



BOARD OF ALDERMEN
SHELTON, CONNECTICUT
SPECIAL FINANCE COMMITTEE
MEETING MINUTES – JANUARY 11, 2011

Call to Order / Pledge of Allegiance

Alderman Stanley Kudej, Chairman, called the Special Finance Committee meeting to order at approximately 5:30 p.m.

Roll Call - Finance Committee

Alderman Stanley Kudej, Chairman, present
Aldermanic President John F. Anglace, Jr. - present
Alderman Anthony Simonetti – present

Others present:

Mayor Mark A. Lauretti
Alderman John "Jack" Finn
Alderman John Papa
Dave Cappelletti, Levitsky and Berney Auditors
Finance Director, Lou Marusic,
Assistant Finance Director, Sharon Scanlon
BOE Finance Director, Al Cameron

Public Session

Alderman Kudej asked if any member of the public wished to address the committee.

William Bragg, 85 Park Avenue

I have a quick question. I notice in the past audit reports there seems to be a practice of building a reserve into the operational budget which creates sort of an illusion of (inaudible). I was wondering if you've considered changing that practice and actually setting up a reserve or a contingency account outside the operating budget which I think would give you a much better way of controlling the operating expenses in each one of the departments. Is that something that is under consideration?

Alderman Kudej replied, we can talk about it. Take your suggestion up and have a discussion.

I'd just like to offer my assistance in that area. I have over 20 years in budgeting experience as a practitioner and as an academic and my experience is that this is not a particularly good practice if you are trying to really control expenses and drive operating performance and bring in effectiveness and efficiency into this. We all need that at this point in time and I don't see that the current practice is enabling that. I am available to give you my advisement at any point in time. Thank you.

Presentation of the audit by Dave Cappelletti, CPA, Levitsky and Berney Auditors

First I'd like to explain that our audit was an unqualified opinion, there was no qualifications and that everything is running without material weakness. I usually like to start on Page 10 under Exhibit F. This is a comprehensive audit report so if you have any individual questions we can move further back into the report but this is the summary of basically the actual report and what it shows is your revenue and your expenditures, your under/overs of revenues and expenditures. You'll see that from operations you have a \$4.7 million surplus, which is then mitigated by the Soundview Purchase for \$700,000 and the designated surplus for subsequent years is \$4.3 million which comes down to a change in unrestricted fund balance of negative \$334,000. Basically that means the amount appropriated last year was \$4.6 million and is now reduced to \$4.3 million and a large portion of that is obviously, the purchase of open space. Are there any questions?

Alderman Anglace asked, one question raised by the press was undesignated fund balance, what specifically does that mean?

Mr. Cappelletti stated, why don't we just go ahead and turn to page 7, which is Exhibit C and in the first column under the General Fund, you are going to look at the fund balance. Your fund balance and the general fund in total is \$9.2 million but we break that up based on any reserves or intentions from management to expend it. As we look down, we are going to see \$496,000 in encumbrances. So that's a commitment to a third party to have a contract or service provided in

the future years. The other one would be inventory which are items that have been purchased but haven't been used yet. The final one would be the designated for subsequent years surplus. So those that I just mentioned are reserved as part of your fund balance but you've reserved it or designated it already for a specific purpose. The rest of it is the \$4.3 million which we saw in Exhibit F, and basically that's the amount available to you to appropriate. It doesn't have any reserve or attachments to it. If you are looking at what the general fund balance is it would be \$9.2 million but we also have to consider that there is some reserves on some of this fund balance. If you wanted to appropriate money you are down to \$4.3 million. That is basically how we read that. This is basically what I was going to go through again. This is the GAAP financial statement, where the budget is something that management would use and that you probably see on a day to day basis that you are very familiar with. Now we will move onto the modified basis of accounting which is comparable to other financial statements. They are all done in a standard that is used throughout the United States. Here you see that your fund balance of \$9.2 million and your assets and your liability is broken down just the same. They should be somewhat familiar to you as far as a balance sheet is concerned. The revenues and the expenditures again, you have the general fund, the capital project fund, which is mostly bonded, and other governmental funds which is mostly your special revenue funds separated here and coming down to the changes in each of the assets. The change again in the fund balance for the general fund is approximately \$1 million, which is the one probably more looked at. The Capital Project Fund is negative \$2.8 but this is simply because of bondings and short term borrowings and then other governmental funds would be probably about the same. But again, the general fund is what more people are concerned with and it's fund balancing increased by \$1 million from \$8.2 to \$9.2 million and again, a large portion of that went to the subsequent budget. Was there any questions on this section?

