

South Central Connecticut Regional Water Authority

**Audit Risk Committee**

September 22, 2022

Meeting Transcription

[AUDIT RISK COMMITTEE MEETING STARTS AT 12:36 P.M.]

Catherine:

Good morning. Oh, good afternoon. Excuse me. For item one, may I entertain a motion to approve the minutes of the Audit Risk committee meeting of the 26th of May, 2022?

Kevin:

So moved.

Suzanne:

I'll make that motion.

Catherine:

Okay. I've got a motion by Suzanne, seconded by... Is there second?

David:

I'll second. I thought I heard Kevin, but I'll second it.

Catherine:

Okay.

Suzanne:

Suzanne would be happy to second it.

Catherine:

I've got a motion by Suzanne seconded by David. Is there any discussion? All in favor, signify by saying aye.

Group:

Aye.

Catherine:

I think I heard everybody, but any opposed? No abstentions? Okay. The motion carries. The next item is the presentation by our auditors. Do you want to meet in executive session first, or do you want to meet after the presentation?

David:

Traditionally, we've done it after, but I don't know if the auditors have any reason they might want to change it.

Catherine:

I think it makes sense to meet after, if that makes sense to everybody else.

David:

Yep. Good.

Catherine:

All right. Okay. Fine.

Tony:

That's fine.

Catherine:

Our auditors from CliftonLarsonAllen have provided the RWA with a clean audit on the Authority's financial statements. David Flint and Ron Nossek from CLA are here to provide us with a presentation on the audit, and all the required auditor communications were included in the board pack. I'm going to turn the meeting over to our auditors for their presentation.

Ron:

Thank you. We all know each other. I think we've all seen each other for a few times, but again, I'm Ron Nossek. I'm the Engagement Principal. Dave Flint, who is also here, is the engagement manager. Dave is actually going to walk you through the PowerPoint presentation related to the fiscal '22 audit, and then we'll both take any questions that you may have during or after, but for now, I'm just going to turn it over to Dave, and he can walk you through this.

David Flint:

Thank you, Ron, and thank you, Catherine. Starting off with an agenda for today, first, I'm going to touch base on the audit scope, then reporting results, some high level financial highlights are required communications to governance as your auditors, and then finally our contact information.

Next slide please. Under generally accepted auditing standards, our objective is to express an opinion on whether the basic financial statements represent the financial position and results of operations in accordance with generally accepted accounting principles. This opinion can be found on page one of the authorities financial statements.

Also, under governmental auditing standards, we provide a report on internal control over financial reporting, and on compliance with laws, regulations, contracts, and grants. Historically, this report is included in the federal single audit report. However, the Authority did not need a federal single audit for fiscal year 2022, so this is a standalone report.

Moving on to the next slide, we have a reporting results. Under generally accepted auditing standard, we issued an unmodified opinion on the financial statements for May 31st, 2022. This is the best opinion that can be received. Also, under governmental auditing standards, there were no internal control

findings to report. There were also no instances of noncompliance or any other matters that we felt necessary to report.

Next slide please. We're just going to do some high level financial highlights here. This is the statement of revenues expenses and changes in net position, more commonly referred to as the income statement. You'll see that total net position increased by 20.3 million for fiscal year 2022. This is compared to an increase of 25.2 million in the prior year. Drilling down on this a little bit, you'll see that operating revenues increased by 620,000, over 2021, which was primarily due to an additional \$1.2 million of revenue, which were generated by well services. On the water revenues side, they were relatively consistent year to year.

Moving on the next slide, we'll cover operating expenses. Total operating expenses increased three and a half million compared to the prior fiscal year. The main reason for this was an increase in operating and maintenance expenses relating to the cost associated with the pension in OPEB plans. Expenses associated with water in other revenues increased by 1.5 million, and this was primarily due to the additional costs associated with well services.

The next slide has non-operating income and expense. Overall, non-operating expenses increased by \$1.1 million, and this was largely due to the lack of intergovernmental revenue in 2022 related to the federal drinking water grant. You'll see the intergovernmental revenue line in the prior had \$845,000 of revenue. It's zero for this year. Although we did not report any for fiscal year 2022, there are multiple projects in the works that will be recorded in fiscal year 2023.

