

MINUTES AUDIT COMMITTEE

Thursday, June 17, 2021 – 10:00 AM
Zoom Video/Teleconference Call

Dulles State Office Building, 11th Floor, Conference Room 1
Watertown, New York

Committee Members Present:

Alfred Calligaris, Chairman
Thomas Hefferon
Dennis Mastascusa
Alex MacKinnon

Staff Present:

Carl Farone, Executive Director
Jennifer Staples, Chief Financial Officer
Dawn Caccavo, Comptroller
Regina Rybka-Lagattuta, Director of Human Resources
Angela Marra, Executive Assistant

Committee Members Absent:

Brian McGrath

Guests:

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

Other Board Members Present:

1. The meeting was called to order by Chairman Calligaris at 10:00 am.
2. A roll call was completed, and a quorum of the committee was established.

C. Farone announced that today's meeting, due to the Coronavirus emergency restrictions, in compliance with Governor Cuomo's executive order, is being conducted in person as well as via teleconference with several members of the Board in attendance via teleconferencing. The meeting has no in-person public access, but is accessible through livestreaming on the Authority's website. The meeting is being recorded and will later be transcribed for posting to the Authority website. During this meeting, because it is being conducted in part via teleconferencing, it is asked that when speaking please state your name so you may be identified appropriately in the minutes. Lastly, to the Board members attending in person, the microphones are set to off. When speaking please be sure to turn them on.

3. A. Calligaris turned the meeting over to J. Staples. J. Staples stated the first portion of the meeting will be a review of the results of the external audit for the Authority's fiscal year ending March 31, 2021 as performed by the Bonadio Group, presented by T. Phillips a partner at Bonadio, M. Sims the audit manager, and G. Evans a partner at Bonadio.

4. T. Phillips stated the audit was done remotely, and he is very happy with the work of the Authority and the Bonadio staff. Bonadio was in the process of the internal quality assurance review and will have the financial statement ready for release prior to the Board meeting next week.

T. Phillips reviewed the Audit Report presentation:

Board of Directors Summary:

- The Board responsibility is governance over the Authority fiscal oversight
- Upon the Board's acceptance of these finances, the auditors plan to issue an unmodified (clean) opinion.
- No material weaknesses were identified in internal controls.
- Books and records are well maintained, allowing Bonadio to complete their audit.

Required Communications:

- No new accounting policies were adopted during the year.
- Significant estimates are reasonable and conservative with no aggressive stances in the accounting policies, and financial statement disclosures are neutral and clear.
- No difficulties were encountered during the audits.
- There were no disagreements with management over financial reporting or audit matter.
- There were no corrected or uncorrected misstatements in connection with the current year audits.

Management Considerations:

- No internal control deficiencies or material weaknesses were identified.
- There were no adjustments required that related to errors or omissions by Authority personnel.
- New GASBs will be in effect in the near future, the most significant being GASB 87 which pertains to leases.

5. Financial Highlights reviewed by M. Sims –

- Decrease in revenue at the Materials Management Facility by \$567,000. This was a result of a 20,000 ton decrease, mainly in construction waste tonnage received at the facility due to COVID.
- Water Quality operating revenue increased by \$343,000, due to an increase in customer billings attributed to additional projects in 2021.
- Engineering revenue, or customer billings, decreased by \$293,000, mainly due to project delays and less initiatives due to COVID.
- Grants from government sources decreased by \$1.3 million due to less loans closing in 2021 when compared to 2020 which saw several larger grants closed under the Community Development Loan Fund.

- Depreciation and amortization decreased to \$7.7 million or \$534,000 because cells 10 and 11 became fully depreciated. This was offset by projects being placed into service within Water Quality and Telecommunications.
- Salary and Fringe Benefits saw an increase of \$1.2 million mainly due to the increase in pension expense.
- Wastewater treatment expenses decreased by \$29,000 primarily due to a decrease in the wastewater treated by the City of Watertown.
- Operating and maintenance expenses decreased by \$117,000 as Materials Management went through many changes as the southern expansion comes into completion. As this occurs many cells at the original facility will become fully depreciated and will show a decrease over the next few years.
- General Administrative costs saw an increase of \$185,000 due to the increase in pension expense and expensing cost incurred for office building relocation.
- Closure and post-closure costs decreased by \$128,000 due to the decrease in tonnage.

J. Staples commented that she doesn't believe we will be seeing the depreciation of another cell coming due any time soon as we are going to continue to fill that one cell. M. Sims asked if that was last cell. C. Farone responded that the new construction in cells 12 and 13 are replacing those cells that have been fully depreciated.

A. Calligaris asked if the southern expansion was to go into operation. C. Farone responded yes, it was originally anticipated to become operational this year but now looks better to open next year because we have existing capacity on the original site. As soon as any waste is placed in the southern expansion all water will need to be processed as leachate causing increased costs. This will be reviewed in detail at the August Board meeting.