Alderman Simonetti asked, can you repeat that last sentence?

Mr. Cappelletti stated, yes, the general fund budget began at \$8.2 million, you increased it by \$1 million through operations and now it's \$9.2 million and I was just referring back to Exhibit C which I was referring to earlier where the largest portion was designated to the

subsequent year's budget, that would be your '10-'11 budget and that was \$4.3 million.

Mr. Cappelletti added, the final set of financial statements is the newer GASB 34 which is an agency wide financial statement. We can just go right to Exhibit A. Basically the largest difference here is that it adds in the fixed assets and the long-term debt. Actually what I am looking at is page 92 and what this is, is a long term look at what the agency wide financial statements are, the (inaudible) assets are doing. Basically what we are looking at here is that it steadies out. It's not decreasing in large amounts, it's maintaining at an average, which we're seeing here. Again, this is a long-term view of the financial statements.

Alderman Simonetti asked, as part of your audit do you look at and analyze the investments that the city makes?

Mr. Cappelletti responded, yes we do. We don't analyze. We make sure they are properly reported and that they are legal.

Alderman Simonetti asked, but you don't offer up an opinion on the investments?

Mr. Cappelletti stated, the State of Connecticut has restrictions on what you can invest in as far as a municipality, so we make sure they are within those restrictions. You are basically limited to savings accounts and U.S. Securities. The largest of your funds are probably in the state funding and also in mutual funds, so they are in very secure accounts.

Alderman Papa asked, what is the return on those, do you have any idea what the percentage would be?

Mr. Marusic responded, 24 (inaudible) points.

Mr. Cappelletti added, again, the State of Connecticut restricts you to risk. The interest rates are low so it's pretty comparable to other municipalities. Were there any other concerns regarding the financial statements that I may have missed?

Alderman Papa asked, can you get into the bonding, where are bonding is? How many years it's stretched out?

Mr. Cappelletti responded, take a look at Table C1 on page 101. Just so you realize, the financial statements are broken up into financial statements, supporting statements, and then the final has a long-term comparison, a statistical section. I am going to the statistical section, which will give you a several year comparison on where your debt is at. If you look at the tables, here is the debt over the last ten years.

Alderman Papa asked, do you have it projected out?

Mr. Cappelletti stated, sure, that would be in the notes, see page 34, these are the notes of the financial statement. It adds a little bit more explanation to each line item.

Alderman Papa asked, so this goes up to 2020?

Mr. Cappelletti responded, yes. The requirement for us is to have each individual year for the next five years and groups of five after that. Your debt goes up to 2020.

Alderman Papa asked, from 2011 to 2015 it actually goes down in principal, the bonds are starting to mature?

Mr. Cappelletti responded, yes, exactly, your principal payments are reduced. Page 33 lists what your general allocation bonds are. The general obligations on the first line, the refunding was your refinancing to reduce your payments over the years. On the bottom of page 34 would be your clean water loan funds, so that's also a large portion of your debt payment. Their payments would be on the next page. Now they are recorded in your WPCA financial statements but it has been, in the past, the city has been paying for that portion.

Alderman Papa asked, so going back to page 34, from 2016-2020, our debt is really going to come down quite significantly?

Mr. Cappelletti responded, if you don't bond anymore. In fact, if you read through the list on page 33, it will tell you exactly which ones you are paying for. Page 32 will show you all long-term liabilities. The only additions to what we already talked about was the compensated

absences and (inaudible) obligations, which was other post retirement plans besides pension.

Alderman Anglace asked, please explain the definition between government activities and business type activities?

Mr. Cappelletti responded, for the City of Shelton, business type activities is really just the WPCA recorded in there. The definition would be 'any time you receive income based on services' and that's the only real material place where you do that. The governments tend to be either based on income that's not based on services such as taxes and also grants, and other fees and licenses. The big portion that defines a business type activity is that you're charging an individual for a specific service. The WPCA has been a larger area in Connecticut with the water departments also due to consolidations. This was separated three years ago for comparable purposes so you can compare to other cities your size because you will be seeing that quite a bit. The question as to whether to consolidate has hit other cities of this size.