Also, the RWA experience, an increase... Sorry, if you could just go back. An increase of \$871,000 on the loss of disposal of capital assets. Basically, capital assets that were disposed that were not fully depreciated yet. These two decreases were offset by an additional \$1.5 million in interest income, obviously a result of rising interest rates.

Moving on to the next slide, we have our total net position here. As I mentioned earlier, total deposition increased by 20.3 million over the prior year. The net investment in capital assets increased by 14.9 million, which was due to a reduction in capital related debt. Although you guys issued debt in fiscal year 2022, much of that is still unspent, which is why we see an increase in this amount.

Restricted net assets increased by \$10.5 million. This was a result of an increase in restricted assets of 41.8 million, offset by those unspent bond proceeds that I had just mentioned. And then finally, our unrestricted net position decreased by about 5.1 million, and this is basically what is left over after we apply the current year changes to the net investment in capital assets and restricted net assets.

This slide covers the authorities' long term debt. Total bonds payable was 580.4 million at year end, an increase of 70 17.2 million year over year. This was due to the current year bond issuances, which were offset by, of course, bond repayments, as well as the bonds that were refinanced in fiscal year 2022. Drinking water loans decreased by \$1.3 million, which was just due to our scheduled repayments. Again, as I mentioned before, with the intergovernmental revenue, no new drinking water activity for fiscal year '22, but it is anticipated for fiscal year '23.

Our net pension liability saw an increase of \$6.9 million, and this was mainly due to a poor year in the market. It pretty much offset all the gains that we experienced in fiscal year 2021. Then finally, the net OPEB liability, it actually saw a minor decrease. This was basically lower than anticipated healthcare cost coupled with RWA contributions that were in excess of the amounts that were determined by the actuary.

With our final deliverables, there is a required communication to governance that you guys have hopefully all seen. I'm just going to go over some of the highlights from that letter from us to you guys. Basically, management is responsible for the selection and use of appropriate accounting policies. No

new accounting policies were adopted in fiscal year 2022. The financial statements due include estimates that are based on management's knowledge and experience about both past and future events. The significant estimates are listed out in that letter.

We did not encounter any significant difficulties in dealing with management. There were no uncorrected misstatements. Of the corrected misstatements made during the audit, none were considered to be material. There were no disagreements with management. We have requested management to make certain representations in relation to the audit and a management representation letter dated August 31st, 2022. To our knowledge, management did not consult with any other independent accountants.

Next slide, please. We have had various discussions with management prior to our engagement as auditors. However, these discussions occurred in the normal course of business, and our responses were not a condition of our engagement as your auditors. Finally, the financial statements contain certain required, supplementary information, or RSI. While we do perform limited procedures over this RSI, we do not express an opinion and provide any insurance over this information.

Here's our contact information. We encourage you guys to reach out to us at any time with any questions or any concerns that you might have, or if you just want to chat about anything that may be on your mind. I'll now leave this open to any questions that you guys may have for Ron or myself.

Catherine:

I will entertain a motion to go into executive session to have this-

Tony:

So moved.

Catherine:

Oh, okay. Is there a second?

Kevin:

Second.

Catherine:

Okay. It's been moved by Tony, seconded by Kevin to go into executive session to discuss financial matters and confidence pursuant to 1-2 10 B3B of the Connecticut general statutes.

Kevin:

You would like to have us all join you?

Catherine:

Joining us, this will be a meeting of only the members of the five member board members and the auditors. If management would leave, all others would leave then, too, please.

[AUDIT RISK MEETS IN EXECUTIVE SESSION FROM 12:48 P.M. TO 12:58 P.M.]

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Catherine: I am entertaining a motion to adjourn the meeting of the Audit Risk Committee and reconvene as the Authority board.

Tony: So moved.

Suzanne: Seconded.

Catherine: Okay, Tony and Suzanne. All in favor?

Group: Aye.

Catherine: Okay. It's unanimous. David, it's back to your meeting.

[AUDIT RISK COMMITTEE MEETING ENDS AT 1:00 P.M.]