TOWN OF BROOKHAVEN

INDUSTRIAL DEVELOPMENT AGENCY

AUDIT COMMITTEE MEETING
HELD BY ZOOM VIDEOCONFERENCE

March 10, 2021
10:04 a.m.

TRANSCRIPT OF PROCEEDINGS

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MEMBERS:
FREDERICK C. BRAUN, III
FELIX J. GRUCCI, JR.
GARY POLLAKUSKY
ANN-MARIE SCHEIDT

ALSO PRESENT:
LISA M.G. MULLIGAN, CHIEF EXECUTIVE OFFICER
LORI J. LaPONTE, CHIEF FINANCIAL OFFICER
JAMES M. TULLO, DEPUTY DIRECTOR
JOCELYN LINSE, EXECUTIVE ASSISTANT
TERRI ALKON, ADMINISTRATIVE ASSISTANT
WILLIAM F. WEIR, ESQ., NIXON PEABODY
HOWARD R. GROSS, ESQ.,
WEINBERG GROSS & PERGAMENT, LLP
JEFFREY S. DAVOLI, PKF O'CONNOR DAVIES
ELIZABETH F. CASEY, PKF O'CONNOR DAVIES
OCTAVIO CHACON, PKF O'CONNOR DAVIES

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MS. MULLIGAN: This is the audit committee meeting for the IDA.

MR. DAVOLI: Well, good morning everyone. I'm Jeff Davoli. I'm a partner of the accounting firm of PKF O'Connor Davies. You'll notice that the letterhead has changed; we merged AVZ and PKF O'Connor Davies effective January 1, 2021, so this audit will be issued under PKF O'Connor Davies.

So with the agenda, I think maybe I need ten or 15 minutes tops, I know you probably got a lot of busy items on the agenda, so I'll go through this relatively quickly.

I'm going to go to the audit status. Our responsibility as auditors, your responsibility as those charged with governance, some scope and approach to the audit, some financial highlights, some required communications, internal controls and some things that are coming down the pike.

So audit status. We're effectively done with the audit, the audit is wrapped up.

We're in the housekeeping stage of the audit,
which means that pending this meeting, we get approval to issue the financial statements. We'll issue rep letters to management to be signed. I believe all other housekeeping items, either Octavio or Beth, correct me if I'm wrong, I think all other housekeeping items are ready to go and we can issue our statement in the next day or two.

MS. CASEY: We may have a couple of small things pending.

MR. DAVOLI: Okay.

MS. CASEY: That should be easy to be resolved.

MR. DAVOLI: Yeah. The timing is always an issue with IDA's because the AAA PARIS filings. Those filings were extended due to COVID, so there's no real push to get it issued, although I'm sure the board I imagine wants to get it issued as soon as possible.

Our opinion is unmodified, which means that it's a clean opinion, which again means that the financial statements are clearly and materially stated in accordance with general
accepted accounting principles.

Again, we will be needing approval of those charged with governance and the rep letter and those couple of items that Beth mentioned.

Our responsibility as auditors, form an opinion on the financial statements, perform the audit in accordance with professional standards.

Considering internal control, but not reporting on it. If there were items to report on during our procedures for internal control related matters, we would communicate them to you here today.

Accumulating misstatements that we identified during the audit and then reporting on those items as well as all the other items in the financial statements including the MD&A.

Again, we communicate significant matters that came up during the audit, material weaknesses, significant deficiencies, internal control clause, fraud or illegal acts. We are required to perform certain
procedures regarding fraud which involve
inquires of management and I'm happy to report
that there were no reports of fraud, there was
nothing that came up in our audit that
indicated there was fraud, either material or
otherwise and the process used by management
to formulate particularly sensitive accounting
estimates and conclusions.

Responsibilities of management is
selecting appropriate accounting policies;
fairly stating the financial statements in
accordance with GAAP; establishing and
maintaining the effective internal control,
complying with laws and regs; providing all
the financial records to us to complete the
audit.

Today we're communicating with you on
the audit process and management always has
the responsibility of setting a proper tone at
the top and designing and implementing
effective internal controllers not only to
prevent, but also detect timely any fraud that
may exist.