Mr. Cappelletti continued, I can go briefly through the encumbrances as there have been some questions in the past. If we just move back to Exhibit C. What I just spoke before about was the fund balance and how we split it up between what we believe would be a reserve or restricted funds and funds that are unrestricted. This is on page 7. The word encumbrance is basically a budgetary term and expenses are recorded when the related liability is committed to a third party rather than when it's incurred which would be done on a normal GAAP basis. So any time we are talking about encumbrances we are talking about the budgetary basis and not necessarily the GAAP basis of financial statements. The only thing we record is we try to explain what exactly is your unencumbered fund balance. There's been questions between the city's encumbrances and the Board of Education's encumbrances. I will just go further with what the Board of Education's encumbrances are. The Board of Education encumbrances, as I look through them, there were items that did not necessarily have a third party commitment or signed contract but what they rather do is use this as a cash management system, which basically means that when they receive their budget, they write purchasing orders (P.O.'s) or encumbrances based on funds they believe they are going to use in the future. P.O.'s are produced and sent to the vendors but there's no

signature on a contract for any service at this time. What the city would do is probably have a paid contract for the encumbrances made, while the Board of Education may not necessarily have one. Just look over at Exhibit C, on page 7. I just want to show you that Capital Projects, if you look at that first line, \$7.3 million is in encumbrances and the largest of this kind of makes sense because Capital Projects you are really doing construction, long term contracts. That's the amount we try to present as contracts that you have signed but yet the services (inaudible) provided to you. If you look over at the general fund, it's a lot less, it's \$496,000, basically because these are operating and we expect these to be liquidated quickly, within six months or so. You wouldn't have a long-term construction contract happening in the general fund. What the Board of Education does is uses this as a management tool, so at the end of the year they see what was spent and what was not spent and they will remove encumbrances that they believe are less important than others. So, they have a different definition of encumbrance. When I was asked are those encumbrances? I would have to answer that they may not be all encumbrances by a strict definition.

Alderman Papa asked, what happens if, not the Board of Education side, but the city side, can we encumber that also, without a purchase order or without a commitment?

Mr. Cappelletti responded, there is a purchase order and they are sent to the third parties but they don't have a third party commitment. Could you do it? That is one thing that I look for to see if you actually have that commitment, I mean you could do it. What we are looking for is that the public is understanding what is happening and things are approved at a public meeting and that's there no questions. So when I go to the Board of Education, they have a finance, where there are no encumbrances that aren't at least presented in public.

Alderman Papa asked, so they don't have to explain where that's going to be spent then? If it's encumbered, it doesn't mean that the money is going to go any place?

Mr. Cappelletti responded, yes, some times it doesn't.

Alderman Papa asked, so that's like a little shelter there where they can hold money in that particular account and not really allocate it to anything?

Mr. Cappelletti responded, that's exactly how they do their management system. I guess a simpler explanation would be, maybe in your own household, you separate funds to purchase a car in the future and you put \$500 away every year and at the end of four or five years you purchase a car. Well, they are doing that all in one year, where the city uses a reserve fund or special revenue funds, they don't have any of those. So they tend to do it all in the general fund.

Alderman Papa asked, so is there any time frame, like if something is encumbered, do they have to allocate that money in a certain amount of time, or do they roll it over?

Mr. Cappelletti responded, the strict definition is that it has to be ordered by June 30th. So, they have to have a commitment by June 30th.

Alderman Papa asked, when does it have to be spent?

Mr. Cappelletti responded, as long as that order is implemented then there is no time limit. You would expect that it would be done within six months, it's common for it to sometimes go over. What I see is that the encumbrances have been coming down over the years at the Board of Education. What happens sometimes too is that they will issue a purchasing order for \$100,000 and they will only spend \$90,000 and the \$10,000 will be left over. This year they provided purchase orders for 100 percent of their budget line, so they spent 100 percent, but by the end of the year they didn't fulfill all their p.o's, so there is some funds that are left over based on individual ones. So this is an issue where the finance should probably have a better understanding on both sides as far as are they going to allow that and do they want a stricter policy on encumbrances.

Alderman Anglace asked, can an encumbrance be changed, what is the strict definition?

