Finance Committee
Sept. 19, 2013 Regular Meeting
Draft Minutes

Members Present:	Committee Chairman Joel Freedman Jim Hayden Scott Shanley Andrew Nunn (present by telephone)
CRRA Staff Present:	Tom Kirk, President Mark Daley, Chief Financial Officer Jeffrey Duvall, Director of Budgets and Forecasting Peter Egan, Director of Operations and Environmental Affairs Laurie Hunt, Director of Legal Services Lynn Martin, Risk Manager Nhan Vo-Le, Director of Accounting and Financial Reporting Moira Kenney, HR Specialist/Board Administrator
Also Present:	Henry Christian, Jean Cofield, and Jennifer Hook (by telephone) of Aon Risk Services; Paul Goetz and Jeff Roude of Bollam, Sheedy, Torani & Co., LLP; Jim Sandler, Esq. of Sandler & Mara.

PUBLIC COMMENT

Chairman Freedman called the meeting to order at 10:35 a.m. He said there were no members of the public who wished to comment and proceeded with the agenda.

Chairman Freedman noted that the minutes from May 9, 2013, and May 23, 2013, was approved at the last meeting and therefore the Committee would move directly to Agenda Item D.

1. Approval of the Minutes of the Regular June 20, 2013, Regular Finance Committee Meeting

Chairman Freedman requested a motion to accept the minutes of the June 20, 2013, Finance Committee meeting. The motion to approve the minutes was made by Director Shanley and seconded by Director Hayden.

The motion to approve the minutes was approved by roll call. Director Shanley abstained.

2. Approval of the Minutes of the Regular July 7, 2013, Regular Finance Committee Meeting

Chairman Freedman requested a motion to accept the minutes of the July 7, 2013, Finance Committee meeting. The motion to approve the minutes was made by Director Nunn and seconded by Director Shanley.

The motion to approve the minutes as amended and discussed was approved by roll call.

3. Approval of the Minutes of the Regular July 18, 2013, Regular Finance Committee Meeting

Chairman Freedman requested a motion to accept the minutes of the July 18, 2013, Finance Committee meeting. The motion to approve the minutes was made by Director Hayden and seconded by Director Nunn.

The motion to approve the minutes was approved by roll call.

4. Review and Recommend for Board Approval – Resolution Regarding Disbursement of Authority Funds

Chairman Freedman requested a motion regarding the above-captioned item. Director Shanley made the following motion which was seconded by Director Hayden.

> **RESOLVED:** That the funds of the Authority deposited or invested in any financial institution (except Trustee-held funds) be subject to withdrawal at any time through checks, notes, drafts, bills of exchange, acceptance, or other instruments for the payment of money when made, signed, accepted or endorsed on behalf of the Authority, by two of the following: Tom Kirk, Mark Daley, and Jeffrey Duvall provided however that Tom Kirk or Mark Daley must at least be one of the two signers.
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> **FURTHER RESOLVED:** That any funds that are transferred using the methods of Automatic Clearing House (ACH), wire transfer, or electronic banking shall be endorsed on behalf of the Authority, by two of the following: Tom Kirk, Mark Daley, Jeffrey Duvall, Tina Mateo, Barbara Dillon, and Lynn Martin provided however that Tom Kirk, Mark Daley, Jeffrey Duvall, or Lynn Martin must at least be one of the two signers.
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> **FURTHER RESOLVED:** That funds of the Authority held by the Trustee be subject to withdrawal at any time upon written requisitions or instructions for the payment of money, when made, signed, accepted or endorsed on behalf of the Authority by any one of the individuals authorized above.

Mr. Daley said the resolution will provide him with the necessary signatory responsibilities now that he is the new Chief Financial Officer of CRRA. He said the resolution follows the same format used by management in the past with one exception. Mr. Daley said CRRA previously relied on internal procedures to identify disbursement of funds authority separate from the wire transfer authority. He explained the resolution now separately identifies authority for each type of transaction.

Mr. Daley said the first resolve deals with signing checks and the second with ACH transfers, the bulk of which are investment funds into the STIF account. He said the third resolution is primarily for trustee payments to the Southeast Project which require a co-signatory from Covanta.

Chairman Freedman said the first resolve states two signatories are required and that either Mr. Daley or Mr. Kirk must be one of those signatories. He said this is redundant because only two signatories are required.

