



MINUTES AUDIT COMMITTEE

**Thursday, June 18, 2020 – 10:00 AM
Conference Call - Authority Conference Room 4th Floor
Dulles State Office Building**

Committee Members Present:

Alfred Calligaris, Chairman
Thomas Hefferon
John Johnson, Jr.
Dennis Mastascusa
Brian McGrath

Staff Present:

Carl Farone, Interim Executive Director
Angela Marra, Executive Assistant
Jennifer Staples, Director of Administration
Keely Barney, HR Assistant Director

Committee Members Absent:

Alex MacKinnon

Guests:

Terrance Phillips, Partner, Bonadio Group
Michael Sims, Bonadio Group

Other Board Members Present:

Frederick Carter, Board Chairman

This meeting was conducted as a teleconference meeting with members of the Board in attendance via teleconferencing. The meeting was also live streamed from the State Office Building. The meeting itself, due to the Corona Virus emergency restrictions, had no public access, but was accessible through the Authority website through live streaming. This meeting is in compliance with Governor Cuomo's Executive Order.

During this meeting, because it is being done telephonically, it is asked that when you are speaking please state your name so you can be identified appropriately in the minutes.

1. The meeting was called to order by Chairman Calligaris at 10:01 am.
2. Roll Call - All committee members were present, except for A. MacKinnon.
3. C. Farone stated that the objective of this meeting was for the Bonadio Group to review their Audit for the fiscal year ending 2020. In a read ahead packet the complete audit report as well as a PowerPoint Presentation was shared with the Audit Committee.

4. T. Phillips, a partner with the Bonadio Group, and M. Sims, the onsite audit manager with Bonadio, will review the PowerPoint presentation and the audit report.

T. Phillips began by thanking C. Farone and his team for a job well done in assisting with the audits. They explained that they were able to meet with C. Farone on a daily basis electronically through teleconferences. They were also able to gain access to the Authority's network system to review transactions. T. Phillips continued by explaining he would review the top items, M. Sims will cover the numbers and transactions. T. Phillips stated that this is the second of the required two meetings as part of the Authority's Governance responsibilities under the Authority's Act. At the end of this meeting, T. Phillips will ask if any committee members would like to move to Executive Session without staff present. C. Farone responded that this can be accommodated, however to operate the Zoom functions Angela would need to remain in the room.

T. Phillips stated that depending upon the committee's acceptance today based upon the review of the financial statements, the audit team is planning to issue a modified or clean opinion. They felt that the audit went very well. They did not identify any material weaknesses within internal controls. Even with the Authority's complex transactions, the books and records were in very good shape.

T. Phillips stated there are new GASB policies coming up, but have been presently delayed. The biggest one coming up is the lease that has been delayed 18 months. It was noted that the GASB have been pushed out a number of implementation dates of new accounting policies being required due the pandemic. The estimates are reasonably conservative. All disclosures are neutral and clear. No difficulties were encountered. There were no disagreements with management, and the audit team was pleased to report that there were no corrected or uncorrected misstatements. They did not make any journal entries, and did not find any material differences that need to be reported. Carl and his team do an outstanding job, resulting in there being no correcting entries. The audit did not identify any internal controls or material weaknesses during the course of the audit. There were no errors or omissions by the accounting personnel. GASB 87 is the accounting for leases as listed on the statement of financial position or balance sheet. As an asset and liability the operating leases for buildings and equipment that would normally be expensed. This is now being required to be similar to what is done for private and nonprofit organizations to record those assets and liabilities. This was set to end March 31, 2021, but with the current 18 month extension it will not be implemented until 2023.

M. Sims discussed changes to revenues for the major areas on the financial statements. Materials Management revenue decreased by roughly \$717,000 relating to a decrease in tonnage, mostly due to a reduction of contaminated soil. Contaminated soil brings in a lower tipping fee of \$18 resulting in a lower discrepancy the percentage of tons and the percentage of revenue.

Telecommunications showed a revenue increase due to the expansion of the dark fiber with the New York Power Authority and a \$2.8 million contract. Engineering revenue increased again this year by \$214,000 related to various additional contracts related with the associated towns and municipalities that have plans to develop their water and wastewater, as well as grants from other government sources.

M. Sims further discussed expenses, stating that depreciation expenses decreased by about \$820,000 due to significant assets in both telecommunications and solid waste facility becoming fully depreciated. Specifically cell nine became fully depreciated in the prior year. Salaries and fringe benefits have increased due to raises that have been granted within the past year and filling staff positions that were open. Within the past year there was also an increase in bad debt expense, which was a direct result of the Board adopting a new policy for loan allowances within the accounts receivable allowances. Operating and maintenance expenses did increase due to the recycling incentive, but there was a decrease in the tipping fees paid out because of the decrease in the tonnages. The more recycling done, the lower the tonnages received at the landfill. Recycling is not a money maker.