Mr. Cappelletti responded, the strict definition is that you have to have a third party commitment by June 30th.

Alderman Anglace stated, okay. If you have a third party commitment by June 30th, then beyond June 30th into the new fiscal year you carry that forward as an encumbrance?

Mr. Cappelletti responded, exactly.

Alderman Anglace asked, is there any way to change that?

Mr. Cappelletti responded, there shouldn't be a way to change that, no. This is according to, not the GABSE, but the older fund accounting.

Alderman Anglace asked, is there more than one correct way to do things? For instance, the city side may get all the purchasing orders and do everything according to the books, or the Board of Education side may do that, but the other side may do something different, then you say look at this, look at that and someone is critical of it. Are both systems that are being used meet general accounting standards?

Mr. Cappelletti responded, what I was saying before is that an encumbrance is basically a budgetary concept. A budgetary concept could change from city to city. When I was asked what the strict definition is, that's how I present it in the GAAP financial statements but as far as the budget goes, as long as it's clearly stated how things are happening and that it is disclosed properly and that it is consistent, then it would be proper.

Alderman Simonetti asked, do you have any question at all that it is not being done that way, on either side, city or Board of Education?

Mr. Cappelletti responded, I think the city side works consistently in their way and the Board of Education works consistently in their way and that they may not be the same.

Alderman Anglace stated, yes, that is what I am picking up. If their not the same, it leads to a lot of open end questions, for instance, if you encumber something and you don't meet the strict definition and have a purchase order, but you said both the city side and the Board of Education side are both following that practice now, as of this year? Nobody is encumbering unless they have a purchase order for it?

Mr. Cappelletti responded, absolutely. Well, the purchase order is internally developed, so it's not from a third party, but it's sent to the third party. The city would send you the p.o. and they would call that an encumbrance. So, it's probably an invitation, rather than a commitment.

Alderman Anglace asked, what if the purchase is cancelled? Where does that money go? Does it go back to the general fund? Does it cease to be an encumbrance?

Mr. Cappelletti responded, yes, if a p.o. is cancelled within the year, then it goes against the expense line, and if it's cancelled in the following year then it's recorded into a budgetary revenue line which is then is reverted back to the general fund.

Alderman Anglace stated, that cancelled commitment can't be used or redesignated or reappropriated for something else?

Mr. Cappelletti responded, no, after June 30th.

Alderman Simonetti asked, are there any practices on either side, either the city or Board of Education that you think should be tweaked or changed that would make this a clearer way of doing business?

Mr. Cappelletti responded, as far as the encumbrances, or in general?

Alderman Simonetti replied, in general or encumbrances, either one.

Mr. Cappelletti replied, the city is always looking at improving, so I do have a lot of talks with management on ways to improve and areas to look at. I can say that that's constantly going on. I did speak with the managers at the Board of Education and I suggested that they should probably have a better communication system with the city.

Alderman Simonetti asked, they should, or they do, or they can?

Mr. Cappelletti stated, they should.

Mayor Lauretti interjected, Dave, I believe it would be helpful if you explained to the members here, as an example this year how much the city encumbered on June 30th and when it was spent by as

opposed to what the Board of Education does, so they can understand how one side works and how another side works.

Alderman Anglace stated, I think ultimately we should be working the same way.

Mr. Cappelletti responded, yes, absolutely.

Alderman Anglace added, I think we need to discuss this with our education people but I mean, that's the way it seems it should be to me, we should both be on the same page.

Mr. Cappelletti responded, I would think so too. I think your budgetary polices should be the same throughout the city. The big difference between the city and the Board of Education is that the city has the ability to use their reserve accounts and the Board of Education doesn't. So, you do see some lax with the Board of Education in other cities but if there is lax, then it should be well understood by the city and I think it's the responsibility of the Board of Education, simply because they have the ability to lose the most with this situation, or have the least amount of planning ability.

Alderman Anglace stated, the mayor just pointed out that you were going to explain the two concepts, the amount of the encumbrances on the city side, and the amount of the encumbrances on the Board of Education side and where they stand as of right now?

Mr. Cappelletti stated, my audit is as of December 31st, so I can get that for you right now. One of the problems with the audit was that we were still watching encumbrance activity on the Board of Education side by mid-December. The city side was closed by November 15th. Again, these are operating accounts, so you would expect them to be closed in a reasonable amount of time, compared to Capital Projects which may go on for years.

