South Central Connecticut Regional Water Authority
Audit-Risk Committee

September 17, 2020
Meeting Transcription

A regular meeting of the South Central Connecticut Regional Water Authority Audit-Risk Committee took place on Thursday, September 17, 2020, via remote access. Chairman Cermola presided.

> Present: Committee – Messrs. DiSalvo, Borowy, Curseaden and Ms. Sack
> Management – Mss. Kowalski, Nesteriak, Reckdenwald, and Messrs. Bingaman, Norris, and Singh
> Blum Shapiro – Ms. Aniskoff and Mr. Nossek
> RPB – Ms. Campbell
> Staff – Mrs. Slubowski

Mr. DiSalvo called the meeting to order at 12:55 p.m.

Tony:

With Joe's absence I'll choose to chair his committee for him. I would entertain the idea of recessing the authority and meeting as the audit risk committee.

Kevin:

So moved.

Tony:

Is there a second?

David:

Second.

Tony:

Thank you, all in favor. Aye.

All:

Aye.

Tony:

Opposed? Motion carries. I wanted the minutes to note that I'm chairing in place of Joe, who is not here. I'd entertain a motion to approve the minutes of May 21st.

David:

So moved.

Kevin:

Second.

Tony:

Is there a second? Any additions or corrections to be made? Hearing none. All in favor. Aye?

All:

Aye.

Kevin:

Opposed? Motion carries. We're reviewing the 2020 audit results, and who is doing that for us?

Rochelle:

Blum Shapiro is going to present.

David:

Yeah, but which one?

Tony:

Okay. [inaudible 00:10:20] feel free to start anytime.

Ron:

Okay. We were going to share screens with you. We've got a slide deck that were relative to the results. I think, Jessica Aniskoff, also on the call, she was the engagement manager. Again, I'm Ron Nossek, the engagement partner. Here we go. Thank you. Too old to know how to share screen.

Tony:

Hey, listen, but you still remember how to do slides.

Jessica:

If I break it though, just bear with me.

Ron:

All right. So, if you want to go ahead and go forward, Jess, what we'll go over and it won't take, won't take very much of your time is just the engagement scope and reporting results. We'll go through some financial highlights. And then, I'm just going to bring your attention to the auditor's communications. You have already received them in a separate letter with the audited financial statements when we issued them, but just very briefly go through what the whole intent of those are relative to the communication. So, Jess, if you want to move forward, performing the audit under generally accepted auditing standards, and we're also performing the audit under governmental auditing standards, referred to as GAGAS, as well as the under uniform guidance, formerly the federal single audit act. So, we're reporting to you on all three levels of that scope, if you will. The primary reporting is the generally accepted auditing standards reporting, which is page one of the audited financial statements. That's our primary opinion on the financial statements.

Ron:

So, before I go to slide four, when we get into the results of all that. So, relative to the GASB opinion, we've issued an unmodified audit opinion, which states that, in our opinion, the financial statements clearly fairly represent the financial position and results of operations of the authority for the fiscal year ended May 31, 2020. Under Yellow Book, we're required to gain an understanding of your internal control systems relevant to financial reporting, as well as gaining an understanding of a material compliance matters that you need to adhere to that if a violation were to occur relative to some of the compliance requirements and it may be material to the financial statements. So, if we jump ahead, relative to the results on slide five of that scope, that level of scope, which is the Yellow Book or the GAGAS, we've issued our internal control report that showed no findings material weaknesses or significant deficiencies, and relative to compliance, there were no violations of compliance that were detected during the performance of our procedures.

Ron:

Then finally, under the uniform guidance, it's very similar to Yellow Book with the exception that it only focuses on major federal programs, as opposed to the overall financial reporting controls again. So, we gained an understanding of the internal controls over your federal programs and test those controls for compliance and the results there, once again, there were no material weaknesses or significant deficiencies that were identified relative to the program we tested. We only needed to test one federal program. I actually, I think you only have one federal program, which is the Capitalization Grants for drinking water, state revolving funds, and I've given you what the total expenditure is relative to that grant were. So we tested the grant relative to internal controls and compliance. So, we're testing transaction level, occurrences, and determining whether or not they're in compliance with the regulations surrounding the grant. So, a I said, under internal control, no material weaknesses. Under compliance, we issued an unmodified opinion or a clean opinion over compliance relative to the major federal program.

