MINUTES
AUDIT COMMITTEE
Thursday, June 14, 2018 – 10:00 AM
Authority Conference Room, 4th Floor, Suite 414
Dulles State Office Building

Committee Members Present:
John B. Johnson, Jr., Chairman
Alex MacKinnon
Alfred Calligaris

Committee Members Excused:
Dennis Mastascusa

Committee Members Absent:
Brian McGrath

Staff Present:
James Wright, Executive Director
Carl Farone, Comptroller
Amy Austin, Director of Human Resources
Angela Marra, Executive Assistant

Other Board Members Present:

Guest:
Terrance Phillips, Partner, Bonadio Group

1. The meeting was called to order by Chairman Johnson at 10:00 am.

2. All committee members were present, except for D. Mastascusa and B. McGrath. J. Johnson asked if those in attendance establish a quorum. C. Farone confirmed that there was a quorum and the meeting continued.

3. Chairman Johnson stated the meeting’s objective was to receive the audit report before we ask questions. Once the audit has been reviewed and approved by the Audit committee, it will be passed along to the Board to Directors for Board approval. J. Johnson turned the meeting over to Terrance Phillips from the Bonadio Group.

Mr. Phillips reviewed the Report with the Audit Committee, stating that the Bonadio Group will be issuing a clean audit and that Authority staff were very well prepared.

BOARD OF DIRECTORS SUMMARY
- The purpose of the meeting is to assist the Board in its governance responsibilities with respect to fiscal oversight.
- Pending your acceptance of these financial statements, we plan on issuing an unmodified (clean) opinion
• In conjunction with the performance of our audit procedures, we did not identify any material weaknesses in internal controls.
• The books and records were maintained in a clear and orderly fashion that allowed us to complete our audit in an expeditious manner.

REQUIRED COMMUNICATIONS

• No other new accounting policies were adopted and the application of existing policies was not changed during the year.
• Significant estimates are reasonable and conservative. The financial statement disclosures are neutral and clear.

MANAGEMENT CONSIDERATIONS

• We did not identify any internal control deficiencies or material weaknesses during the course of our audit process.
• There were no “Audit Adjustments” required that relates to errors or omissions by the Authority accounting personnel.
• New accounting pronouncements to be considered by the Authority:
  o GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” Effective for fiscal years ending June 30, 2018 and after.

Key financial highlights are noted as:
Grants from government sources revenue decreased by $1,300,000 or 32.2% due to a $2.2 million dollar grant for emergency safety and fiber optic network from the state in FY 2017. The absence of such grant reduced grant income in FY 2018.
• Materials Management Facilities revenue was down $900,000 from the previous year. Tonnage was down by 18%, but our revenue was only down about 9%.

J. Wright commented that this was anticipated, and reflected in the budget.
T. Phillips confirmed.

J. Johnson made the statement that this audit does not reflect any financial variability, instead it shows that this Authority is well positioned to meet the needs of its constituents.

A MacKinnon stated that the emphasis on recycling will have an impact on the tonnage of solid waste.

J. Wright responded that could be a contributor, while recycling increased in the aggregate, so did MSW waste. We are still capturing the same amount, there are just more to capture it from.
• Engineering revenue increased $232,000 as a result of additional municipalities served. Increased engineering payroll is also reflected.

• Depreciation expense increased $900,000; cash is usually expended in prior years and is depreciated over the useful life of the asset.

• Operation and maintenance expenses increased $749,000. $311,000 was given to the counties as an incentive for single stream recycling. $245,000 was written off under a onetime bad debt expense. Loans were reviewed, confirming there are very few showing past due. The portfolio is growing as we obtain more grants to distribute within the community.

J. Johnson asked if the loan write off was for Carthage Specialty Paper. He further stated that this investment kept 70 people working for an additional 4.5 years.

A MacKinnon also added that this a relatively small in proportion to our total portfolio.

C. Farone stated the write off was for Carthage Specialty Paper and that this is the Authority’s role, providing gap financing when a bank will not finance the entire project due to risk.

A Calligaris asked why we don’t set up an allowance.
T. Phillips responded that we do have one of $200,000.
C. Farone also commented that Mr. Phillips and he will be reviewing this to see if it makes sense to create an allowance for doubtful accounts. We do not currently have a mechanism for funding an allowance. We review the portfolio each year and do a direct write off. Since the portfolio has grown, this may no longer be the best option.

