

**Audit Committee
Meeting Minutes
July 15, 2010**

The Bethany Beach Audit Committee held a meeting on Thursday, July 15, 2010 at 10:00 a.m. in the Town Meeting Room.

Members present: Don Doyle, Chairman, who presided; Thomas Defibaugh; and Monte Wisbrock.

Also present: Herb Geary and Roy Geiser of Trice, Geary & Myers LLC auditing firm; Finance Director, Janet Connery; Internal Auditor, Phil Rossi; Mayor Tony McClenny; Town Council members, Jack Gordon, Jerry Dorfman, Joseph Healy, Lew Killmer; and Administrative Secretary, Lindsey Shallcross.

Call to Order

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

Mr. Doyle expressed his appreciation to Ms. Connery for creating the Audit reports.

Approval of Agenda

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

Approval of Minutes from the May 13, 2010 Meeting

Mr. Defibaugh made a motion to approve the minutes dated May 13, 2010 that were previously amended by Mr. Doyle. Seconded by Mr. Wisbrock, the motion was unanimously approved.

Report by Accounting Firm Trice, Geary & Myers LLC on This Year's Audit and Financial Statements

Ms. Connery reviewed the Financial Report with the Committee and the Auditors. She explained that the report contains two separate documents: The Audit Report and the Audit Communications report. The last page of this report is a comment section where they mention a new standard that will be affecting the Town, but the changes are minor.

Ms. Connery acknowledged that the Town is in overall financially good shape.

Mr. Geiser reviewed the Audit Communications report, noting that it is a required that the auditors would report any issues that they came across during the audit. The auditors did not encounter any problems, so there was no report.

The Governmental Accounting Standards Board (GASB), Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, is affected for the Town's Fiscal Year which ends March 31, 2012, although the Town can implement early if it decides to. This statement will change the wording the Town uses for fund balances. The Town

previously used the terms “reserved” and “undesignated”, but the Town will instead use the terms “non-spendable”, “restricted”, “committed”, “assigned” and “unassigned”.

Mr. Geiser explained that this will effect the presentation of the Town’s financial statements, but not much else in the Town.

The Committee discussed which term should be used. Committed funds are defined as funds that have been set aside for a specific purpose by the highest level of authority of the government, which would be the Town Council. Once the Council approves or amends the budget, they commit funds to specific purposes. Unused funds remaining in the account at the end of the year are recommitted in the next budget.

The term “committed” most closely refers to what the Town currently names “reserved” or “dedicated”.

Mr. Geary clarified that if the Town Council sets aside funds for improvements, then that is a “committed” fund.

GASB 54 also clarifies the definition of “special revenue funds”. The Town uses these for ambulance and grants. The Town’s current use of special revenue funds complies with the new regulation, so it will not be necessary to make any revisions.

Mr. Doyle expressed that Ms. Connery and the Committee did an excellent job establishing methodology with reserves and asked the auditors if they reviewed it.

Mr. Geiser stated that their auditing firm does not primarily focus on methodology with reserves.

Mr. Geiser reviewed the Independent Auditor’s Report with the Committee, and explained that the Town received an unqualified opinion, which is the highest level of assurance that they can be given.

Mr. Geiser continued to give an overview of the financial statements. He acknowledged that the net assets of the Town increased \$1.3 million: \$766,000 in governmental funds and \$540,000 in enterprise funds. Considering the current conditions of the economy, this is very good.

Mr. Geiser stated that one way to judge the financial conditions of a government is to compare the Town’s Governmental Fund Balance of \$5.4 million to its total expenditures of \$4.4 million. This ratio shows the Town is doing outstanding.

Mr. Doyle mentioned that property tax is the Town’s only fixed income, but it is only 29% of its revenue. He questioned if the auditors could comment on a reasonable percent for fixed income.

Mr. Geary explained that counties usually generate about 50% of their revenue from

property taxes. He emphasized that the Town needs to consider the affect of the summer season.

Mr. Killmer stated that parking revenue in Bethany Beach is stable, and there will always be steady revenue.