Alderman Anglace stated, when the subject of encumbrances first came up, somebody said that there was a number of standard kind of things like electrical bills and utility bills that you don't know as of the end of the fiscal year and you have to wait until you get the bill. To me, that would like a short-term encumbrance.

Mr. Cappelletti stated, that's actually recorded as an accrual or accounts payable.

Alderman Anglace asked, what kind of examples are there that could go on longer?

Mr. Cappelletti responded, I did ask the Board of Education that and they gave the example of wiring an area where they had some problems in a longer type of contract. So this has some of a capital project type of... so, you may have them going on a little bit longer. Everything should be ordering goods or services. I could understand something that has to be done when students aren't in the school but things as utilities wouldn't be included in encumbrances because obviously they are ordered but they haven't been used yet, that would be in the subsequent year spent in the budget.

Alderman Simonetti asked, you spoke about planning ability. Where is the planning ability different between the Board of Education and the city? We both have long term plans to take care of things, so where is the planning ability that you said is a problem? You mentioned planning ability, for instance, if the city needed a plow or something.

Mr. Cappelletti replied, what the Board of Education would do, I believe, is that there are things that are necessary and there are things that maybe need to be upgraded. Let's say there are emergencies and items that just provide for. I never try to make the distinction between what is necessary and what is not necessary because I am not in education. So, what will happen on the Board of Education side, for instance, there were some upgrades to the library, so a p.o. was written when they requested some funds for that but it wasn't initiated until they absolutely knew that they had the funds available. While, over at the city side, you would see if the funds were available and then issue the purchasing order. I think that is the larger difference. Are you thinking that encumbrances are issued in June and that's not necessarily the point. They are issued all year round and at the end of June they are deciding which ones are more important than others and then they are reducing them by June 30th. Do you understand that?

Alderman Simonetti stated, well, I'm going to go back to your premise of planning. So what you are saying is that the city will say, 'ok, we've

got this much budget, we can buy this many pieces of equipment, trucks, apparatus, bull dozers, adding machines, whatever we need to run the city,' and we put a p.o. in for this amount for each category that we need, we order them and they come in. What you just said was the school system is making up a list of what they want, putting a p.o. out and then wondering if the money is going to come?

Mr. Cappelletti added, or whether the money is available by the end of the year...

Alderman Simonetti asked, by the end of the year?

Mr. Cappelletti responded, yes, then when they get closer to the year end of the budget, they understand how much money is available and then they choose which ones will be purchased and which ones will be rolled over into next year's budget.

Alderman Anglace added, that probably would apply to both sides. There are probably some accounts on the city side that they are probably watching how it goes for Contingency's throughout the year and then as you get down a month or so before the end of the year you decide whether it is prudent to spend that money.

Mr. Cappelletti responded, encumbrances should be a right to pay, so a p.o. is signed then someone has given the authority that the monies are available. Now what happens quite often in the city side is that if p.o.'s aren't used, then they are reviewed and they can be cancelled if they feel they can move them over to the next year or that they aren't going to be used within the current year.

Mayor Lauretti asked, does Sharon have a copy of our encumbrance run? Why don't you give the Board some examples of some things that we encumbered on June 30th and the dollar amount and when those were expended and when we just said 'no more'.

Alderman Anglace asked, and about how much was it in total?

Ms. Scanlon stated, the total is \$429,000 for the city side. When we cut off encumbrances on November 15th there was \$135,000 still left that hadn't been spent yet, so, for the most part on the city purchases if you ordered something in June by September or October, the latest,

you would have received your goods. There are exceptions to that, say for the Fire Department or something, that takes longer for the equipment to come in but, generally most of the departments, if they ordered it in June, it will be here by at least October.

Alderman Simonetti asked, so you are saying that on the city side as of June 30th, the orders were put in, the money is technically spent, but maybe you didn't get the product to clear the p.o. in your bookkeeping until November? So, some things take longer.

Ms. Scanlon stated, library books is a good example, because say you want this book, but the publisher may not do another printing of it for several months, so, yes, that's legitimate. You've made the commitment in June, but they aren't going to print the book until September. Once we get past November then it is going to come out of the new year.

