AUDIT COMMITTEE MEETING MINUTES
Monday, June 13, 2016 – 10:30 AM
Authority Conference Room, 4th Floor
Dulles State Office Building

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

Committee Members Absent:
Brian McGrath
Dennis Mastascusa

Staff Present:
James W. Wright, Executive Director
Thomas Sauter, Deputy Executive Director
Carl Farone, Comptroller
Amy Austin, Director, Human Resources
Jo Anne Yaddow, Executive Assistant

Other Board Members Present:
Gary Turck, Chairman, BOD

Guests:
Bettina Lipphardt, Partner, The Bonadio Group

1. The meeting was called to order by Chairman Johnson at 10:32 am and was convened to discuss the 2016 audit results. Mr. Johnson turned the meeting over to Bettina Lipphardt.

2. Ms. Lipphardt reviewed the Audit Report. Highlights of the report are:

3. Significant Audit Findings –

   a. The Authority adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – (an amendment of GASB Statement No. 27) and GASB Statement No. 71, Pension Transition for contributions made subsequent to the measurement date (an amendment of GASB Statement No. 68).

   b. No other new accounting policies were adopted and the application of existing policies was not changed during 2016. All significant transactions have been recognized in the financial statements in the proper period.

   c. No corrected and uncorrected misstatements arose during the course of the audit.

   d. No difficulties were encountered in dealing with management in performing and completing the audit.

   e. No disagreements arose during the course of the audit.

   f. Auditors will be requesting certain representations from management in a management representation letter.
g. There were no consultations with other accountants.

h. Comparisons and reconciliations of the supplementary information to the underlying accounting records were used to prepare the financial statements.

4. Financial Highlights –

- As of March 31, 2016, the assets of the Authority exceeded its liabilities by $166,618,048. Of this amount, $7,318,706 is unrestricted and undesignated and may be used to meet the Authority’s ongoing obligations.

- The Authority’s total revenues (operating and non-operating) were $25,805,219 and $26,008,450 in 2016 and 2015, respectively.

- The Authority’s total expenses (operating and non-operating) were $24,011,811 and $23,404,713 in 2016 and 2015, respectively.

5. Budget vs. Actual –

- Operations of the Authority remain stable with variations between budgets and actual considered minimal.


- Decrease in net non-operating revenue is primarily due to a decrease in investment income of approximately $512,876 with current year market conditions and the requirement for the Authority to record investments at market value

7. Financial Position Summary –

- The 19.4% increase in current assets is primarily due to an increase in cash and cash equivalents as amounts were collected on loans receivable.
- Funds held by trustee decreased as were released with the full payment of the 1997 and 2005 bond obligations and deposited into restricted assets.
- The increase in restricted assets is due to current year deposits for replacement, closure and energy facilities at the Solid Waste Management Facility (SWMF).
- Deferred outflows of resources increased related to the implementation of GASB 68 and 71; accounting and financial reporting for pensions.
- Current liabilities decreased with the full payment of the 1997 and 2005 bond obligations.
- Other liabilities (long-term) increased with the new $8,520,000 bond for improvements at the SWMF and the implementation of GASB 68 and 71, which resulted in the Authority recording its proportionate share of the NYS Employees' Retirement System of $565,635.
- Restricted net assets increased with additional funds being restricted to the replacement reserve at the SWMF and the continued expansion of the open access telecommunications networks.
8. Summary of Operating Revenue –

- Solid Waste Management Facility revenues increased $377,699 (4.4%) The increase was a result of an increase in tonnage received at the facility from approximately 214,000 tons in 2015 to 223,000 tons in 2016.

- Telecommunications revenue decreased by $645,965 (10.2%) due to the restructuring of a multi-site customer contract resulting in decreased annual revenue but expending the contract term by three years (BOCES contract).

- Grants from government sources increased $340,978. The increase is the result of the SWMF receiving additional grant revenue of $406,466 in 2016 over that received in 2015.

- Housing and economic development expenses decreased as there was a write-off of a loan receivable in the prior year.

Total Operating Expenses –

- Total operating expenses increased $442,003 (1.9%)

- Wastewater treatment costs increased $263,674 (24%) due to an increase in leachate cost at the SWMF and wastewater treatment costs on the Army Sewer Line.

- Water purchases decreased with a decrease in the flows on the Army Water Line

- Closure and post-closure costs increased $45,629 (6.5%) due to increased tonnage received in 2016 and a change in the estimated future liability

9. Non-Operating Revenue (Expense)

- Investment income decreased $512,876 due to current year market conditions and the requirement for the Authority to record investments at market value.

- Bond issuance costs are the result of the new bonding for the SWMF.

10. Postemployment Benefits – The Authority contributes to the cost of eligible retirees' individual health care premiums after 15 years of service, provided that the employee was employed at the Authority at the time of retirement. The Authority recorded a liability for other postemployment benefits in the amount of $3,335,219. The Authority has a board designated money market account in the amount of $2,935,377 for other postemployment benefits.
Al Calligaris asked if the Authority has an actuary cost summary. B. Lipphardt responded yes. It was noted that New York State did not have legislation that would allow the Authority to establish a qualifying trust for the purpose of funding other post-employment benefits and that the designated money market of $2,935,377 is not included in calculation of the OPEB liability. J. Wright stated there should be a resolution to create a qualifying trust. J. Johnson asked if this should originate from the Audit Committee or from Finance. J. Wright stated Finance.