Director Shanley asked if the wire transfers are specifically for investments. Mr. Daley replied yes. He said there are a few exceptions, such as ADP which relies on ACH. Director Shanley asked if he was correct in stating that all vendor payments require the signature of Mr. Daley or Mr. Kirk with the exception of those vendor payments which could be delegated to Ms. Martin or Mr. Duvall under the ACH. Mr. Daley replied yes. Director Shanley asked how frequently that exception occurs. Mr. Daley said it is only for ADP and a NAES payment made monthly for South Meadows.

Chairman Freedman made a friendly amendment to remove the redundancy in the first resolve which states two signatories are required and that either Mr. Daley or Mr. Kirk must be one of those signatories. The resolution with the amendment is as follows:

RESOLVED: That the funds of the Authority deposited or invested in any financial institution (except Trustee-held funds) be subject to withdrawal at any time through checks, notes, drafts, bills of exchange, acceptance, or other instruments for the payment of money when made, signed, accepted or endorsed on behalf of the Authority, by two of the following: Tom Kirk, Mark Daley, and Jeffrey Duvall.

FURTHER RESOLVED: That any funds that are transferred using the methods of Automatic Clearing House (ACH), wire transfer, or electronic banking shall be endorsed on behalf of the Authority, by two of the following: Tom Kirk, Mark Daley, Jeffrey Duvall, Tina Mateo, Barbara Dillon, and Lynn Martin provided however that Tom Kirk, Mark Daley, Jeffrey Duvall, or Lynn Martin must at least be one of the two signers.

FURTHER RESOLVED: That funds of the Authority held by the Trustee be subject to withdrawal at any time upon written requisitions or instructions for the payment of money, when made, signed, accepted or endorsed on behalf of the Authority by any one of the individuals authorized above.

The motion previously made and seconded was approved as amended unanimously by roll call.

5. Review and Recommend for Board Approval – Casualty Program Renewal

Chairman Freedman requested a motion regarding the above-captioned item. Director Shanley made the following motion which was seconded by Director Hayden.

RESOLVED: That CRRA's Commercial General Liability insurance be purchased from ACE American Insurance Company (Rating A+) with a $1,000,000 limit, $25,000 deductible, for the period 10/1/13 – 10/1/14 for a premium of $215,000 as discussed at this meeting; and

FURTHER RESOLVED: That CRRA's Umbrella Liability insurance be purchased from ACE Property & Casualty Insurance Company (Rating A+) with a $25 million limit, $10,000 retention, for the period 10/1/13 – 10/1/14 for a premium of $157,500 as discussed at this meeting; and

FURTHER RESOLVED: That CRRA's Pollution Legal Liability insurance be purchased from Illinois Union Insurance Company (ACE) (Rating A+) with a $20 million limit, $250,000 retention, for the period 10/1/13 – 10/1/14 for a premium of $218,820; as discussed at this meeting, and;

FURTHER RESOLVED: That CRRA's Commercial Automobile Liability insurance be purchased from ACE American Insurance Company (Rating A+) with a $1 million limit, liability coverage on all and comprehensive and collision on twelve (12) passenger vehicles and light trucks with a $1,000 deductible, for the period 10/1/13 – 10/1/14 for a premium of $60,115.

Ms. Martin said management comes to the Finance Committee in the spring with recommendations for property and financial policies and in the fall with the casualty program, which consists of general, auto and umbrella liability, and pollution legal liability. She introduced Henry Christian, Vice-President of Aon Risk Services who was present to provide a general overview of the insurance market, solicitation and quotes received. Ms. Martin said Aon's casualty broker, Jean Cofield, is also present and noted that Jennifer Hook, Aon's Environmental Broker, is also present via telephone.

Mr. Christian said he has taken the Account Executive role for CRRA from Lisa Janney, who has left Aon. He said the current carrier is the ACE Group, which has served as CRRA's carrier for several years. Mr. Christian explained Aon was tasked with going out to the market to determine what alternative markets may exist to provide competitive terms, conditions and pricing. He said roughly thirteen markets were approached and a combination of responses was received.

Mr. Christian said some of the markets indicated they were not comfortable with CRRA's claim history concerning slip and fall incidents and historical long term pollution issues. He said some carriers, based on targets and the existing program, felt that CRRA's program was written very lean and very aggressive and therefore did not feel that they could offer a competitive quote. Mr. Christian said there were also carriers which weren't filed properly to write business in the State of Connecticut. He said the quote disclosure report in the Committee's write-up identifies the markets which were approached and the results.