Mr. Cappelletti stated, I am just looking through the encumbrances and some of the larger ones are all under \$17,000 from what I can see. I am just trying to find something that is larger, but the \$17,000 was for library books.

Ms. Scanlon stated, the biggest is probably for trash, sanitation. That is \$100,000 a month.

Mayor Lauretti added, trash and recycling alone is about \$115,000 a month, so, that along with our utility bills makes up a couple hundred thousand dollars. So, the rest of the encumbrances that we have are very very small amounts and they have to be drawn down on it by the end of September, the first of October or they get cancelled.

Ms. Scanlon added, believe me, the Trash Master wasn't going to wait until September to get paid for June.

Mr. Cappelletti asked about the \$28,000 for the police department.

Mayor Lauretti asked, for the police? That was a communications item. If it's in communications, that upgrade that was done was already in progress, maybe it took a month and a half for it to be completed, and then billed and received by the city.

Mr. Cappelletti responded, that's the type of stuff you would think would last more than three months.

Alderman Simonetti asked, so this goes along with your example of wiring for the school system, it's a project that takes some time?

Mr. Cappelletti responded, yes. We don't exactly like to see wiring out of the operating account but yes. We also try to distinguish what is an operating expense compared to a capital project and bring it to the management's attention. It's done pretty well over there, they have a building committee and it's overseen.

Alderman Anglace stated, there is always a concern on the city side that when we provide a budget to the Board of Education then the law provides that they can spend it any way they want. Now, we are talking about encumbrances, and that certainly peaks everybody's interest because people are being laid off, so everybody is looking at every buck and saying, 'you could have kept this one here or you could have kept that one there.' Now, one of the things that I uncovered in this whole thing is that there is \$70,000 on the Board of Education side that as of December 15th was not identified. Is that true?

Mr. Cappelletti replied, yes, this is true.

Alderman Anglace responded, some people will say that that represents so many people that they could have kept on. What is the reason for that?

Mr. Cappelletti responded, I think that's probably a question for the Board of Education.

Alderman Anglace stated, I don't know if Al wants to participate and I don't want to put him on the spot either.

Mr. Cappelletti replied, \$70,000 in a \$60 million budget...

Alderman Anglace added, it's not major.

Mr. Cappelletti stated, well it's probably major to the people who got laid off.

Alderman Anglace stated, when you look at it and compare, it's major to people who think we could have saved a job, or two jobs?

Mr. Cappelletti responded, exactly.

Alderman Anglace stated, that's where the concern comes in.

Mr. Cappelletti stated, one thing I don't look at is efficiency, or I don't look at why they laid off individuals, I didn't go into any evaluation of that sort.

Alderman Anglace replied, right, but what you did find is that \$70,000 was encumbered but not identified?

Mr. Cappelletti responded, by the middle of December, yes, yes. They were not fulfilled. We did ask what the invoices were and they haven't had them yet. Again, that goes to their management system. They basically use the encumbrance system as a cash management, where they will encumber, they will issue p.o.'s and as their budget is lower they choose which one is probably more important and the rest of the encumbrances are cancelled. We are not going into a situation where the Board of Finance hits June 30th and says, 'we have this money available, let's start issuing purchasing orders.' I didn't see that. The purchasing orders are issued all year round but by the end they start canceling, to come back down into the budget.

Alderman Simonetti asked, you had mentioned that there should be better communication between the Board of Education and the city as far as the budget, you see this in a lot of cities?

Mr. Cappelletti responded, well, I work through the audit, I do two different audits. I do one on the city side and one at the Board of Education and once in a while the Board of Education will try and use me as a communication line. Yesterday the Board of Education called up and we got into a conversation on a new computer system, accounting system all-inclusive, and my advice to them was 'why don't you call the city, because they are always looking for a new accounting system, I don't know whether they are actually purchasing one or not,

but they are always looking to see what's available, and I think the better way to do it is if the Board of Education and the City do a search together.' That's just one example. As far as the encumbrances are concerned, yes, I think they should have a better understanding of the encumbrances and also, if they are going to use encumbrances in that fashion, then they should have the city know exactly how they are using it. I think the problem is that they've been doing that for so long they just feel it's a natural way to handle encumbrances. What happens in a lot of cities is that they will have a talk with the city side and say, 'well this is where are budget is and this is what are requirements are and I know we are loosening the encumbrance definition but this is how we act.' I was asked during the audit, 'are they encumbrances and should they be cancelled?' It was a difficult question for me because they've used the same system and they were able to have those encumbrances. Should they have those encumbrances? I've been tighter and tighter with them every year and they've reacted to that. Three years ago they had issued purchasing orders that had gone into September for utility bills. That's no longer done. So every year I try to say 'well, next year I'll be looking at this and I don't want to see this.' It has been working in that fashion.

