



BOARD OF ALDERMEN  
SHELTON, CONNECTICUT  
SPECIAL FINANCE COMMITTEE  
MEETING MINUTES  
THURSDAY, MARCH 3, 2016

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CALL TO ORDER/PLEDGE OF ALLEGIANCE

Chairman Kudej called the Special Finance Committee Meeting of the Board of Aldermen to order at 7:00 p.m. All those present rose and pledged allegiance to the Flag of the United States of America.

ROLL CALL

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

Also in Attendance:

David Cappelletti, Auditor  
Alderman Jack Finn  
Alderman Eric McPherson  
Alderman Lynne Farrell  
Alderman Jim Capra

**AGENDA ITEM**

**1. REPORT OF THE AUDITOR**

David Cappelletti reports on the City of Shelton 14/15 Audit:

What I will begin to do tonight is begin with a summary of the financial statements, and then we will go into the findings from the audit.

Starting with Page 10 on the financial statements, under the Annual Financial Report. We are going to start tonight with the budget, actual report of the audit and what we have under "Exhibit F" is just a summary. There is more detail found under Schedule 1 & 2 in the back of the book. The property taxes and the investment income did not

come in as expected; the property taxes were specifically because the property tax did not come in the same as last year, and the investments are at the lower interest rate. However, you did save money with the reduction in expenditures, so the revenues under the expenditures in the end were in favor of \$6.6 million.

After operations, you had some special appropriations that were made during the year, so you will see those and the expenses towards them which led to a net change in the unassigned fund balance of \$552,000, which brings the unassigned fund balance to \$11,722,000. Do you have specific questions on any one-line item?

**Alderman Anglace:** Under the expenditures column there was a \$490,438 variance under the education budget. Does that mean that it was unspent?

**David Cappelletti:** Yes that was the unspent balance that lapsed, so basically you have approved \$67,845,000. Out of that amount, \$490,000 was to be returned back to the General Fund.

**Alderman Anglace:** At the beginning of the year the request from the Board of Education was for \$4,200,000 in new money. The Board of Aldermen gave them \$1,600,000 in new money, plus \$350,000 to use towards Capital. Despite the fact that we did not give them the \$4,200,000 that they asked for, we only gave them \$1,600,000, they returned \$490,000, which is almost \$500,000 to us. I just want to note for the record that they did not spend the money that we gave them last year; they threatened layoffs, threatened the discontinuance of programs and the reinstatement of pay to play, etc. Then they come back and did not spend \$490,000; I think there are some credibility gaps there.

**Alderman Simonetti:** If I may, under education it says "Other". What is "other"?

**David Cappelletti:** Under Schedule 2, that would be broken out on page 52. The two things there are utilities and municipal property maintenance. Those two items equal that \$4,100,000 number that you had referenced. The break up between that is the \$2,600,000 in expenditures and the \$1,185,000 in municipal property maintenance. That makes up that other account. What we do so you know is that we try to keep the same format that was approved; those were approved under "others".

So if there are no further questions, we will turn to Exhibit C & D, on pages 7 & 8: What we just saw was the financial statements for the General Fund on a budgetary basis. Now we are going to look at the balance sheet of the government funds and the modified accrual basis. The first across the top of the page shows some of your major funds that we pay very close attention to during our audit. Obviously the first one is the General Fund, the Capital Project Funds. The other governmental funds, which are broken out separately in Schedules 3 & 4 in the back if you have any questions. I just want to point out here that the General Fund total balance is at \$17,000,000. Of that, \$11,900,722 is unassigned; that means that balance is available for future budget income. Just so you know that breaks up some of those other things. You put \$4,800,000 into your subsequent budget, and you have \$435,000 in special appropriations that you have done throughout the year, has a remaining fund balance

in those appropriations. The assigned balances, the portion that was approved under the insurance agreement with the Board of Education for \$212,000.

**Alderman Anglace:** The second column, capital projects, when you go down to the bottom where it says, "Capital expenditures- special appropriations". Does that summarize the capital spending that we had made in the last year?

**David Cappelletti:** For capital expenditures, what you will see on page 8, you will see \$9,391,000. You can see how that was funded through bond proceeds: \$8,800,000.

**Alderman Anglace:** It cannot be all Board of Aldermen approved because we can only approve up to 2% of the budget; it cannot be \$9,000,000. Where did that number come from?

