

SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

AUDIT-RISK COMMITTEE

SEPTEMBER 26, 2024

MEETING TRANSCRIPTION

[AUDIT-RISK COMMITTEE MEETING BEGINS AT 12:33 P.M.]

Catherine:

The first order of business is the approval of minutes from the May 23rd 2024 meeting.

Mario:

Make a motion to approve.

Catherine:

Thank you. Is there a second?

David:

Second.

Catherine:

Thank you. All right, are there any comments or discussion on the minutes? Any modifications, changes? All right, in that case, we'll move to vote. All in favor of approval of the minutes, signify by saying aye.

Committee members:

Aye.

Catherine:

Four ayes. I assume that there are no nays since there are only four of us. Just going to move on to the second item of the agenda, which is the review of the fiscal 2024 audit results. So is David Flint on?

David Flint:

I'm here, guys.

Catherine:

Great. I'll turn it over to you, David, for a presentation of the results, the very wonderful results.

David Flint:

Thank you so much and first of all, congratulations, 175 years, that is pretty cool and obviously stronger than ever. Yeah. So my name is David Flint, I'm a principal with CLA and the principal in charge of your audit. With me today is Gabriel Epstein. He's just here in case I need some backup. He is the director on the audit.

So if we could just flip through to the agenda here. So just a high level agenda. I'm going to talk about the audit scope reporting results, some really high level financial highlights. There are some required communications I have to go through and then of course our contact information.

Starting with the audit scope. So under Generally Accepted Auditing Standards, we expressed an opinion on whether the basic financial statements fairly represent the financial position in results of operations in accordance with Generally Accepted Accounting Principles.

Also under Governmental Auditing Standards, we provide a report on internal control over financial reporting and in compliance with laws, regulations, contracts, and grants. So that second report is more commonly referred to as the yellow book letter and is actually included in the Federal Single Audit report that each of you guys should have.

So we also completed a Federal Single Audit under uniform guidance, which includes an opinion on compliance for the major federal program, which was the drinking water grant and loan program. And we also provide a report on internal control over compliance with this major federal program. So next slide, please, for the reporting results.

So for the financial statements for fiscal year 2024, we issued an unmodified opinion. An unmodified opinion... Terminology is a little confusing, but an unmodified opinion is the best opinion that can be received.

Regarding that yellow book letter that I mentioned, we did not have any findings related to internal control over financial reporting, which is great. Also regarding compliance with laws, regulations, contracts and grants, we did not know any instance of noncompliance.

Regarding that Federal Single Audit that I mentioned, we had one major program that was audited in 2024. The official name is the Capitalization Grants for Drinking Water State Revolving Funds. This includes both a grant and a loan portion of which those two combined had expenditures for the year of \$16.5 million.

We issued an unmodified opinion on compliance requirements for this program, which of course is the best opinion available. We also had no internal control findings as it relates to compliance to this program.

So just some changes for 2024. So for those of you that were on the board last year, you may have remembered that we implemented a new GASB standard last year. It was GASB statement number 87 and it had to do with leases. This year, we implemented 96, which is kind of like a piggyback statement of 87.

So instead of leases this year, it deals with SBITAs and SBITA stands for Subscription-Based Information Technology Arrangement. Simple terms, it's basically software subscriptions. So any software subscription that you have that has a contract term that's greater than one year, we now have to bring that liability onto the balance sheet along with an associated asset.

So you'll see that throughout the financial statements this year, you'll see a SBITA asset, as well as a SBITA liability. Within your opinion to your financial statements, there is an emphasis of matter paragraph that just brings attention to this, that we implemented this standard this year.

And there is also a restatement to prior years financial statements because of this. You guys do show two years of financial statements within your financials. And because both are shown, we actually have to implement this standard for both years.

So because of that, there's a relatively immaterial restatement to the 2023 data shown as well. Also regarding the Federal Single Audit, I just want to make note that the entity, that the authority is not a low-risk auditee for fiscal year '24.