Alderman Simonetti asked, and have you had to do the same thing with the city side or is it just one sided?

Mr. Cappelletti responded, no, that's one sided.

Alderman Simonetti asked, no but you do it in other areas?

Mr. Cappelletti responded, absolutely, in different areas. I try to help improve where I can and so does your management. I just see different things from different cities.

Alderman Anglace stated, you might expect during the audit process things come back to us and we kind of feel that our counterparts on the Board of Education side manage their own funds that we provide for them and we don't oversee their expenditures, but we get back a lot of comments from people. I'll give you a couple of small examples, one issue was \$25,000 encumbered for furniture for the superintendent. I hear this comment and I think, we just bought new furniture for the previous superintendent, what could this be? Now, I have to step out of my realm, into the Board of Education's realm and

stick my nose into their business and ask them what's going on if I want to provide an answer to that constituent.

Mr. Cappelletti responded, the Board of Education is basically an arm of the state, but they are required to work within the internal controls of the city. When you provide an approved budget line for them, they are able to spend that they way they wish but they have to follow within your internal controls. Now there has been court cases on that issue, some of them large as far as what they are not allowed to spend it on, specifically some of the larger ones had to do with some capital projects, there are certain capital projects that they don't have the authority to spend it on. Simply put is that the buildings are basically owned by the city so they are really not allowed to go in and adjust them.

Alderman Anglace asked, did you happen to find out what that \$25,000 was for?

Mr. Cappelletti responded, the building committee was short in April for some furniture that was bought for the Perry Hill library. They asked them for funds in April, so the purchasing order was issued, and when they found that they did have some money they wrote it over and purchased the items that were requested.

Alderman Anglace stated, somewhere I remember reading that it was \$25,000 that was encumbered for the furniture for the superintendent?

Mr. Cappelletti responded, when I saw that I did give a call and that was my answer.

Alderman Anglace asked, another point I want to ask about is severance? The amount of severance paid last year, that severance, if it wasn't paid by June 30th, is it proper to encumber it beyond that date?

Mr. Cappelletti replied, a portion of that was accrued.

Alderman Anglace stated, maybe they weren't gone?

Mr. Cappelletti responded, a portion of that was accrued compensation which they have already earned but haven't received yet (inaudible).

Alderman Anglace asked, how much in total was this severance?

Mr. Cappelletti responded, I think the total was a little over \$400,000, or rather \$425,000. A large portion of that was worker's compensation and a portion of that was prepaid. So they made the action in that year and the individuals being laid off worked in that year, so that would be the year to record it.

Alderman Anglace asked, so that \$425,000 will not appear in next year's budget request?

Mr. Cappelletti responded, it shouldn't. The (inaudible) charged it to encumbrances which I recorded as accounts payable or an accrual because it wasn't already earned.

Alderman Anglace replied, so that's like a one time expense.

Mr. Cappelletti replied, yes.

Alderman Anglace, generally, what people want to know, and I know the purpose of your audit is for control purposes, but people in the community generally want to know what's the status of our city finances, are we in good shape? Maybe this is a question for the rating agency as opposed to the auditor but would you take a crack at that?

Mr. Cappelletti responded, sure. Let's look at your general fund, and again that would be page 7, Exhibit C. I just go through some comparables with some other cities in the state of Connecticut. Basically, as far as a bonding agency, one of the things they will look at is they will compare you to pairs in your area. The State of Connecticut is unusual in that we have very low fund balances compared to the rest of the country, a specific reason for that is because we rely heavily on property taxes. It's very easy to plan what you are going to get in from property taxes compared to sales tax. What we will see in the state of Connecticut is around 8 to 10 percent of revenue in your fund balance and you are almost right there. Another thing you need to add to the City of Shelton is that you have a strong tax base that's willing to pay and that you are also within

Fairfield County which statistically looks very good to the bonding agencies. With these in mind you would say that you are in good shape, you have a lot of leeway as far as what your fund balance has to be. So your fund balance is right at the accurate place. I think as you read through the funding agencies they are saying about the same thing. The one issue in financial statements that you may see is worker's compensation, which management has been working on in the past two years by controlling the expenses and organizing the funds and I think this is the right direction to go in correcting that balance. As far as outside the worker's compensation you are in a very strong position. I think that's what Moody's has written up in their last report.