**David Cappelletti:** You had a \$8,800,000 bonding last year.

**Alderman Anglace:** Oh, that number does take into consideration all preapproved bonding.

**David Cappelletti:** Exactly.

**Alderman Anglace:** It was preapproved in other years, versus just last year alone. Last year we approved 2% of the \$120,000,000 budget, and we had used all of that.

**David Cappelletti:** The capital projects in that line item consists basically of your bond expenses, capital projects, but you also had a school construction grant.

**Alderman Anglace:** Are the appropriations made by the Board of Aldermen listed in the audit?

**David Cappelletti:** They are not listed individually.

**Alderman Anglace:** I just want to know that because we do have compilation of that data, and I could supply that information if you need it. I just want the board to know that.

**David Cappelletti:** Just so you understand, you do have a \$9.8 million deficit in that fund, but we have a make up of that of bond anticipation notes so you will be bonding in the future for \$3.2 million. Then, there is the approved, but a portion of that has not been bonded yet. You do also have some receivables from the school construction bond funds.

**Alderman Anglace:** Bonding gets approved but not yet bonded is bond anticipation notes?

**David Cappelletti:** Bond anticipation notes are one year notes that we provide to get a little cash flow in your capital projects, so when the project is done you know how much to bond for. Usually you spend the money first, and then you bond later so you will know the exact amount. That has been a normal practice of the City of Shelton for

several years now. Are there any other specific questions for the financial statements? Again, the financial statements are broken up into exhibits; the schedules that show the detail of the exhibits are broken down even further. Then, you also have the notes to the financial statements where we put in exactly what is in the accounts.

**Alderman Anglace:** Please take us through an explanation of the Special Revenue funds, using the Senior Center as an example. There has been a special interest in that since there was a change in the Senior Center leadership. Mr. Crawford is on the board for the Senior Center and he wants to carry back information to the new director.

**David Cappelletti:** What you carry for the non-major governmental funds are funds that are received for a specific purpose, so the money that is received in each one of those accounts we like to keep them in a separate fund to make sure that money is only spent for that purpose. As we turn to Schedule 3, you can see that there are several individual programs going on. We either receive money from grants, donations or earned for a specific purpose. You wanted me to give you the Senior Center as an example? That would be on page 58. Sometimes the Senior Center collects money for the lunches, sometimes for transportation, Senior Center projects. That program is reserved into a separate account; it is only to be used for senior activities. What we do there is we separate it into a separate account; right now we have \$19,802 in that account. We make sure that money is spent for that purpose. On page 70, you can see what the activity from the past year was. What we found was they received \$5,990 in service fees, so that is basically the senior activities. From their account, they had received \$14 in investment income, so again they received \$6,000 for the year. That money is going to be reserved for Senior Center activities. Of that amount, they spent \$5,456 and the amount that they have left over for the year was \$548. We will put that into their account, and we will make sure that it is spent properly in the following years. That is how the Special Revenue funds work.

**Alderman Anglace:** I want to direct your attention now to page 60 and page 72. I want you to talk about the school lunch program, educational grants, the athletic association, summer school and pay to play. In each of those Special Revenue accounts are monies, in addition to what the Board of Aldermen gave to the Board of Education to run the school system. Please comment on each of those items and how much money was spent out of those accounts.

**David Cappelletti:** Sure. Just like the City has their own Special Revenue accounts, the Board of Education also has them and those expenses are maintained separately so you can see how much money comes in and where it goes, and where it flows through. The school lunch program/the cafeteria program is for the children to eat during the day. Basically the revenues come from two areas: one is the federal program called the National School Lunch, to help pay for some of the lunches. The other one is the charges that were actually received when you buy the lunches. \$2,066,000 was received, and \$2,091,000 was spent on the cafeteria program.

The other items that are non-major governmental programs are the educational grants, which are basically state and federal grants. These grants are special grants that can only be used for a specific purpose. A good example of an educational grant is the IDEA, which is specifically for the handicapped children.

**Alderman Anglace:** The Board of Education received \$2.4 million in educational grants, of which they spent all but \$309,000. Is that correct?

**David Cappelletti:** You are going to see an increase in the educational grants. This only records the money that was earned at this point. Also included in there was a very generous donation of \$100,000 to set up an exercising unit for the gym, so you did receive a generous donation of \$100,000 that they are spending down. So when you look at the top, you are going to see the \$100,000 in the other revenue account, so that is the majority of the growth in that area.

**Alderman Anglace:** I am interested in making a couple of other points because a lot of this that I am asking you is information that is not even known to the Board of Education members. They cannot get their hands on this information.