C. Farone commented on the increase of O&M expenses, this increase is due to the recycling incentive provided to the counties. Last fiscal year there was zero recycling incentive, and this year there was \$337,000 utilized. Waste diversion activities alone for the Authority this fiscal year increased by just under \$600,000. There were bad debt expense write offs at the end of the year authorized by the Board. One was a CDLF Loan to Steve Winkler for just under \$15,000, and the second was AYDM under the Housing Loan Revolving Fund that was about \$276,000.

M. Sims continued stating that general administrative operating costs increased, and there were several transfers of employees which will reflect transferred expenses from one division to another.

J. Johnson asked that given the fact that there's a new cycle, should the depreciation schedules of the landfill be extended out over a longer period of time because the expectation of the life of the landfill is longer. M. Sims responded that they use Barton & Loguidice's projections for those. He further stated that there are requirements related to the landfill and once the area is closed none of the assets that are related to that area can be depreciated any longer. If a cell has something specific to it and it is going to close in 2024, all of the assets specifically related to that cell have to be fully depreciated by 2024.

C. Farone further stated that the liner needs to be depreciated over the specific useful life of that liner, but regarding other assets that have been added, such as the scales, these elements will be reviewed to see if the useful life can be extended. For the fiscal year ending 2020 the depreciation was not recast on the extended Solid Waste Management Facility new site because physical waste has

yet to be placed there. As soon as waste is put there all of the financial insurance projections will need to be recast. Part of that plan will be looking at the depreciation of certain pieces of equipment or property, such as the scales or the addition at the administration site, and find if these things are able to be extended. The actual liner is the main expenditure and is depreciated over the useful life of the liner, which is set by the projections by B & L (Barton & Logudice).

T. Phillips discussed the Yellow Book Guidance and the Authority having one major award regarding the Home Loan Program that is a pass through to Jefferson County and then redistributed to the sub-recipients, as the Authority monitors their use throughout the northern counties. There are no instances of non-compliance noted in the audit, after testing it thoroughly. The audit reports are in compliance with all the laws and regulations with a clean unmodified opinion.

T. Phillips discussed the AUP on the Authority's investment compliance in the Regional Water Line, and no issues were identified in either of those. The reports will be forthcoming. The investment policies are set forth by the public authorities act and the Authority is within compliance with that.

The financial statements were reviewed by T. Phillips. Last year, because there was a new accounting principle, a single year was done. Now they are able to show comparative totals for 2019 with two years to look at resulting in a more comparative analysis for review. You can begin to see a significant increase in capital assets related to the Solid Waste Treatment Facility and the operating network. Long term debt increased significantly with the new issuance of the bonds related to the expansion that was required. M. Sims commented that the biggest item to touch on is the continued expansion in the southern expansion. Revenue and expenses remain very similar to prior years. Last year there was a change in accounting principle under GASB 75, and still everything remained very consistent.

A. Calligaris asked a question about an item the balance sheet on the statement of net position, and asked to have the funds held by the trustee further explained. C. Farone responded that those are the funds that are held by the Bank of New York, but the Authority issued the \$12 million in bonds. They are held by the Bank of New York until they are drawn down for the funds for the construction of the southern expansion. They also include the debt service sinking fund and the debt service reserve for the 2015 and 2019 bonds.

A. Calligaris asked if the construction would be started. C. Farone replied that the construction has commenced as \$12 million was paid from Authority reserves (Cash) and \$12 million in bonds. This was just paid out on Wednesday. The contract should be completed and the funds drawn down by this fall.

T. Phillips continued reviewing that the statement of cash flows is on the direct method. He also pointed out that last year single year notes were used because

they issued single year financials without comparative. Last year they changed to single year notes because single year financials were issued without a comparative. After consulting with Carl and the audit quality assurance team, it was thought to be a great deal of repetitive information and a better use of time would be to focus what took place during the current year.

C. Farone stated that since there is so much testing done on accounts receivable and subsequent receipts, could the auditors talk more about what they found there during the audit. M. Sims responded that regarding negative trends they did not see any. Accounts receivable was up slightly this year, but the business continues to expand such as telecom and engineering so it is expected to see an increase in accounts receivables. Loans receivable also increased, and this year additional loans were made through the North Country Economic Development Authority. There was some skepticism as to how the businesses would react to the COVID, if they would be able to respond within the audit timetable. 100% response was actually received in record time. Going forward the auditors are comfortable with the receivables that are booked within the current year, and the trend that everything is up a bit is because revenues were also up as would be expected.

T. Phillips discussed the subsequent event footnote. A form of this had been applied to most of the financials subsequent to COVID-19. They felt it very important to inform their readers that there has been a significant economic impact to not only the national economy, but also in a lot of local economies and certainly the state economy leaving behind a great deal of unknowns. The governor is in a very precarious position, and he has the ability to adjust the state budget where he feels needed on a quarterly basis. With all of the challenges that New York State is having, he has done an outstanding job of trying to balance public safety and the financial position of the state. We don't know what the future holds in some areas because of the current situation. There is no way to know what loans will come through, what activity will happen or, if there will be any impact on the local economy. This footnote is an item that the auditors felt needed to be put there to draw the users notice to the fact that there is a potential impact in the future that could have a financial impact on the Authority.