Mr. Christian said from the casualty prospective the competition came down to ACE and Ironshore, Inc. He said Ironshore provided a couple of program option structures. Mr. Christian said CRRA's current program has a general liability limit of $1 million dollars with a $25 million excess limit which also sits over the auto and the employers' liability portion of CRRA's workers' compensation, with separate $20 million pollution aggregate.

Mr. Christian said Ironshore provided an option which would combine those aggregate limits under one policy which afforded them the ability to provide aggressive pricing on that program option. He said Aon's concern with that type of option is based on the historical structure of CRRA's program. Mr. Christian said CRRA had a shared aggregate limit in the past in which pollution and umbrella limits were shared. He said CRRA had opted to move away from that several years ago, which he assumes is because management was concerned about one policy covering multiple lines to that degree.

Mr. Christian said Ironshore's first option provides CRRA with a combined aggregate however; Aon does not believe that is the most advantageous program. He explained that typically Aon would not see a client move towards reducing an aggregate capacity unless there was a change in the marketplace where capacity was restricted, or there was a cost component where the market was hardening significantly enough where the cost was so prohibitive to keep the aggregate that a client opted to reduce the limit. He said this was not the case with CRRA's renewal as it is actually more aggressive than the prior year.

Chairman Freedman asked if Aon is recommending separating the aggregate limits. Ms. Martin replied that another broker made that recommendation several years ago. She said originally in 1996, CRRA could only get pollution coverage by purchasing a combined policy. She said through 2005 or so CRRA kept that combined policy as it was the only way to obtain pollution coverage. Ms. Martin said the only offered policy was from AIG, which decided not to bid in 2007. She said ACE came through at that point with coverage (at which point Aon was on the policy) and CRRA was able to separate the policies going forward.

Mr. Christian said another concern with sharing the limit, although CRRA's recent loss history does not indicate this, is if for example a methane event ate through the $25 million pollution limit under the shared program and another incident occurred that same year on the liability side. He said the pollution incident would erode the entire limit and CRRA would have to buy an additional limit to reinstate the aggregate applicable to the liability side. Mr. Christian said for the amount of savings generated by taking that combined aggregate limit (about a $72,000 savings) it is not economically beneficial to share that limit because of the potential loss.

Mr. Christian said the other option is for Ironshore to provide the same coverage limit which ACE provided. He said Ironshore was not able to breakout its general liability and pollution liability primary limit and the combined offering is difficult to compare to ACE's. Mr. Christian said from a combined perspective having roughly the same program structure Ironshore would be charging about $80,000 more for a separate $20 million aggregate for the pollution and a $25 million aggregate for the umbrella, versus the current program in place. He said from a coverage perspective there aren't significant differences, aside from the fact that Ironshore is not an admitted carrier. He explained an admitted carrier is guaranteed by the State Guarantee Fund which backs payment of claims if the carrier experiences financial difficulties.

Mr. Christian said ACE has been a good partner relative to working with CRRA and has continued to be aggressive in the marketplace while continuing to write lean coverage. He said ACE has indicated that they like CRRA's account and Aon feels there is value in the continuity of carrier and coverage to CRRA.

Ms. Hook provided an overview of the pollution liability market. She said Ironshore tried very hard to provide CRRA with a good offer concerning pollution coverage under a combined program comparable to the stand alone program which CRRA has with ACE. Ms. Hook said despite Ironshore's efforts Aon is recommending staying with ACE.

Ms. Hook said the markets responded to Aon's request for a variety of options for self-insured retentions for one and three year policy options. She said the market responded to Aon's request for different premium scenarios for when the Connecticut Department of Energy and Environmental Protection (hereinafter referred to as "CT DEEP") takes over CRRA landfills.

Ms. Hook said ACE is providing enhancements and a decrease in price in the PLL policy, which it has provided consistently over the years and is evidence of the good relationship CRRA has with ACE.

She said this year ACE provided $20 million in limits on the expiring program (which was also quoted on the renewal) and an additional 25% of supplemental additional limits for defense costs. Ms. Hook said this is quite material on the pollution side as many times the defense costs for pollution lawsuits exceed the payout.

Ms. Hook said Ace also added first party business interruption and also increased the mold and legionella coverage sublimit from $1 to $5 million and removed the previous restrictions on that coverage. Ms. Hook said CRRA's coverage is expiring at $243,000 for the annual term at a $250,000 SIR, $20 million limit and the renewal price from ACE is $218,820 which is 10% less than last years' premium.