**David Cappelletti:** If you go to page 6 in your other book, and I am going to explain some of the other ideas that you are talking about. This is a list of the federal grants that the City of Shelton received, so if you start at the top you will see the Department of Agriculture, which the National School Lunch Program. It is broken down and you will see \$680,000 which was received by the Board of Education, to pay for some of the lunch program. You are going to see a list from the Department of Education, there was some money that was going to Adult Education, the Title 1 Program, which is a special program from the federal government to pay some of your costs. Here is your largest one, which is a special education cluster and that is for the handicapped.

**Alderman Anglace:** Was this over and above the money that we had given to them?

**David Cappelletti:** Exactly. So, for the school lunch they had received \$680,000 above, and the federal government had given them \$1.1 million in grants for these special programs.

**Alderman Anglace:** Dave, I would like to take you back in the other book for a minute. My understanding that last year pay to play was eliminated. If pay to play was eliminated, there was \$11,877 still in that account. Can the Board of Education access that account to use it for other purposes, or do we need to take an action at the Board of Aldermen level to do that?

**David Cappelletti:** When the pay to play account was setup, it was setup to collect the pay to play program. They used to transfer around \$225,000 of that money into their General Fund to be spent for any purpose. So going forward that program has stopped but there is still \$11,000 in that account.

**Alderman Anglace:** That is roughly my point. There is roughly \$12,000 left in that account; the account has stopped. I would like to see them be able to use it for other things. I think the board feels the same way. Is there anything that we need to do? Is there anything they could do to access that money?

**David Cappelletti:** I feel as though they can close out that account if they do not have that pay to play program. They could use to reimburse for some of the athlete

expenses, which is being paid right now from the General Fund. They spend much more than \$11,000 on their athletic program. I would not see a problem for them to close out the account and transferring the money over.

Alderman Anglace: The balances that occur at the year end of these special revenue accounts, that doesn't lapse. That money is there and can be used.

David Cappelletti: True, they are non-lapsing. These accounts here are non-lapsing but we like them to approach \$0. These are programs that will end at one point; we do not like to see a large surplus, we do not like to see a large deficit in these programs. That is something that we do watch.

Alderman Anglace: I just want to make sure there are no impediments to use the funds from the pay to play account.

David Cappelletti: That is something to bring up with the Board of Education.

Alderman Anglace: Does the board have any questions?

Alderman Finn: I have a question: the audit was late to us because you had to amend it to the State of Connecticut. We did not see the amendments. It is also rumored that you removed pages from the audit, and new pages were inserted. What was removed? What was inserted from the audit book that we need to know?

David Cappelletti: We will go through the finding in order to explain that situation. We are going to move to page 9. When we were in a draft form and almost having a finalized copy; it was in draft form and it was never issued. We are usually ready for that right before Christmas time. We did not notice that the check was going through the Board of Education for \$150,000 from the 2014-15 budget year. I looked through my audit and I did not have that money, so at the point I could not reconcile the \$150,000 to the audit at all. So I stopped the issuance of the audit, so it was never issued anywhere. What I wanted to do was to first inquire as to what the Board of Education was spending that on and why didn't I already have in my audit?

Alderman Finn: What were they spending it on?

David Cappelletti: On December 16, 2015, the Board of Education approved a transfer of \$150,000 from the 2014-2015 budget to the City bank account designated from the self-insurance fund. So that was the one for \$212,000 that I went through earlier, and then they subsequently made that on December 23, 2015. Basically on that day I saw that transfer, and I held the audit until I understood what that was for. By the due date of December 31, 2015, I did not have a grasp of what that money was.

Alderman Finn: What pages were removed from the audit?

David Cappelletti: I stopped the audit. I asked to go back into the Board of Education and I wanted to begin the audit all over again to be sure that I had everything that I had. The expenses that were removed and added were an audited adjustment of \$150,000 was made to reduce the Board of Education expenses. The reason why I

changed the audit on that was because they were moving \$150,000 into a non-lapsing account. When you approve the budget for the Board of Education it is a lapsing account; that means they do not spend it or encumber it to a third party by June 30<sup>th</sup> then the money is gone from them to spend. June 30, 2015, if you do not encumber the money or if you do not spend the money, you lose the ability to spend that money. In 2011, the state passed a new issuance/statute that allowed in one condition that allowed you to make a transfer from the Board of Education to a non-lapsing account, but that had to be approved by the Board of Finance of the City. Then I went back and I could not find an approval from the Board of Finance, so therefore I removed it.