Alderman Anglace asked, do you see a trend for the Board of Education and the City working a lot closer together or do you see us, as an auditor, an outsider, in opposite directions? How do you see us?

Mr. Cappelletti responded, well, politics is politics, and I hate to say it in that manner. I would like to see it work a lot closer. I have been trying to push for the city and Board of Education to work closer, obviously that is the better way to go. Are they pushing in different directions? I don't believe there is anything that can't be corrected. I think some days they are working very close and then some days they aren't working very close on certain issues. Unfortunately you do see that a lot in the State of Connecticut. You do see a lot of lawsuits between cities and the Board of Educations. I don't see that in Shelton but it's always an area of tension. Again, yesterday I talked with the Board of Education and one question that was asked by one of the managers was is there anything that could move us towards a better situation? The best situation you could do is have communication with your city managers. It's up to them and this is how I presented it to them. Whether you think who is right and who is wrong, in the end it's probably going to be (inaudible) by the Board of Education. As far as what is going to happen in the future, that's tough to say.

Alderman Anglace replied, you can't predict the future. My feeling is that I think we have been working a lot closer together and we have been making a lot of progress in a lot of areas. I think any time you ask a question, and you ask it publicly, and the press gets their hands on it, it becomes a 'he said, she said' thing and it gets totally distorted but if you were to talk to Al Cameron or Tim Walsh or anyone from the

Board of Education, and ask them how their relationship is with me and some other individuals, it's a lot different situation. We have worked together, we've spent a lot of time together on many things and I see a much stronger coalition between the mayor and the superintendent of schools. I'm not ashamed to say that I said in the newspapers today, one of the papers quoted me, but we are coming closer together and they are talking, they are working together and that's going to be positive for everybody, and for the bottom line.

Mr. Cappelletti responded, absolutely.

Alderman Anglace stated, I'd like to thank you very much today Dave for all you did, all your efforts, and for working with us on this and for taking the time to come and make the presentation to us and answer these questions. It's certainly a step in the right direction for all of us. I'm glad to see everybody's interest in this meeting and the opportunity to have it. Thank you very much.

Alderman Kudej added, thank you for coming and enlightening us on some of these issues and helping us understand it a little bit better.

Alderman Simonetti asked, can I just ask one last question? So Dave, the question that the Board of Education raised here about what's a better computer system and of course in these tight times it's tough to say, okay, let's spend \$85,000 on a new accounting system. If the city and the Board of Education had the same accounting system, even though they are operating separately, obviously, you might say you'd get a more fair product?

Mr. Cappelletti responded, well, I'll go into that a little bit. Both the city and the Board of Education are still in the review process. They are not close to purchasing. There are cities that work off of the same system at the same time. The Board of Education is leaning towards something more into handling payroll and personnel, one of the things again that is specific to the State of Connecticut is the large property tax, where most of the country, it's the counties that collect that portion. The argument against it is, are they able to find one system? I've been in other organizations where they have one system, and it works well and you have full information of each other's...

Alderman Simonetti interjects, to be a devil's advocate here, and I don't know what the Board of Education is thinking obviously, but if it's for payroll, why don't you hire a payroll company that does it across the board.

Mr. Cappelletti responded, yes, they use ADP, just like the City, but you bring up a good point, if they are both looking for a computer system then they would probably do better looking for it together and at least save some money that way. That's just one thing that came to me. I'm sure the City's Finance Director and the Board of Education would have spoken about it eventually.

Adjournment

At approximately 6:35 p.m. Alderman Anglace MOVED to adjourn; SECONDED by Alderman Simonetti. A voice vote was taken and the MOTION PASSED 3-0.

Respectfully submitted,

Theresa Adcox
Clerk, Board of Aldermen