Ron:

So, all-in-all, as it's been, I think, long history here, we're issuing reports that are very clean relative to the financial statements and to the internal controls. Relative to some financial results, Jess, if you want to go to slide six. I got a little side by side here. This actually is a schedule that's right out of the MDNA, which is the first section of the audit report. And I always try to make a point that if you read nothing else relative to those financial statements, I know they can be a cumbersome document, I would take the time to go through the eight to 10 or 12 pages that are in the MDNA. It is a far more granular discussion from management relative to what transpired and what caused it, more importantly, what caused it to transpire. But overall here, as you can see, the net position increased from the prior year of the authority by $23.3 million. That's, that very bottom line under the 2020 column there, 23,258.

Ron:

Relative to revenues, operating revenues showed an increase of about 4.2 million, and that was due primarily to the full year impact of the July 2nd, 2019 rate increase. That rate increase, it was impacted a bit by decreases in consumption, and in our discussions with management, that was expected. I believe that came out in our planning meeting as a matter of fact, early on prior to starting any final field work. And then, your other revenues increased by about $1 million, and that was due primarily to pipe safe offerings and outside lab services. So, obviously great trajectory and direction relative to revenues. The next slide, the schedule out on the right is the very same schedule. Just talking about expenses now and relative to expenses, operating and maintenance expenses decreased about 0.6 million for the year. It was attributable to a decrease in outside services in maintenance and repair and in O&M payroll as well. So, there were a couple of components that drove those costs down, and your total operating expenses increased by about $1 million.

Ron:

There were a multitude of categories that had some balances out that were expected, but there was an increase in the provision for uncollectable receivables and, I believe if I'm not mistaken, Rochelle, you can correct me, some of that had to do with the pandemic and expectations relative to what was going to transpire. On slide eight, again, same schedule off to the right, just focusing here on your non-operating income and expenses overall. Total loan operating expenses increased just slightly year over year. The authority, you guys incurred some savings in the net interest expense due to refinancing activities, but market conditions relative to investments took a bit of a hit. If the authority to be honest, I think, if the authority was a June year end rather than a May year end, you probably by then had recovered quite a bit, if not all of that. So, it was nothing more to do than market conditions relative to the pandemic. Slide nine, this is just now a schedule of your net position. As we said, it had increased $23.3 million over the fiscal year to a total value of 211,589 million.

Ron:

The net investment in capital assets increased due to some significant construction of progress going on. The category relative to restricted net assets increased by 2.3 million, and that's due primarily to increases in the authorities, debt reserve and service funds, as well as some DOT receivables. And then, your final unrestricted net position increased $12.7 million. So, that's really, to some degree, your working capital. So, again, to see that going in that trajectory is a good site. Slide 10, I'm giving you here is simply a summary of your long-term debt. So, you can see what the ebb and flow was from beginning of the year, to the end of the year. You're fully aware, clearly, of all of the debt activity relative to bond issuances and retirements and things of that nature. So, certainly none of that comes as a surprise. The only thing that you may not be aware of on a month-to-month or a regular basis is the net pension and net OPEB liability, simply because they're determined actuarily after year end, but between the two almost broke even.

Ron:

Your OPEB liability did decrease almost 1.7 million, and the net pension liability increased 1.9, but if you look at what's considered RSI, so the schedules that are right after the notes in the financial statements, those pension plans are pretty well funded. I mean, when you look at them relative to other players in and around the state of Connecticut, a lot of them see far less funded status relative to the percentage of the liability that is funded with assets sitting in a trust. So, those are big liabilities, but they actually are in pretty decent shape. Next slide is, again, I'm not going to go through all of these. The slide deck is available to you, and again, these are the required auditor's communications. So, these are boilerplate relative to the topic of them, and basically what they are all designed to do is allow us the ability to convey to you those charged with governance, if there are any areas which we feel management is trying to manipulate the financial statements, or if there's a biased that we feel is coming through from management relative financial statements.

Ron:

The example I primarily give that would be indicative of such would be as if an example of where if we had 10 adjusting journal entries that we propose to management, five of them were increasing the net position of the authority and the other five we're decreasing it, and management chose only to book the ones that were increasing, that would be indicative of a relative bias by management. And we would want to, and be required to communicate that to you. As you go through all these, either from the letter or just slide deck where I've paired them down a little bit, you'll see there were no instances that we encountered that gave us any indication that management, quite frankly, was telling us anything but the truth and what the results were. So, that will end, I think the slide deck. The last slide in there does have contact information for myself and Jessica. You can always feel free to reach out to us.

Ron:

It's probably best to go through Rochelle and have her get to us, but if you do, for some reason, need to reach out to us directly by all means, feel free to do that. So, we can take any questions or anything else you'd like to discuss.

Tony:

Anyone have any questions for the auditors?