**Alderman Anglace:** Dave, I believe under our City Charter the Board of Finance of the Board of Aldermen could not approve that. It would have to come back to the Full Board for approval, under the recommendation of the Board of Finance.

**David Cappelletti:** When I was looking under the state statutes to move that money, to call it a Board of Education expense and have them give the ability to move money from one account to the next, so they could spend it in future years. That would have to be approved by the budget making authority, by state statute.

**Alderman Finn:** Are you indicating to us, that go ahead and remove, for example \$700,000 if they wanted to? They would then have to appear in front of the Board of Finance and the Board of Aldermen first, to approve? Would that go into a special bank account?

**David Cappelletti:** What I would like to see in that situation is being recorded as a reserve fund. Usually we like to see reserve funds in separate funds to make sure, but at least it would be recorded separately on the financial statements similar to what was happened to the \$212,000, and years ago.

**Alderman Finn:** What I am trying to find out if they can open up a bank account for it?

**David Cappelletti:** Under this statute, that means it cannot be spent without the approval of the Board of Finance as well. What I recommended in 2011 when they did do \$212,000 is that money would be brought over to the town side. Originally it was opened by the Board of Education, the \$212,000, and I had noted it in the audit. Later, then all of you made an agreement that the \$212,000 was okay but it was assigned ownership to the City. Right now that account that it was transferred into is in the name of the City.

**Alderman Simonetti:** In the City, if there are any bills from June 30<sup>th</sup> that we used electricity, oil, gas, etc. Would we have to pay that out of the year before budget? July you would have to pay for that, correct? Does the City put that in a reserve account?

**David Cappelletti:** For utilities, I make sure that the City always spends, for example, electricity, for the June 14/15 year I try to break it off so they only spend for June 2015; they would not pay for July 2015. That would go into your 15/16 budget.

**Alderman Finn:** I believe what the alderman is looking for is that account would stay open, as being encumbered and it would stay open until August. Is that correct?

David Cappelletti: Yes, but only for expenses that were incurred. The idea of any encumbrance, so what would be in accounts payable which would mean that it would occur before June 30<sup>th</sup>. Also, you could order an item by June 30<sup>th</sup> and that would still go into your June 14/15. His specific question on utilities is that I do not think that anyone would order July's utilities in June, so utilities is a specific item that I would steer away from as far as an encumbrance.

Alderman Simonetti: If we ordered new chairs for the auditorium?

David Cappelletti: That is a perfect example of an encumbrance.

Alderman Simonetti: As an example, we order new chairs in March. They are not going to come until July and we are not going to be invoiced until August, so we will know that we will have that amount of money. For example, the amount was \$100,000; it would be in a separate account and hold that, knowing that was coming.

David Cappelletti: That would also hit your 14/15 budget. That is what we would like to see as an encumbrance.

Alderman Anglace: Could you explain the non-lapsing nature of the special revenues, for the special education, for federal/state revenues? My understanding is while they are received in a particular fiscal year, the revenues can be carried over three months?

David Cappelletti: There are certain federal grants that last 15 months, and some can overlap each other. For state grants, they tend to last from July 1<sup>st</sup> to June 30<sup>th</sup>, which goes along with our budget period. The federal programs are allowed to spend from July 1<sup>st</sup> until September 30<sup>th</sup>, I believe. So, they could carry over a portion of those funds.

Alderman Anglace: As of the end of the fiscal year, June 30<sup>th</sup>, did the Board of Education have any federal funds that they did not spend?

David Cappelletti: Yes. Some of the IDEA program; they spent around \$800,000 every year. The federal government asks me to go in and take a look at the larger grants to make sure they are in compliance, acting in compliance and interim controls over compliance. One of the ones that I always tend to look at is the special education cluster grants because that is your largest grant. We usually spend around \$800,000 and you get approved for around \$800,000 in the special education grant. The CFDA number is 84027 on the US Department of Education. This is an example of what John was talking about where you are going to see two years, the same grant will overlap each other so the last over one year. Usually that \$550,000 number is around \$800,000 range. The grant is for around \$800,000, and this year they did not spend the \$800,000. So it looks like they had a little bit of savings in special education.

Alderman Anglace: The thing that makes their ears go up is that when the Board of Education chairman comes here at the first meeting of the fiscal year to tell us the Board of Education is in trouble with special education because a lot of the kids moved in. They are getting reimbursed around 75%, are they not?

David Cappelletti: I do not know the percentage.

Alderman Anglace: You cannot be in so much trouble that fast.