These are the areas that we considered
significant audit areas: Cash, cash is always an area of concern. There was no green cash here, which makes it a little bit easier, but it is generally one of the larger items on the balance sheet; therefore, it is significant to us. Revenue is revenue and revenue recognition is always an audit scope implication and accounts payable per expenses due to other governments, which are the PILOT payments that are received and not remitted by year end, payroll and payroll related expenses and we look at subsequent events through the date of issue, which means that we're responsible for reporting on the results of operations for the year 2020, on the balance sheet as of 12/31/20 and we're also responsible for checking to make sure that there are no subsequent events that have a material impact on the financial statements or the operations.

Some financial highlights for the IDA, net position totaled just under $3 million, which was a $119,000 decrease, about a four percent decrease, from the prior year. The
pension liability increased by $301,000, but because of the way the pension is booked, there was also a deferred outflow of 211,000, kind of minimizing the impact on the financial statements.

Charges for services, which include the closing fees, decreased by 131,000 from 909 in 2019 to 778 in 2020. There were 12 projects closed in '19 and there were eight projects closed in 2020.

The operating expenses totaled 923,000, that's about a $109,000 increase from the prior year and most of that, as in the last bullet there, relates to admin salaries, benefits and payroll and specifically about $80,000 related to pension expense and 29,000 due to health insurance cost increases.

From a cash flow standpoint, obviously the agency flows in and out. The PILOT's, $18.7 million flowed in and 18.5 flowed out, the balance is still on the balance sheet as of 12/31/2020 compared to 17.6 million in '19 flowing in and 17.5 flowing out.

We'll skip this, this is the LDC.
Here again is a required communication. We have communicated our procedures, an engagement letter that was dated in October and again, no matters have come to our attention that requires us to inform you about any significant accounting policy or controversial or emerging areas, which there's a lack of authoritative consensus. That just means that there's no funky business going on with the GAAP that you applied in closing the books and also, there were no matters that came to our attention that required us about any significant unusual transactions.

There were no real GASB's implemented this year that would affect our ability with the prior year.

Every engagement includes an element of accounting estimates. There were . . . the only estimates that affect the IDA materially was the net pension liability that we spoke about and the deferred outflows. The net pension liability is the liability that's determined up at the state level and pushed down to the local governments. That is a
liability that is determined on an actuarially determined basis by auditors of the plan up at
the state level and again, we accounted no significant deficiencies -- difficulties in
dealing with management, everything went smoothly; there was no biting, no kicking, no
spitting, no scratching.

We had no disagreements with management in the conducting of our audit and again,
we're going to get representations from management that we will date as of the date of
the opinion on certain matters related to the financial statements and the disclosures.

There were no consultation with other accountants, what we refer to in the industry as opinion shopping and none of the matters discussed in our responses were a condition of retention of us being your auditors.

We're required under generally accepted auditing standards to affirm that we are independent and we're also required to communicate with you regarding any corrections to the financial statements or the books and records and any data uncorrected as of the
date of the balance sheet and there were no
corrected and there were no uncorrected errors
in the financial statements.

MS. CASEY: Kudos to you, Lori.

MR. DAVOLI: Yup. Thank you, Lori and
everybody who works on the books and records
of the agency, it really makes our job easy
with the competence and it's rare that you
have such qualified talent and it certainly
makes our job easier.

Professional standards require that we
communicate any material weaknesses in
internal control. These are the weaknesses,
deficiencies in internal control. Significant
deficiencies, which are combinations of
deficiencies that rise to a higher level, but
not a material weakness and a material
weakness is a combination of significant
deficiencies that effectively cause the
financial statements not to be in GAAP or
materially misstated and we're happy that we
did not identify any deficiencies in internal
control that are required to be communicated
with you here today.
Coming down the pike, there's a couple of things that are of interest specifically to IDA's and LDC's and that's GASB 91, which has to do with conduit debt, so that is effective for the year 2022.

There's some omnibus, the lease standards that are coming in '22. 2021 will not apply to the agency.

Everybody knows LIBOR's going away, I don't really think it's going to have a material impact on the financial statements of the IDA or the LDC. There's some component unit clarification that's coming down in GASB 97 and then down the road further, 2023, there's a GASB that talks about public-private partnerships. We're evaluating that now and will be in touch if that has an impact, but again, that's a couple of years down the road and then there's the SBITAs on the GASB 96.

So that's it for the IDA, if there's any questions.

MR. BRAUN: It's more a question for the attorneys.