• Salaries and Fringe benefits increased by $449,000. About 50% of this amount was for new positions authorized, with the remaining amount being from wage and benefit increases.

• Water purchased decreased by $539,000. This is directly attributable to a decrease in water purchased by Fort Drum.

A Calligaris asked if the water employees need to have special licenses.
J. Wright responded that our Water Quality Operators are licensed by the state. The licensing requirements apply to municipal water systems.
J. Johnson commented that the people that have earned these licenses are not 19 years old and it takes years of experience to obtain.
J. Wright further explained that two of the recent hires are baccalaureate graduates, basically starting their training at that level but over the next four years they will be licensed.
A. Calligaris stated that it would be difficult for each municipality to hire two people with this level of education, licensing, and training to operate their own water systems. J Wright added that these are requirements that need to be met 24/7. This would require a minimum of 4 people to cover on call, vacations and sick leave. Clearly this becomes advantageous to do cost sharing the way the Authority does. J Johnson further stated that when it comes to safe drinking water, there is no compromise.

4. Financial Statements –
   a. T. Phillips reviewed the Audited Financial Statements with the Committee.
   b. The Change in Net Position reflects a deficit of $1.3 million. The deficit is primarily attributable to in excess of $11 million in depreciation expenses for the year. The Statement of Net Position remains very strong with a good portion of Authorities Net Position in capital assets.

J. Johnson asked if part of the assets in 2017 were unspent grant money from a variety of things that were spent in 2018.

T. Phillips stated the money would have come in last year, and has been expended this year and the revenue would have been recognized within this year. When these monies are spent on the purpose of the grant is when we recognize it as revenue.

J. Johnson asked if this contributes to a change in the net position. T. Phillips concurred that is does create a change in net position in the current year.

A MacKinnon – Discussion Page, page 4, is a very concise one page summary of the activities of the Development Authority.

C. Farone stated that the Statement of Net Position reflects a balance in unrestricted assets of $55 million, but noted that $49 million of these funds have been designated by the board. This is detailed of designated on page 8.

J. Johnson pointed out that the restricted assets are primarily those designated toward the landfill closure, which are required by law. These are to ensure the landfill will live forever without polluting the neighborhood.

As per T. Phillips, page 9 offers a little more detail of the operating revenue. This information is summarized within the PowerPoint, with technical notes within pages of 3-49.

J. Johnson stated that long-term debt decreased $700,000. T Phillips stated that there is no new debt, and the $700,000 represents repayment on bonds that are outstanding.
J. Johnson asked if we should discuss the situation with the City of Watertown (City) and what is due to the Army. C. Farone stated that we have discussed with the auditors the situation with Fort Drum. C. Farone noted that the Defense Contract Audit Agency conducted an incurred cost audit for the Authority's FY 2014, 2015 & 2016 which resulted in no question Authority costs. The City, being a tier 1 contractor, is subject to be audited by the DCAA as well. A couple of years ago, the Authority had identified an irregularity in the City's methodology for calculating utility costs and passing such costs on to the Authority / Fort Drum. The Authority tried to work with the City to come to a mutual agreement but could not come to a consensus. At that time, the City felt it prudent to go to the DCAA with the issue. Per the DCAA Audit report, the DCAA deemed that the City had a zero cost in producing such electricity because revenues from the facility exceed the costs. The Authority does not think the DCAA approach is reasonable. The DCAA audit documented that the City owe $723,000 back to Fort Drum. The Authority had no questioned costs, therefore owe Fort Drum $0.00. The City and the Authority completed an analysis of costs if the City were to base its utility costs on market rates. This analysis was shared with Fort Drum and resulted in a balance due to Fort Drum from the City of $325,000. Fort Drum verbally agreed to the market rate approach. Days later, the Authority received an email from Fort Drum declining the market rate approach due to correspondence with DCAA. Upon a subsequent conversation with officials from Fort Drum, J. Wright feels we are coming close to an agreement back at the $325,000 amount. This has been discussed with the auditors. We are not certain where this is going to land and the liability is that of the City, therefore it is not included within this audit.

A. Calligaris asked how we account for the money coming in for this. C. Farone replied that we bill Fort Drum and they pay us each month at the contracted rate. The City is billing on the same inflated rate structure. It was suggested by the City Comptroller to not pay them during the time this is being worked out, in the hopes that they will have the funding needed and provide the Authority with a credit at that time. We are currently recording as usual, which will result in a credit at the end of the year.