Alderman Finn: Alderman Anglace, if they are always in front of us, and I support special education because my daughter is special ed. They always tell us that the cost of special education is always going up. We want to make sure that is properly funded. We are being told tonight that they do not use all of the federal grant money.

David Cappelletti: They usually use all of it, but this year they did not so they have some carryover to next year.

Alderman Finn: I do not understand that.

Alderman Anglace: Jack, for the record we all support special education. I think all we are trying to do is understand why with the federal and state money that is coming in, why are you crying wolf on the first meeting of the year? Maybe we do not understand, but maybe they do not understand, too and I think that is part of the reason why we need to clarify it and work a little harder. I asked the Treasurer to make sure that he was here tonight. The Treasurer was the former Board of Education chairman, so I am hoping that he listens to our discussions and give us some advice with respect to some of the special education funding. Is it going in the right place? Is it being used properly? Do we have the right number of people? It is an important area for us to address.

David Cappelletti: So the majority of these grants are used for payroll.

Alderman Simonetti: Are you saying that the \$300,000 was not used for special education last year?

David Cappelletti: I believe you have a remaining balance in that account of somewhere between \$250,000 to \$300,000 carried over into the 14/15 year.

Alderman Anglace: I need to add this to the rest of the equation for all of us here to understand it: I think the new superintendent is starting off on the right foot, and has developed a good rapport with everybody in the community, including the Board of Aldermen. So we are looking to him for some direction, some guidance and some understanding as we go along, and we are going to be patient and we are going to work with him.

David Cappelletti: I just wanted to get back to that finding. The idea is to open up communication, and the recommendation that we are giving is that the Board of Education speak with the Board of Finance of the City before they make those transfers. Have at least a mechanism to make that transfer.

Alderman McPherson: I just have one question: this \$150,000 accrued. When did you ask the Board of Education for any accruals?

David Cappelletti: We ask for them throughout the audit.

Alderman McPherson: About how many times was that? What was the response?

David Cappelletti: There were no accruals. Also, we had asked for all of the accounts payable; they said we had them all and they gave us around \$2,000 worth of encumbrances. The other thing is that we do an ED001 Review. I removed it from the ED001 Review and I wrote a finding on that report telling the State of Connecticut why I did that and to ask them for their suggestions. They found the expense was actually a legitimate Board of Education expense. The other thing that we do is read the minutes from the Board of Finance meetings to try to get everything that we could find. They did make a list for the state on where we could've found it. So we went to the clerk's office to get all of the public information that was provided, and there was the amendment that the the board that he said that the approval was made on the education side. Could you read what the clerk has written on the top?

Alderman McPherson: The clerk wrote, "The minutes for this meeting are not on file within the Town Clerk's Office, and are not posted on the City website".

David Cappelletti: So we were not able to find it before that transfer because it just was not there. Just so you know that was the only set of minutes for the year that was not put in there.

Alderman Anglace: Does anyone in the audience have questions?

\*No inquiries were made from the audience.

Alderman Simonetti: If you can summarize in your own words, can you give me a quick summary of what you think the finances of the City of Shelton are, for the record?

David Cappelletti: The finances for the City of Shelton in general, are great. I will say that your fund balances are one the best in the state. You have a growing grand list. As far as your expenses, you do not have the pension liabilities that the other cities and towns have in the state. The bonds, you see a lot of premiums and you are selling your bonds very easily.

Alderman Simonetti: As you may know, there was an incident around one and a half to two years ago in the Finance Office. Have you noticed any problems with the checks and balances, and things being done monthly to make sure everything worked out?

David Cappelletti: This year there was some turnover in the Finance Office, and in also the Tax Office. Those were some areas that we took some time with. The other turnover was the Finance Director for the Board of Education, so those were the areas that we double checked to make sure things were copasetic. The Tax Office was a little late on delivering their information, and I think that was a very difficult thing to come through with the Tax Collector, but we will follow up with that next year. There was a lapse in bank requisitions in the Finance Office that we made sure they were up to date by the end of the year. Again, that was the leaving of one individual, and that just happens, so when the position was replaced there was a lot of catch-up to do.

**Alderman Simonetti:** So you found things the way they were supposed to be?

**David Cappelletti:** Yes, all of the documentation was there.

### 3. ADJOURNMENT

**Alderman Anglace** MOVED to adjourn at approximately 7:45 pm.

**SECONDED** by Alderman Simonetti. A voice vote was taken and the motion **PASSED** unanimously.

Respectfully Submitted,

*Brittany Gannon*

**Brittany Gannon**  
Clerk, Board of Alderman