M. Sims stated that as long as there is no waste placed there and it doesn't become operational, it extends the need to include the southern expansion into the closure and post-closure calculations. Barton and Loguidice, the engineers for the site, updated the tonnage in the current year as the site closure was originally projected at 2027. With the updated tonnage this year it is now projected at 2025 showing we are actually getting more tonnage than had been originally projected. The site looks to be operational until 2025 so there is no need for the southern expansion to open immediately. J. Staples commented that this assumes that there is no waste being placed in the southern expansion currently, closure, post-closure.

C. Farone commented that regarding the southern expansion we believe we will have to begin placing waste into it next year as we will want two operational faces. Soft MSW will be placed in the southern expansion, and C&D (construction and demolition) will be placed in the current cells so as not to puncture the new liner.

T. Phillips asked C. Farone if we were continuing to see the tonnage down in this current year as well. C. Farone responded no, that this year was an anomaly because of COVID. Only the C&D was down, MSW stayed steady. We believe that 2022 will come back to business as usual.

T. Hefferon asked if the study on recycling changed the tonnage coming into the cell. C. Farone replied that depending on the study if a MRF were created, in Harrisville or another site, it could potentially increase the amount of recyclables being kept out of the landfill. We should have more numbers on that shortly regarding what the study has identified and what the costs will be.

T. Hefferon asked what the timeline was on this. C. Farone responded that we should have the information from SCS this week.

T. Hefferon further asked if the cell were to be fully depreciated, and there is still four or five more years, is there an asset on the books at all or is it wiped out with the depreciation. C. Farone responded that if it is fully depreciated then there is no value on our books, even if we were still using it.

6. Current Accounting Developments reviewed by G. Evans –

- GASB 89 –
This requires us to expense interest costs during the construction period, instead of adding them to the historical cost of the asset.
- GASB 93 –
This is ending the use of LIBOR as a benchmark rate, and is typically used in interest rate swaps.
- GASB 87 –
This will be effective March 31, 2023. This should not have much effect on the Authority financial statements, but it will change the way we look at leases. Previously we had capital leases and operating leases, which were just recorded in the footnotes. This will change so that we just have leases, and a right-to-use asset will need to be recorded. Bonadio has spoken with C. Farone and J. Staples and they do not think this will have much of an effect, but is something we need to look at.

7. Uniform Guidance Audit (Yellow Book) reviewed by M. Sims –

- No material weaknesses.
- No instances of noncompliance.
- Issuing both reports as a “clean opinion”.
- Everything tested had support and there were no findings or questions of cost.

8. Agreed Upon Procedures / Investment Compliance-reviewed by M. Sims –

These reports are within the year-end audit package. Agreed upon Procedures (Waterline) and Investment Compliance, which is required by Regional Development, are both done.

- Both were clean with no instances noted.
- The Authority is in compliance with all requirements.

M. Sims further stated there were no comments or suggestions for improvement within the management letter.

9. Required Communications – reviewed by T. Phillips

- Revenue Adjustments – These resulted in a revenue impact of \$189,000 made within loans and the Army water and sewer line. These are not significant, but happen regularly. This is due to the Authority being a quick close with only 30 days following year end to be filed by June 30th.
- Financial Statements – They do not audit the MDNA, but do review substance and continuity. This is a good summary of the financial results and worth reading.
- Operating Expenses – Last year there was a surplus of \$785,000, this year there is a loss of \$4 million. This is mostly due to non-operating revenue. \$2 million was also related to investment return because interest rates have been very low over the last 15 months. We are beginning to see these increase as the Federal Reserve begins to increase the fixed rates.
- Net Impact – There was a reduction of operating revenue by \$2 million, and an increase in operating expense of \$550,000 mainly related to the retirement system.
- Summary of Financial Position – This item related to the southern expansion, funds held by trustees dropped by \$12 million. Bonds were issued and they are held by the trustee until the proceeds are used. The work has been mostly completed and the dollar amount will be used this year.
- Changes have been noted in deferred outflows and deferred inflows. The outflows are related to the New York State pension plan and show a decrease in NYS Pension funding from 96% in prior years to 86% this year. This should rebound this year with interest rates increasing.

G. Evans commented that in the footnotes the actual contributions list three years. They have increased from 714 (FY2019) to 797 (FY2021). This is typical with the market results and we hope to see it drop off a bit. These actuarial changes tend to be disregarded because they do swing so much on a yearly basis. T. Phillips stated that G. Evans is referring to Footnote 13 on page 30 which is a good indicator. C. Farone further stated this is based on a February timeframe and is calculated based on payroll. Page 30 is based off what is paid to the New York State in January.

- Closure and Post-Closure Liability saw a decrease of \$2.2 million which is related to Closure IV. There was also a preapproved amount of \$4 million utilized to pay for the closure operation.
- Total Operating Revenue shows a reduction in grants from government sources being down \$1.3 million. Loan balances were down due to inactivity resulting in a reduction of \$157,000 for interest received.

