes that if we had an estimate and a really bad storm came through (like the storm of 1962) we would know how much it would cost

the Town, from that we can set a goal amount for SERF. Mrs. Connery replied that any damage to the boardwalk could be multiple millions of dollars. It would take a very severe storm to damage the foundation of the boardwalk. Rebuilding just the surface of the boardwalk would obviously be much cheaper. That type of decision would have to go to the Town Council to see if they wanted to move forward with engineering studies to come up with amounts.

Mr. Geiser wanted to briefly address the audit approach. He said that they use the risk based auditing method, which means they assess internal controls and determine which areas have more risk so they can focus on those areas for additional testing.

Mr. Sheplee asked what affect the new accounting software has had on the audit this year. Mr. Bunting said it was minimal, the reports were easier to read than previous years. Mrs. Connery added that it made the year end easier, due to being better designed to handle year end.

Mr. Sheplee asked Mr. Rossi to let the Committee know what he is doing with the new accounting software. Mrs. Connery gave Mr. Rossi a list of a few changes made to the Finance Procedure manual due to the new software. The procedures that are already established are still followed for the system, except for a few small changes that he is looking into.

Mr. Sheplee asked Mr. Geiser to provide the five-year trend analysis he provided last year and asked that it be given to the committee in advance of the meeting.

The next meeting is tentatively scheduled for Friday, July 1 at 8:30.

Adjourn

Mr. Defibaugh made a motion to adjourn the meeting at 11:10 a.m. Seconded by Mr. Slavkin, the motion was unanimously approved.