One of the main requirements to be a low-risk auditee is that you have two back-to-back years of Federal Single Audits with no issues. And some of you may recall in 2022, a Federal Single Audit was not needed.

So this being the second year in a row, we are still considered a high-risk auditee and the consequences of that are not really anything for you guys. It just means that we have to audit a higher percentage of the transactions for that program, but two years, no issues now. So next year, we will be considered a low-risk auditee.

All right. So some high level financial data. The statement of revenues, expenses and changes in net position more commonly referred to as the income statement. So year-over-year, the net position increased \$41.5 million, which is \$10.5 million better than 2023.

So that's two years in a row for you guys with similar increases to your bottom line, which is fantastic. When looking at operating revenues, which increased \$7.4 million, specifically water revenues increased \$3.7 million, which was primarily due to the rate increases that you guys had last June, June of 2023.

Other operating revenues also increased by \$3.7 million, which was primarily due to rate increases for PipeSafe, as well as the addition of Carboni Plumbing to the well services catalog.

Next slide, please. Looking on the expense side, total operating expenses increased by \$5.8 million year-over-year. Operating and maintenance increased \$3.8 million specifically and this is primarily due to increases in payroll, benefits, chemicals and other outside services.

Just basically inflationary increases in costs that we're all experiencing on a day-to-day basis. Expenses associated with water and other revenues increased \$1.2 million. And again, this was primarily due to the addition of Carboni Plumbing that I mentioned earlier.

The next slide, we'll focus on the non-operating activity. Overall, non-operating expenses decreased by \$6.4 million year-over-year. This was due to interest income which increased \$2.8 million.

Obviously as a result, we've all seen interest rates increased significantly over fiscal year 2024. But in this case, it helped us on the interest income side of things. Also, when you have capital assets that are disposed of, if they're not fully depreciated, you generally experience a loss on that disposition. And that item actually decreased \$1.4 million year-over-year.

And then finally, we have an increase in governmental revenue here, intergovernmental revenue. Basically intergovernmental revenue is grant revenue. We talked about that clean water program. So we have a \$1.5 million increase in grant revenue from that program.

So as I mentioned earlier, that's two years in a row with 10 plus million dollars of increase in your change in net position. Most of that comes from non-operating activity. The items I just mentioned for fiscal year 2024 and then fiscal year 2023 is primarily just interest income as that was really the first year that rates increased. Plus we started charging interest again on accounts receivable post-pandemic.

So the statement of net position more commonly referred to as the balance sheet basically comes down to your total net position which is shown in that table to the right. So total net position as I stated is 41 point... Or sorry, the increase was 41.5 million and it's basically broken out into three categories.

The first you have is your net investment in capital assets, which is basically your capital assets less any debt or liabilities associated with acquiring or creating those capital assets. And that actually increased

\$15.5 million this year, which is great and that's primarily due to an increase in capital assets of \$23 million. And it's offset by a slight increase in debt of \$6.5 million.

So that \$15.5 million increase is great. The other category we have here is restricted net position and that increased \$21 million and that's primarily due to just increases in your restricted assets.

Note six to your financial statements actually highlights the makeup of what's in your restricted. Assets and then basically that comes down to unrestricted. Unrestricted is everything left over and it's basically unrestricted retained earnings.

The next slide is your long-term liabilities. So total bonds payable were about \$505 million, which is a decrease of \$6.6 million for the year. The other significant liability here is your drinking water loans. Those increased \$13.1 million.

So we talked about the increased grant activity, the increased activity for your Federal Single Audit. Most of that activity is drinking water loans. And again, those increased \$13.1 million for two projects, the first being the RTU and hardware upgrades and then also the West River Water Treatment Plant.

So those were the two clean water projects in 2024. Also a big change here is the net pension liability. The net pension liability actually decreased \$6.3 million, which is great and that was due to a positive year as far as investment returns for the pension trust fund.

And then finally, you'll notice here the SBITA payable, we talked about that new accounting standard GASB 96, you'll see that the SBITA payable here, it's actually significant. There's \$4.5 million worth of software subscription liabilities that we brought onto the books for fiscal year 2024.