11. Capital Assets – At the end of fiscal year 2016, the Authority had $70,606,565 (net of accumulated depreciation) invested in a broad range of capital assets, including the SWMF, Telecommunications Network, Water Quality facilities, Engineering, equipment and vehicles. This amount represents an increase of $615,744 (.9%) over last year.

12. Credit Ratings – The Authority received a “AA/Stable Outlook” rating from Standard and Poor’s in October 2015.

J. Johnson asked what the top Standard and Poor’s rating is. B. Lipphardt responded “AAA.”

13. Ms. Lipphardt proceeded to review the Financial Statements and made the following observations:

   a. Cumulative Effect of Change in Accounting Principle GASB 68 - $71,391

   b. Net Cash Flow from Operating Activities - $12,849,451

   c. Summary of Significant Accounting Policies - There were no changes in the accounting policies.

   d. Total Restricted Net Position - $54,554,866

   e. Contractual Agreements – No changes in 2016

   f. Accounts Receivable – increased a total of $972,335 to $2,611,834 for all divisions.

C. Farone indicated there is still an outstanding balance with SLIC. J. Johnson stated that there is an obligation to collect what we can.

   g. Restricted Assets – increased $4,760,168 for a total of $55,328,677

   h. Loans Receivable – decreased by $1,790,836 to $32,761,378
i. Landfill Closure and Post-Closure Care Costs - $15,115,523 is the cumulative amount reported to date based on the use of 74% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated cost of closure and post-closure care of approximately $5,311,000 as the remaining estimated capacity is filled. The Authority is required by state and federal laws to make annual contributions to finance closure and post-closure care. The Authority is in compliance with these requirements, and at March 31, 2016, investments of $14,920,165 are held for these purposes.

j. Wetlands Mitigation Reserve is currently $2,017,543.

k. Pension Plan – The Authority recognized pension expense of approximately $514,000; The Authority recognized $721,060 as deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2015.

The Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate –

<table>
<thead>
<tr>
<th>1% Decrease</th>
<th>Current Assumption</th>
<th>1% Increase</th>
</tr>
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<tbody>
<tr>
<td>$3,770,203</td>
<td>$565,635</td>
<td>($2,139,815)</td>
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l. Cumulative Effect of Change in Accounting Principle – The Authority adopted GASB No. 68 (Accounting and Financial Reporting for Pensions) and GASB No. 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date) which establishes accounting and financial reporting requirements related to pension for governments whose employees are provided pensions through pension plans are covered by the scope of Statement No. 68 and Statement No. 71. Accordingly, beginning net position and net pension liability on the statement of net position were adjusted:

- Net Pension Liability – ($756,614)
- Deferred Outflows of Resources - $828,005
- Net Position - $164,824,640

m. Accounting Pronouncements Issued Not Yet Implemented – The Authority is required to adopt the provisions of Statement No. 76 for the year ending March 31, 2017 and should be adopted retroactively. The Authority has not assessed the impact of these statements on its future financial statements.

14. Summary Observations Regarding Internal Control Environment –

a. Auditor did not identify any internal control deficiencies or material weaknesses during the course of the audit.

b. There were no “Audit Adjustments” required that related to errors or omissions by the Authority accounting personnel.
c. The importance of Board oversight and involvement is a key component of the Authority’s internal control environment.

15. The Authority retained The Bonadio Group to conduct an Agreed Upon Procedure for the Regional Water Line – No findings found.

J. Johnson asked if there were any questions; there were none.

16. Executive Session –

Upon a motion by A. Calligaris, and seconded by G. Turck, Chairman Johnson stated the Audit Committee would go into Executive Session to speak with Ms. Lipphardt.

Chairman Johnson stated no action was taken during Executive Session.

17. FYE 2017 Internal Audit Work Plan – A. Austin explained that the Internal Audit Work Plan is completed by Keely Barney and the Human Resources Work Plan is completed by Amy Austin. Bettina Lipphardt contacted Amy Austin about adding the PARIS report to the Work Plan; this is currently being done. The website audit is completed using a template from the Authorities Budget Office to ensure compliance. The procurement audit has been combined with the MWBE audit. There were no significant findings during the audit with the exception of Water Quality Flow Audit for 2015 which revealed a mathematical error in the Town of Pamela's monthly flow report (an addition error resulting in the Town being under-billed). The error was corrected and subsequently paid.

J. Johnson asked if there was anything in the Internal Audit Work Plan that could be deleted in order to use the audit time to do something else. A. Austin responded that all the audits are essential per a meeting with J. Wright and B. Lipphardt.

18. Assessment of Effectiveness of Internal Controls –

C. Farone reviewed the Assessment of Effectiveness of Internal Controls document with the Audit Committee and noted that said document is required to be submitted through PARIS.

Upon a motion by A. Calligaris, and seconded by G. Turck, it was unanimously approved that a resolution approving the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country for Fiscal Year 2016 would be presented to the full Board at the June Board Meeting.

B. Lipphardt will present the Audit Report at the June Board Meeting.

19. Chairman Johnson asked if there were any questions; there were none.

20. Chairman Johnson adjourned the meeting at 11:34 am.

Respectfully submitted:

[Signature]

John B. Johnson, Jr.
Chairman