A. Calligaris asked with the grants, would the expenses be offset by a similar amount.
 C. Farone responded that the state provides the Authority with the cash, but it is not counted as revenue until it is obligated.

- Expenses – These remained overall consistent. Fringe benefits showed an increase related to pension, but otherwise this remained stable. Other reductions are indicative of the past year.
- Capital Assets increased last year due to the southern expansion, which has already been noted.
- No new long term debt was noted during the year.

J. Staples asked if they could cover the reclassification from 2020 to clarify why the statement may look different from last year to this year. M. Sims responded by explaining there was a \$7 million reclassification in cash and investments. In the past, everything in money market accounts was moved to cash to ensure everything was fully collateralized. In discussions over this past year with J. Staples and C. Farone, everything was being fully collateralized, making this step unnecessary. These investments were left as is this year, and the amounts from last year were reclassified on the financial statements resulting in cash and investments matching from last year to this year.

10. Upon a motion by T. Hefferon, and seconded by D. Mastascusa at 10:42 AM, the Committee moved into Executive Session to discuss the audit.

Upon a motion by T. Hefferon, and seconded by A. MacKinnon at 10:49 AM, the Committee moved to come out of Executive Session.

Chairman Calligaris stated that no action was taken during Executive Session.

11. Resolution No. 2021-06-86 accepts the Audited Financial Statements, Single Audit, Agreed Upon Procedures and Report on Investments as of and for the year ending March 31, 2021.

Upon a motion by T. Hefferon, and seconded by A. MacKinnon, Resolution No. 2021-06-86, Approving Audited Financial Statements, Single Audit Financial Statements, Single Audit, Agreed Upon Procedures, and Report on Investments for Fiscal Year Ending March 31, 2021, was unanimously approved and recommended to the full Board for approval.

T. Phillips, M. Sims, and G. Evans exited the meeting at 10:50 AM.

12. FYE 2021 Internal Audit Work Plan – Human Resources Work Plan

13. J. Staples introduced R. Lagattuta to review the FYE 2021 Internal Audit Work Plan – Human Resources Work Plan as attached in the Read Ahead packet.

R. Lagattuta reported the following:

- There were no findings out of the 16 audits that were conducted throughout the fiscal year.
- These 16 audits have been identified by the Board and are done monthly, quarterly, bi-annually, and annually.
- The following recommendations are being made for FY 2022:
 - expense report audits to be done at the time of request.
 - employee pay grade audits to be done twice per year under the 1st and 4th quarters.
 - telecommunication billing audits to be done twice per year.
 - move the telecommunication audit from the 2nd quarter to the 1st quarter.
- Within the HR Audit, under the employee pay rate audit, the Bamboo HR system will be compared with the SL system to ensure the information matches what has been approved by the division manager and upper management.
- Within the Internal Audit, under Materials Management, there will be the scale audit. Every month there are six trucks selected randomly where we have an inspector look at the scale when the truck goes on the scale and observes what is to be put into the landfill.

J. Staples stated that R. Lagattuta contacted the external auditors at the Bonadio Group to ask if there were any recommendations regarding internal audits based upon their findings, and there were not.

Upon a motion by T. Hefferon, and seconded by A. MacKinnon, the Internal Audit Work Plan was unanimously approved for FY22.

14. Resolution No. 2021-06-87 approves the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country, for the fiscal year 2021.

J. Staples read aloud the Assessment of the Effectiveness of Internal Controls – FY 2021, as attached to the resolution.

Upon a motion by T. Hefferon, and seconded by A. Calligaris, Resolution No. 2021-06-87, Approving the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country for Fiscal Year 2021, was unanimously approved and recommended to the full Board for approval.

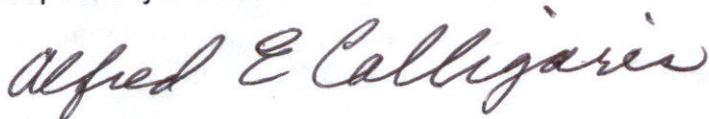
15. Resolution No. 2021-06-88 approves the Annual Bond Sales Report for Fiscal Year Ending March 31, 2021. This is an annual report that includes the results of any Bond Sales during the year, to include Underwriter's Compensation, Net Interest Cost, and the Method of Sale.

J. Staples reviewed the Annual Bond Sale Report as attached to the resolution.

Upon a motion by T. Hefferon, and seconded by A. Calligaris, Resolution No. 2021-06-88, Approving Annual bond Sales Report for Fiscal Year Ending March 31, 2021, was unanimously approved and recommended to the full Board for approval.

Upon a motion by T. Hefferon, and seconded by A. MacKinnon, the Audit Committee meeting was adjourned at 11:00 AM.

Respectfully submitted:



Alfred E. Calligaris
Chairman, Audit Committee

Attachment: Bonadio Handout

RECEIVED

JUL 12 2021