A. Calligaris asked if when this turns around, our revenues will decrease, as will our expenditures? Could this have a negative revenue effect? C. Farone answered that this could potentially be treated as a pass through, but we are waiting to see if we are reconciling at the $700,000 or $300,000 amount. J. Wright commented that are still waiting for the Army to serve notice on the dollar amount owed. J. Johnson stated that hopefully this will be resolved in our current fiscal year.

J. Johnson stated that when this audit is presented to the board, we need to be prepared to explain what the $749,000 due to the US Army is.
C. Farone stated that there is $749,000 administrative reserve that we hold for Fort Drum. This was given to us by the government to ensure we have reserves available if needed and that the Authority will apply such reserve against Fort Drum’s final billing at the end of the contract. J. Johnson commented that the dollar amount is unfortunately similar to that which we are discussing with the City, however unrelated. C. Farone further stated that any interest earned against this amount is to go back to the Army annually.

T. Phillips stated that because of the info to Fort Drum, we know this is out there and we are hoping for it to be reconciled soon.

C. Farone pointed out on page 41, the supplemental schedule for the North Country Economic Development Fund which represents the activity for the year on the loan portfolio managed by the Authority for the New York Power Authority.

T. Phillips stated this is a single audit year. There were 2 reports, one being on internal controls which reveals no findings. The other testing federal programs, which was found to meet the criteria of the expenditure portions. All in compliance with federal program. The HOME investments meet all criteria and results in no findings.

T. Phillips commented on tab 5 – Agreed upon Procedures (AUP) regarding the Regional Waterer Line capital and operating reserve funding. All testing was completed without issue.

J. Johnson asked how old the water line is, and if we have begun to look at replacement costs.

J. Wright responded that it is roughly 20 years old, and we are now replacing valves. Whereas we are replacing them due to age, most municipalities tend to wait until something breaks. We were accused of making money, however these funds have gone into reserves for improvements and repairs.

J. Johnson stated that being in the 20-25th year is resulting in needed items showing their age. These reserves are needed and may not even be enough. The good news is that we are a self-sustaining and have kept it maintained well.

A MacKinnon commented that these costs could be astounding yet we are set up to handle them. There are things about the landfill we don't even know.

T. Phillips reviewed the report on compliance on investment guidelines for Public Authorities and reported that the Authority is in compliance with its Investment Guidelines.
A MacKinnon commented that he has been in public service since 1974 and in that time he has seen a great deal of crummy auditors’ reports, but with DANC you never see one. This is a real statement to the Authority, kudos on our consistency, hats off to management and staff.

J Johnson suggested they move into Executive Session to discuss the Audit findings.

A MacKinnon made the motion, seconded by A. Calligaris. The committee moved into Executive Session at 11:04 AM.

At 11:11 AM the committee came out of Executive Session with J. Johnson reporting no action had been taken.

T. Phillips left the meeting at 11:12 AM.

6. A. Austin presented the Internal Audit. This has been reviewed by our auditors and our staff. There have been no changes and no significant findings.

J. Johnson inquired on the investment in the new scale system been easy to work with.

J. Wright stated that they are leaving one position vacant at this time due to the efficiencies of the new scale computer systems. The keys to these internal audits are using them as an early warning system. We use them for corrective action and then move forward.


Upon a motion by A. MacKinnon, and seconded by A. Calligaris, Resolution No. 2018-03-77, Approving the Assessment of the Effectiveness of Internal Controls, was unanimously approved by the Audit Committee.

8. J. Johnson presented Resolution No. 2018-06-78, Approving Annual Bond Sales Report, for Fiscal Year Ending March 21, 2018

J. Wright commented that we are required to report in terms of indebtedness. This upcoming year will be the last payment on the 2010 bonds. FY 2019 will bring new bond to fund the expansion as well as utilization of capital reserves.

J. Johnson stated that future ratepayers pay the cost of the expansion and their respective share of costs.
Upon a motion by A. Calligaris, and seconded by A. MacKinnon, Resolution No. 2018-03-78, Approving the Annual Bond Sales Report, was unanimously approved by the Audit Committee.

9. Chairman Johnson asked if there were any questions or comments.

10. Upon a motion by A. MacKinnon, and seconded by A. Calligaris, the meeting was adjourned at 11:16 AM.

Respectfully submitted:

[Signature]

John B. Johnson, Jr.
Chairman, Audit Committee

Attachment: Bonadio Handout