With LIBOR going away, some of our
agreements obviously, it doesn't affect us
directly, but with some of our agreements and
the financing of those projects including a
reference to LIBOR, again, a question for the
attorneys, do we need to get any additional
documentation from the lenders and/or the
projects as to how those projects will be or
the index being used going forward?

MR. WEIR: Most of our bond deals that
are currently outstanding, luckily they're
fixed rate bonds, we don't have too many
variable rate bonds out there, but the ones we
do have (inaudible) bonds on behalf of Mather
Memorial Hospital through the LDC that was
purchased by I believe it was Webster Bank, so
those bonds will have to be amended to put a
new rate in or new mechanism.

Some of the -- a lot of the mortgages
on the straight lease transactions probably do
have LIBOR provisions in there, so again, the
notes, the loan agreements can be amended, the
IDA's not a party to that, they'll be amended
between the bank and the companies, should not
impact the mortgage because it's not changing
the mortgage amount, but I'm sure we'll be hearing from some banks during the course of this year.

MR. BRAUN: Thank you.

MR. WEIR: Luckily we don't have too many variable rate bonds outstanding.

MS. MULLIGAN: Did anyone have any questions for our auditors?

MR. GRUCCI: Yeah, I have a question for Jeff, it relates to the LIBOR. Do they have a new vehicle in mind to measure interest rates?

MR. DAVOLI: There's something out there, I'm still doing a lot of reading on it, but it will be some type of benchmark based similar to LIBOR.

MR. GRUCCI: But they don't have something yet, in other words, they're still looking or researching it?

MR. DAVOLI: Yeah, I think they're just about there. If not there on something, they're just . . . the information is kind of all over the board on it.

MR. GRUCCI: Okay.
MS. CASEY: There's mention of the secured overnight financing rate, which they call SOFR, which I think a lot of entities are looking into.

MR. DAVOLI: Yeah, this will change a lot of things because these -- almost all of these, you know, swapped out derivative mortgages that are out there for private industry is -- they're all based on LIBOR, so there will be -- there will have to be, you know, to the earlier question, there will be some kind of bridge built between those documents that reference LIBOR and what will be the new rate, it will be probably an amendment to those mortgage docs.

MS. CASEY: The other thing I'll just mention is I have not researched it, but I've heard due to COVID the expiration date was extended.

MR. DAVOLI: Right.

MS. CASEY: To I think sometime like mid 2023, but again, I would have to do the research on that.

MR. DAVOLI: Yeah.
MS. MULLIGAN: Did anyone have any other questions about our audit?

MS. SCHEIDT: Just good to hear there was nothing funky and there was no fighting, no biting.

MR. DAVOLI: And no spitting. There was no spitting.

MS. SCHEIDT: Spitting.

MS. MULLIGAN: That's too much.

MR. BRAUN: If there are no other questions, we need a motion to adjourn the audit committee meeting for the Industrial Development Agency.

MR. GRUCCI: Fred, do we need a motion to accept the audit and recommend it to the board?

MR. BRAUN: That's probably a good idea.

MR. GRUCCI: Then if so, I'll make that motion that we accept the audit report from the committee and present it to the board.

MS. MULLIGAN: That won't happen until our March 24th meeting where the entire board will consider the audit and also PARIS.
MR. POLLAKUSKY: I'll second that motion.

MR. BRAUN: Thank you, Gary. Call a vote.

Mr. Grucci?

MR. GRUCCI: Yes.

MR. BRAUN: Mr. Pollakusky?

MR. POLLAKUSKY: Yes.

MR. BRAUN: Ms. Scheidt?

MS. SCHEIDT: Yes.

MR. BRAUN: Mr. Braun votes yes. We have accepted the audit report. Now we need a motion to close the audit committee.

MR. POLLAKUSKY: So moved.

MS. SCHEIDT: Second.

MR. BRAUN: Thank you. On the vote, Mr. Grucci?

MR. GRUCCI: Yes.

MR. BRAUN: Mr. Pollakusky?

MR. POLLAKUSKY: Yes.

MR. BRAUN: Ms. Scheidt?

MS. SCHEIDT: Yes.

MR. BRAUN: Mr. Braun votes yes. The audit committee for the Industrial
Development Agency is closed.

(Time noted: 10:23 a.m.)

I, JOANN O'LOUGHLIN, a Notary Public for and within the State of New York, do hereby certify that the above is a correct transcription of my stenographic notes.

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JOANN O'LOUGHLIN