B. McGrath commented thanking the auditors for the footnote explanation on the pandemic. He asked if there was anything the auditors were unable to complete that they otherwise would have been able to if there was not a pandemic situation. He further asked if the auditors think that the absence of such a footnote to that affect is appropriate. T. Phillips responded that the auditors were able to complete everything they needed to for the audit. He explained that prior to the shutdown they were out doing their site visits in January, and then internal control work and planning. He is not aware of anything they could not do.

B. McGrath completed his comment if the audit work, the audit report is unmodified and asked if the auditors are confident that the report was completed up to the standards that would be otherwise issued, with the caveat within the COVID

footnote. T. Phillips followed up by stating that they have an unmodified, clarifying that unqualified and unmodified mean the same thing. He also stated they were able to do their work and did not have to put any qualifications in. There were no certain tasks that they were unable to complete.

F. Carter asked about the bad debt listed at \$630,223, and could this be explained as to where the Authority is with bad debt. T. Phillips explained that this was an allowance set up based on anticipation and review that Carl and the team did, and he reviewed with finance. M. Sims stated this is a new policy the Board adopted where they are taking a look at individual loan and saying there is a possibility that the loan may not be collectible, and allowing for that specific one. This takes many loans and reviews them, taking a percentage of their total balance and allowing for this. This was the first year for this change, and that increased the allowance. Future write-offs will go against this allowance and be evaluated. C. Farone also stated that as they find something that is prudent to write-off it will be brought to the Board for formal authorization.

T. Phillips commented that the remaining pages are audit reports. They did not have any significant or material weaknesses. They did not have any findings on the supplemental schedules of the audit.

5. Executive Session – for the purpose of discussion.

Upon a motion by B. McGrath, and seconded by T. Hefferon, the committee moved in to Executive Session at 10:43 AM.

A. Marra was allowed to stay in the meeting during Executive Session to continue to run the meeting.

Upon a motion by F. Carter, and seconded by B. McGrath, the committee moved out of Executive Session at 10:51 AM.

No action was taken during Executive Session.

6. Resolution No. 2020-06-XX, approving the Audited Financial Statements, Single Audit, Agreed Upon Procedures, and Report on Investments for Fiscal Year Ending March 31, 2020.

Upon a motion by B. McGrath, and seconded by T. Hefferon, Approving Audited Financial Statements, Single Audit, Agreed Upon Procedures, and Report on Investments for Fiscal Year Ending March 31, 2020, was unanimously approved by the Audit Committee.

T. Phillips and M. Sims left the meeting at 10:45 AM.

7. Resolution No. 2020-06-XX, approving the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country for Fiscal Year 2020.

C. Farone explained that K. Barney, the Assistant Director of Human Resources, and J. Staples, the Director of Administration, will talk about the fiscal year 2020 results, reviewing if there were any significant anomalies that they noted during their audits. They will then discuss the internal audit work plan, and will then meet with the auditors to see if they have any suggestions. Those suggestions would then be integrated into the audit work plan with the compliance staff. The internal audit work plan makes a recommendation to the audit committee, and the committee then determines what they would like the staff to review throughout the year.

K. Barney reported there were no significant findings or red flags on the report. There have been no audits removed from last year to this year, and the changes that have been made to this year's internal audit work plan are within the website webcast audit. Going forward this audit will be completed bi-monthly rather than annually following each committee and Board meeting to ensure that all required information has been posted correctly. According to the Public Authorities Reform Act of 2009, posting and maintaining reports on public authorities' websites. This year, added to the human resource audit work plan is the cell phone reimbursement audit. A new audit will include which employees are getting reimbursed and at what rate, compared to similar positions within the Authority. This concluded her report.

Upon a motion by B. McGrath, and seconded by F. Carter, Approving Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country for Fiscal Year 2020, was unanimously approved by the Audit Committee.

8. Resolution No. 2020-06-XX, approving Annual Bond Sales Report for Fiscal Year Ending March 31, 2020.

C. Farone stated that this is an annual requirement of the Authority to report any new bond issuances. If there are no new issuances, they are required to report the outstanding bonds. This year the Development Authority issued \$10,720,000 in bonds on September 5th. The Authority is required to report net interest cost of 2.81%, and a true interest cost of 2.66% after all fees, underwriter compensation, and the method of sale or public negotiated sale. It should be noted that the New York State comptroller actually reviews all bond issuances so they approved this issuance at the time of sale.

Upon a motion by D. Mastascusa, and seconded by F. Carter, Approving Annual Bond Sales Report for Fiscal Year Ending March 31, 2020, was unanimously approved by the Audit Committee.

9. Upon a motion by J. Johnson, and seconded by T. Hefferon, the meeting was adjourned at 10:59 AM.

Respectfully submitted:

A handwritten signature in cursive script that reads "Alfred E. Calligaris".

Alfred E. Calligaris
Chairman, Audit Committee

Attachment: Bonadio Handout