So I mentioned those required communications. I'm not going to go through it, but basically at the completion of every audit, there are certain things that we as your auditors are required to communicate to those charged with governance, which of course is you guys. You should have each received our governance communication letter that comes at the conclusion of each audit that highlights these communications.

So if you haven't, I do encourage you to take a quick read through that. Two slides ahead is our contact information. Again, obviously we do this audit from May to this timeframe, but that does not mean we're not available to you guys. If you ever have any questions, comments, or concerns, always feel free to reach out to us with anything that might be on your mind. Does anyone have any questions for us?

Catherine:

Yes.

Mario:

I'm sorry. There are a couple of questions on the audit specifics. I apologize. I should have understood. On page 33 and 35, you talk about custodial credit risk and deposits. And I was having trouble trying to get the two of them, to understand the two of them. I was just wondering if you might be able to...

David Flint:

Yeah, so I assume everyone's heard of FDIC insurance. We're looking at levels of FDI insurance. At a very minimum, every bank is required to offer \$200,000 of FDIC insurance and 10% collateral, meaning that they have to hold 10% of your deposited funds. It's just insurance that if the bank goes under, at a very minimum, you'll get \$200,000, 10%.

South Central Connecticut Regional Water Authority
Audit-Risk Committee
September 26, 2024

There are certainly different accounts that have different insurance percentages, insurance amounts, there are different accounts that have different collateral agreements. So we're going through all the authorities accounts, whether they're cash or cash equivalents and figuring out what the exposure is there.

Mario:

I guess more specifically in one case, it sounds like they are... Find the right page. I apologize, I should have had it pulled up. 33 and 35.

David Flint:

Sorry, that's page 33 and 35?

Mario:

In one case, it's exposed to the custodial credit risk for uninsured and uncollateralized, and in the other case, it sounds like you're saying that it's not exposed.

Rochelle:

David, do you want to answer or do you want me to answer?

David Flint:

Well, it might be easier, Rochelle, for you to share the actual worksheet. So Rochelle and I have a lot of back and forth making sure we agree, right Rochelle, on how this number is calculated? And Rochelle has our calculation that comes up with these numbers. I don't know if that would be helpful to share?

Rochelle:

If you want that detail.

Mario:

It's not the number?

Rochelle:

It's like the uninsured and uncollateralized means it's exposed. The uninsured and collateralized that's held by a pledging bank is not in our name, but it's set aside in a pool.

So one of our key accounts, actually the growth fund, or most of the money is, it's actually in that bucket because it is held, it's that type account. So it's held by the bank, it's more than the 10%, but it's not in our name. So that's the distinction there.

Mario:

Maybe later. Hate to keep everybody else.

Rochelle:

Is there anything else, Mario?

Mario:

I apologize. Going through and I was just curious, David, we have a good amount of funds that are invested. And I was curious if you had a sense on what would be a healthy ratio of investments versus the annual operating budget and versus liabilities for a quasi-governmental utility?

David Flint:

That's a great question. I mean, a lot of your investments are invested in STIF, which is the state of Connecticut's Short-Term Investment Fund. It's a very low risk state-controlled investment.

I think that it is a great place to keep your money again due to the low risk. As far as ratio goes, I don't think that as your auditor, that's probably the best place for me to be advising you guys. Probably more something for an investment advisor.

Mario:

Okay, thank you.

Rochelle:

And maybe I'll just add, Mario, I know it's more also the credit rating agencies are looking for a certain number of days available for cash and cash inflow ones in particular.

Mario:

Okay.

Suzanne:

And how do the balances relate to that then?

Rochelle:

Well, we have restricted and unrestricted. So restricted unfortunately doesn't [inaudible 00:23:50] with the cash and cash equivalents. That's part of what we show our credit rating agencies where yes, you're not technically counting them, but it is available.