Mr. Geiser continued his discussion on the financial statements with page 38, Note 10 on Other Post Employment Benefits (OPEB). Last year, the Town estimated it liability as between \$400,000 and \$600,000. The online actuary the Town used this year calculated the total liability as \$545,000. The Town chose to amortize this liability over 10 years, which has resulted in a net OPEB obligation of \$35,762. At the end of this fiscal year, the Town had \$35,000 in cash set aside to fund obligation. Most governments are amortizing this liability over thirty (30) years and many are not funding it. Therefore, the Town is ahead of other municipalities its size.

Mr. Healy questioned how the funds are handled, stating that he would rather the funds be in a "rabbi trust" that is controlled by the Treasurer, which would prevent the Town Council from ever using these funds for a different purpose.

Mr. Geary assured the Committee that the current way the Town is handling is appropriate and follows all guidelines. Most towns are doing less by just having the liability and not funding it. Some county governments whose liability is millions of dollars, are setting up trusts as a separate legal entity.

Ms. Connery explained that all of the re-allocating for the funds is completed by the Town Council.

The Committee discussed the budgeting process of the Town and the consideration of setting up a trust fund.

Mr. Defibaugh mentioned that he feels that the Town is budgeting its funds well.

Mr. Wisbrock stated that the Town could consider having its bank set up a trust fund.

Mr. Gordon clarified that the Town is currently keeping the funds in a separate bank account so it will not be combined with other Town funds.

Mr. Killmer noted that a trust fund only protects the money that is in it and would not require the Town to fund the liability.

Mr. Healy explained that if the Town keeps funding the required amount, it will be fully funded in nine (9) years. This could mean that the number will possibly be \$350,000 by the tenth year.

Mayor McClenny stated that the Town has done very well handling this and he does not see the need to set up a trust fund.

Mr. Geary expressed that the Town's financial condition is excellent and acknowledged that the audit went very smoothly.

Mr. Doyle noted that the Town has a great staff.

Questions/Comments by Audit Committee

Mr. Doyle opened a discussion on the Delaware Local Government Investment Pool (DELGIP), which is explained on page 8 of the financial statements. He feels that the Town should alter the Investment Policy to no longer allow the Town to keep funds in this pool since those funds are not FDIC insured or guaranteed.

Mr. Wisbrock requested the history on DELGIP.

Ms. Connery explained that the Town used to keep the old emergency reserve of \$250,000 in the pool. For a number of years, the pool's earnings were greater than the Town could earn on CDs or in banks, but the Town never invested any more in DELGIP. The earning fell significantly over the past few years and all funds were removed from this pool last year and the account was closed.

Mr. Doyle expressed that he considers it a weakness to allow this investment. He added that there is a global financial crisis, which includes the State of Delaware, so he feels the Town should not let its money combine with the State's.

Mr. Doyle made a motion to suggest to the Town Council remove DELGIP from the list of authorized investments in the Investment Policy. Mr. Defibaugh seconded the motion and it was unanimously approved.

Mr. Healy expressed that the Town employees have pensions managed by the State and questioned if the Committee should request a representation from the State Treasurer that this liability is appropriately calculated and funded.

Ms. Connery assured that the State Pension Office financial statements are posted on their website. Those statements indicate at least a 90% of funding, which is excellent.

Mr. Rossi mentioned that he consistently opens all of the Town's bank accounts and reviews them. If he notices a questionable check statement, then he reports it to Ms. Connery and the Town Manager, Cliff Graviet.

Ms. Connery stated that she also gives Mr. Rossi a list of every check that is printed.

Mayor McClenny clarified that the Town has four (4) people routinely reviewing checks that was printed: himself (Mayor McClenny), the Treasurer (Jack Gordon), the Internal Auditor (Philip Rossi) and the Town Manager (Cliff Graviet).

Any Other Matters

Mr. Doyle expressed his appreciation to the Committee and the Trice, Geary & Myers LLC auditing firm for all of their hard work.

Adjourn

Mr. Defibaugh made a motion to adjourn the meeting. Mr. Wisbrock seconded the motion and it was unanimously approved.

The meeting was adjourned at 11:11 a.m.