Suzanne:

I do, but I have to get back to my documents, because that's where I have my questions. Here we are. [inaudible 00:22:54]. Oh, in looking at the increase of net position and the cash equivalents, I was curious about the fact that our cash equivalence was so high and I read what that was attributed to, and I wanted to know, how long will this be like this? And/or what does this mean to the RWA? And/or will it change quite quickly once the year is complete?

Tony:

Rochelle?

Rochelle:

[inaudible 00:23:30]. So, on the cash and cash equivalent, as was mentioned, a key reason that it had to do with how we distributed our year end disposition [crosstalk 00:23:40] of the maximum flexibility to address COVID concerns. So, that is the primary reason there. The net position at the end of 2020, I think there were a couple of things that were occurring. As Ron mentioned, we had the benefit of almost a full year of a rate application increase. We also had, at the end of the year with the COVID concerns and cutting back on expenses, we did not make that additional above and beyond contribution to the pension. We chose to put that into the general funds, again, to give us some flexibility. And so, I think those two things together, as well as the refinancing, remember we had two refinancings during fiscal 2020? Those are all contributing to the strong results that we had in 2020. As you know, that we are deferring our rate application for fiscal 21, that won't be effective until fiscal 22.

Rochelle:

So, we're trying to manage multiple components, but I think it definitely depends on the rate cases and our level of expenses, and our ability to refinance are all contributing factors in whether or not they will repeat or not.

Suzanne:

Right. Okay. So, that's it out of growth, 100% essentially of our recasting of everything in light of anticipated difficulties.

Rochelle:

I wouldn't say, it's for fiscal 20, it's not just your recasting. I think the lower O&M is least partially due to that. The strength in the revenue is primarily due to the rate increase. And then, the lower debt is due to the refinancing, even though we did issue additional debt.

Suzanne:

Okay. And then further down, there's a paragraph on page 11, I think I'm in the financial statements about long term debt and net pension liability, and I think at one time, Rochelle, you did a piece on long-term debt and the implications of it over time and whether it would grow, or it would shrink based on certain assumptions, and that might be worth looking at, and I don't know if Blum Shapiro might be a good resource to help us do that, or that's something we can do internally. And then, the second question is on the net pension liability. It looks like it went up by 1.9 million, and largely I'm sure due to a lack of performance in our assets, but also mortality rates changing, but did that have any effect on ratings? Did they respond to that at all?

Rochelle:

Well, we haven't gone to the rating agencies since we issued our financials, but I would anticipate because we're still overly concerned, knowing that we did cut back on our above and beyond contribution, just because a COVID, and we talked to the rating agencies about our plans going forward. So, I wouldn't be overly concerned about that. Their mortality rates did, especially for the union plan, did have a significant impact that's the primary contributor to the increase in the liability, as well as, as you mentioned, the investment returns, but there was a big impact on the mortality [inaudible 00:27:38].

Suzanne:

All right. Thank you, Rochelle.

Tony:

Anything else? Anyone else have questions? David.

David:

If I could, yes. On page 10 of Ron's presentation, it talks about the net debt and the payable. We continue to talk about improving our position, and this case, we're up $9 million in debt. Is that a function of timing? Because I know that there's sometimes when we go out and we have more cash available to spend because we do a year and a half, 18 months apart. That's one part of the question, I guess, Rochelle.

Rochelle:

Yeah, it is partially due to that, you'll see, because we make our principal payment on August, but in fiscal 20, we did issue the additional debt for the longer term financing for the Great Hill tunnel is additional funding in the capital program.

David:

Okay. I wondered if that 15 million goes there. Okay. So-

Jennifer:

That is contributing that, but we did make our principal payment August 1st.

David:

Okay. So, but for that, we would have been in a better position by about $7 million. I think 15 million that we had to do with that. All right. The other one I'm fine with. I have notes, but I'll review them later. Thank you.

Tony:

Thank you. Are there other questions? Jennifer, do we have the capability of putting some people in a waiting room to have an executive session without losing them?

Jennifer:

Yes, we do.

Tony:

Okay. Can you clear out everyone, but the four directors and Naomi?

Tony:

I would entertain a motion to move into executive session.

Kevin:

So moved.

David:

Second.

Tony:

Is there a second?

David:

Yes.

Tony:

David. All in favor, aye.

All:

Aye.

[EXECUTIVE SESSION 1:15 P.M. TO 1:30 P.M.]

Tony:

I'll entertain a motion to adjourn this committee meeting and me as environment, health and safety.

[MEETING ADJOURNED AT 1:30 P.M.]