Ms. Hook said CRRA is seeing this decrease due to competitive pressure, as there have been no losses in this relationship which is reflected in the premium decrease. She said when ACE first wrote this coverage in 2007 the premium was in the high $300,000's with very few enhancements and it has improved vastly over time.

Director Shanley asked if Ironshore felt CRRA was over insured as they provided combined options. Mr. Christian said no. He explained this was just a different type of offer and they did provide other types of options. He said there are options with and without landfill coverage, however; Aon recommends keeping the coverage on the landfills. Ms. Martin said CRRA's Director of Operations and Environmental Affairs concurs that it is better to leave the landfills on considering the future transition of landfills to the CT DEEP.

Director Freedman asked what will happen if the landfills are transferred while insurance coverage provided by CRRA is still active. Ms. Martin explained CRRA would receive a pro-rate return of premium if the landfills were transferred early. She said if some of the coverage is assignable the State of Connecticut could pay CRRA for the coverage costs. Mr. Christian said any unearned premium would be returned to CRRA.

Mr. Christian said Aon is not recommending a multi-year policy because the aggregate applies across all of the entire policy term and if something were to happen CRRA would have to pay an additional premium to reinstate the insurance. He said the auto-liability program is increasing slightly in costs due primarily to a general auto coverage increase.

Chairman Freedman asked if it would be possible for the Committee to address the insurance renewals earlier in the year to provide for time for any material changes and questions. Ms. Martin said that was no problem and the Committee agreed that the following year the Finance Committee would meet earlier in the year.

Chairman Freedman asked if these recommendations were accepted if there was a budget savings. Mr. Martin said exhibit 5 shows a noted savings of $119,000 in the annualized premium. Mr. Duvall said insurance is not broken out piece by piece. He said overall the insurance premium was increased by 3% in the budget however a small savings overall is likely and he will provide the net savings for the full Board.

The motion previously made and seconded was approved unanimously by roll call.

6. Review and Recommend for Board Approval – 2013 Year End Audit

Chairman Freedman requested a motion regarding the above-captioned item. Director Shanley made the following motion which was seconded by Director Hayden.

> **RESOLVED**: That the Board hereby accepts the Annual Financial Report for the Fiscal Year Ended June 30, 2013, substantially as discussed and presented at this meeting.

Mr. Daley provided an overview concerning the audit process. He said the deadline for completion and submittal of the audit to the State of Connecticut is Oct. 4, 2013. Mr. Daley said that the field work commenced on August 4th and extended for two weeks during which time bank reconciliations, back-up documentation, testing account receivables, payroll and disbursements were reviewed. He said confirmations were done for all bank accounts, inventories, receivables and payables, and bond funds for the Mid-Conn and Southeast projects.

Mr. Daley said fraud interviews were conducted with the Director of Accounting and Financial Reporting, Ms. Vo-Le, as well as former CRRA CFO, Mr. Bolduc. He said the financial statement review includes a review of the statements of revenues, expenses and changes in net assets, the balance sheet, and the statement of cash flows.

Mr. Daley said after the audit report is submitted further internal work continues on a larger report for the Government Finances Officers Association office, which is the highest standard for government financial reporting and from which CRRA achieved an award for FY'12 (as it has in the past 20 years). Mr. Goetz said there is a significant amount of work involved in that achievement.

Mr. Daley said that the draft audit was distributed and the next step is for management representations to be signed off on. He said the Independent Auditor's Report draft is a clean opinion. Mr. Daley explained this means that the CRRA financial statements are presented fairly in all material respects. He said the auditors did not identify any deficiencies in internal controls, or issues of non-compliance with law, regulations or contracts. Mr. Daley said the execution of management representations are pending and noted that there are also separate management letter considerations.

Mr. Daley discussed the continuing evolving financial structure of CRRA. He said after the closure of the Mid-Conn Project, asset transfers related to that closure and the startup of the new CSWS Project filter throughout the statements. He said the CSWS Project commended on Nov. 16, 2012, and continues to serve many of the former Mid-Conn Project towns.

Mr. Daley provided an overview of CRRA's financial performance pursuant to the new CSWS business model. He said there is a $12 million (9%) decline in the total operating revenue of $120 million from FY'12 which is due mainly to reduced service charges and electricity sales. Mr. Daley said in addition there is a $13 million (10%) decline in the total operating expense of $115 million from FY'12. He cited reduced plant operation expenses, the PILOT, new O&M agreement and a reduced distribution to SCRRRA as drivers in that decline.