Suzanne:

So I think what you're getting at, Mario, correct me if I'm wrong, is is there a point where we're setting aside too much money more than we need to be setting aside? So I guess the question is in terms of being able to substantiate our strength and our position to maintain our credit rating, what is that balance? Is that-

Mario:

Thank you. That's a nice rephrase.

David Flint:

Yeah, that's a great question and what we've seen is that the credit ratings have been looking for... It used to be in unrestricted, used to be 10% of operating budget. We've seen that number go up considerably over the last few years. 15%, 18%.

South Central Connecticut Regional Water Authority
Audit-Risk Committee
September 26, 2024

It's something I would definitely talk to your credit rating and I'm sure Rochelle has what they're looking for in an unrestricted category. I believe that is what the question was trying to get to.

Mario:

Thank you.

Catherine:

And the assets in the STIF are unrestricted, is that correct?

Rochelle:

Yeah, they're a combination. We actually do some of the investments for both the STIF and the fund.

Catherine:

Are there any other questions? Okay, thank you very much, David, for your work. I appreciate that.

David Flint:

Thank you so much guys.

Catherine:

We have one other topic for discussion which is really not on the agenda.

David Flint:

We're going to sign off guys, thank you so much for the opportunity.

Catherine:

Thank you. Thank you very much. Yes, Mario, did you have something?

Mario:

Well, I just wanted to staff together [inaudible 00:26:06]. Getting such a great audit and I'm sorry that he stepped out.

Catherine:

I concur. I mean, it's really great to read and see no noted incidents of noncompliance, no problems getting the information. I mean, all of that was really great. That's why I said really great audits. Really nice to see.

Rochelle asked me to just let you know that I want to modify my work plan a little bit and push off the internal audit, the beginning of the internal audit until February until after we know what's going on, our opportunity. Which makes a great deal of sense unless anybody has any objections to that.

Mario:

[inaudible 00:27:03] objection. Set enough time to do the audit in a timely fashion.

Catherine:

Well, that was my question and I received information that said that it would not materially impair the audit, but it would actually probably be a benefit to do that. So that's okay with everybody. I have nothing else, so I-

Suzanne:

Let me ask one question maybe I should have asked during the audit and so if it's out of line at this point, let me know. It appeared to me that because we went up in a certain... We went up in DW-

Catherine:

SRF.

Suzanne:

SRF. Thank you and down in regular debt. That it looked like we were flat for the year. We did not increase with both the decrease in debt and the increase in debt. It was net-neutral. Is that [inaudible 00:27:58]?

Rochelle:

I don't have it right in front of me. There's other things that come into play and you'll see it when we go through even where we are August to August because we also paid principal payments. So we made quite large principal payments and we also paid a real-time [inaudible 00:28:14] that also felt lower the principal amount.

Suzanne:

When's a good time to take a snapshot in time? Because I imagine there's something going on with our debt all the time. Is it really just when the audit is done?

Rochelle:

Well, not only. For example, you'll see when we do the first quarter, so paid principal payments and interest eight one. So eight one though is for the revenue bonds, it's the only month that we pay. So you are going to see a decrease when we make that payment unless [inaudible 00:28:47] the funding debt. So it really depends because [inaudible 00:28:50] we'll be issuing new debt if our rate application is approved in the January, but we do watch it all the time.

Suzanne:

Okay, thank you, Rochelle.

Catherine:

Would you like a discussion about that say quarterly or?

Suzanne:

I don't think it has to be quarterly, maybe annually.

South Central Connecticut Regional Water Authority
Audit-Risk Committee
September 26, 2024

Catherine:
Okay.

Suzanne:
I'll talk more later about other things I'm thinking about related to it that are in this committee or this
[inaudible 00:29:23].

Catherine:
Okay. Are there any other issues with respect to the Audit-Risk Committee? Okay, then I'm taking a
motion to adjourn the Audit-Risk Committee?

Suzanne:
I'll make the motion.

Mario:
Second.

Catherine:
Seconded. All in favor?

Committee members:
Aye.

[AUDIT RISK COMMITTEE MEETING ENDS AT 12:58 P.M.]