Mr. Daley said CRRA's income before depreciation was $4.8 million, or a $0.6 million (14%) improvement from FY'12. He said CRRA's change in net assets (or income after depreciation, amortization and non-operating revenues and expenses) was negative $11 million, a $0.8 million (7%) improvement from FY'12.

Mr. Daley said CRRA's total assets as of 6/30/13 were $239 million, a decrease of $13.6 million (5%) driven by depreciation, net decrease in construction in progress, and liquidated debt service reserves. Mr. Daley said CRRA's total liabilities as of 6/30/13 were $74 million, which is a decrease of $2.5 million (3%) and the total net assets as of 6/30/13 were $165 million, which is a decreases of $11.2 million (6%).

PRESENTATION BY BST AUDITORS

Mr. Goetz provided an overview from the auditors' perspective. He said the audit time table is developed by BST in cooperation with the Director of Accounting and input from the CRRA CFO. Mr. Goetz explained the auditors established the expectations and planning for the audit around year end and spent a full two weeks in the field this year due to the pressures and scope of items which needed to be addressed. He said the audit time table was altered slightly due to these complications and the audit is probably about a week behind as a result.

Mr. Goetz said CRRA is responsible for the preparation of its financial statements. He said there are some open items necessary to complete the audit. Mr. Goetz said for example the management representation letter. He explained the letter demonstrates ownership by CRRA management for the accuracy of the financial information subject to the audit. He said CRRA takes that obligation very seriously and that letter will be presented to management from BST in about a week.

Mr. Goetz said CRRA has asked BST to give its opinion on the financial statements and to communicate certain terms of the engagement to those charged with governance. He said BST does not anticipate anything negative in the management letter. Mr. Goetz said one thing BST has not seen in the past is the significance of the journal entries which were posted after BST came here. He said there were more journal entries at a later date than BST was accustomed to, none of which were from BST.

Mr. Goetz said the auditors' report format is slightly different than in years past due to a revision in the required format. He said BST's opinion is contained in the bottom part of that report and is the highest level of assurance that an auditor can provide.

Mr. Goetz said notes contained on the financial statements are also a part of the financial statements. He said also included in the statement is supplemental information concerning the balance sheets, income statements, and cash flows of CRRA. He said there have been significant management changes this past year and noted that BST held meetings to familiarize itself with new CRRA CFO, Mark Daley.

Mr. Goetz said footnote 1L addresses the concept of net assets. He explained net assets is being changed to net position this year due to a change in the process. Mr. Goetz explained CRRA is subject to contingencies which include litigation and arbitration CRRA currently faces. He said these are not items which were accrued as the items in contingency are not reasonable enough to incur liability or to be reasonably estimated.

Mr. Goetz said the impact of Public Act 13-285 is not described except for CRRA's requirement by statute to contribute up to $500,000 funds toward the financial audit. He said BST looks at the cash management process and the prior year made a comment with respect to the turnover in the Accounting and Finance Department. Mr. Goetz said due to the changing of positions BST recommended that management review for proper training and comfort with their duties. He said BST discussed the NAES manual with Mr. Egan and Ms. Raymond and NAES employees. He said findings on procedure reviews will be provided to management. Mr. Goetz said BST received excellent cooperation from the accounting and finance department during this process.

The motion previously made and seconded was approved unanimously by roll call.

EXECUTIVE SESSION

Chairman Freedman requested a motion to enter into Executive Session to discuss the audit. The motion was made by Director Shanley and seconded by Director Hayden. The motion previously made and seconded was approved unanimously by roll call. Chairman Freedman requested that the following people remain for the Executive Session, in addition to the Committee members:

Jeff Roude
Paul Goetz

The Executive Session with the auditors commenced at 12:05 a.m. and concluded at 12:25 p.m.

Chairman Freedman requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Mark Daley
Laurie Hunt

The Executive Session commenced at 12:25 p.m. and concluded at 1:18 p.m.

The meeting was reconvened at 1:18 p.m., the door was opened, and the Board secretary and all members of the public (of which there were none) were invited back in for the continuation of public session.

ADJOURNMENT

Chairman Freedman requested a motion to adjourn the meeting. The motion was made by Director Shanley and seconded by Director Hayden.

The meeting was adjourned at 1:18 p.m.

Respectfully submitted,

Moira Kenney
HR Specialist/Board Administrator