

Rochester-Genesee Regional Transportation Authority
Minutes of
AUDIT COMMITTEE MEETING
June 21, 2012

Audit Committee Board of Commissioners:

Present:

Commissioners Jankowski (Chairman), Battaglia, Redmond

Absent: Commissioners Goldstein and Vitagliano

RGRTA Board of Commissioners (not on the Committee):

Present:

Commissioner Scott Adair

RGRTA Staff:

Bill Carpenter, CEO; Robert Frye, CFO; Hal Carter, General Counsel & CAO; Chris Dobson, Director of Finance; Mark Nasky, Accounting Manager

Other: Kristen Clark, Partner Bonadio & Co., LLP; Jon Miller, Engagement Lead Bonadio & Co., LLP

Chairman Jankowski opened the meeting at 11:05am.

Overview of the agenda.

Mr. Frye.

- RGRTA – Independent Financial Audit Report for FY Ended 3/31/2012
- Independent Financial Audit Report for RTS Union (ATU) Pension Fund
- Agreed Upon Procedures – Employee Incentive Program

Introduced Kristen Clark and Jon Miller from Bonadio and Co. and turned it over to Kristen for presentation and discussion of the agenda items.

RGRTA Independent Financial Audit Report for FY Ended 3/31/2012

Ms. Clark

- Introduction
 - Financial Audit is complete. Moving towards meeting June 30th OSC submission deadline.
 - Focus of today's review will be a summary of key points of the audit report (PowerPoint presentation) and a more detailed review of the draft Financial Statements, if requested.
 - Described at a high level the documents each member of the Committee received prior to the meeting.

- Required Communications to the Committee
- Management Letter
- Draft 3/31/12 Financial Statements
- In addition provided a draft of the Union (ATU) Pension report and Agreed Upon Procedures – Employee Incentive Program document.

- Required Communications

- Formal Communications letter is included in financial statement packet
- Nothing unusual or of concern to report to the committee
- An unqualified opinion is issued on the reliability of the financial statements of the Authority and the component units
- GASB 61 “The Financial Reporting Entity: Omnibus” and 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” were adopted and applied in the FY2012 financial statements and did not have a significant impact on the presentation or the accounting in the financial statements.
- The sensitive accounting estimates included in the financials are various reserves established by Management: \$24.8 million for other postemployment benefits (OPEB); \$3.9 million for workers compensation; \$2.4 million for general liability claims; and soil remediation liability of approximately \$643,000.
 - The OPEB liability is an actuarially based estimate based on a report dated 3/31/11. The Authority did not update the OPEB actuarial valuation as of 3/31/2012, because updates are only required every 2 years.

Mr. Frye

- Commented that the workers compensation reserve is based on independent actuarial analysis; the OPEB is based on an actuarial report; and as noted the soil remediation liability is based on outside professional engineer’s estimates.

Ms. Clark

- No significant difficulties with management were encountered during the audit.
- Audit adjustments recorded were reclassifications and did not change the bottom line.
 - Reclassification of Allison transmission credit from Federal/NYS Contributed Capital to Other Revenue
 - Reclassify local share of capital assets transfer to appropriate entity
 - Reclassify receivable for Lift Line share of Preventive Maintenance from RTS to LL
- Management passed on booking an entry with respect to accrual of paid time off to match payout policy. The adjustment was not large enough to impact Bonadio’s opinion and is consistent with management’s position over the last several years. The accounting world would have you record 100% of the liability

based on the policy, but management's estimate of 85% is based on actual experience.

- There were no disagreements with management.
- We are not aware that management consulted with other accountants, to the best of our knowledge.
- Our discussions with management were in the normal course of our professional relationship and our responses were not a condition of our retention as auditor.
- Supplemental Information was prepared consistent to prior periods and complete in relation to the audit of the financial statements.
- Communications of Matters Related to Internal Control Over Financial Reporting and Other Matters
 - The three types of control deficiencies are material weakness, significant deficiencies, and control deficiency.
 - There were no control deficiencies that are considered to be material or significant.
 - A control deficiency was identified related to certain monthly closing review procedures.
 - A few adjustments were identified internally by management during the early part of the audit after close of the financial year. The reason it is considered a control deficiency is that these adjustments should be identified earlier on in the year closer to when they occur. Early identification and correction will ensure that the Board and Management have the best information available for decision making.

Mr. Frye

- Acknowledged that management agreed it was neither a material nor significant weakness and was a control deficiency. In addition pointed out that the transactions identified were both unusual and infrequent, but nonetheless need to have processes in place to catch them and that management has already modified a few procedures to address the matter.

Ms. Clark/Mr. Frye

- Discussed and acknowledged that management has a good quarterly close process that was instituted a few years back as a result of a management letter comment.

Commissioner Jankowski

- Inquired as to whether or not we had this same comment in prior years.

Mr. Frye

- Responded that we did not have the same comment in the prior year.

Mr. Miller

- Review of the Statement of Revenue, Expenses and Change in Net Assets & Reconciliation to internally reported Net Income
 - Revenues are up \$2.0 million and expenses are up \$6.0 million; the fuel price SWAP drove \$1 million of the revenue change and the growth in expenses was a result of an increase in salary expense from contractual increases and growth in positions as well as a rise in the fuel market.
 - Net Assets went up just over \$110 million; a change of \$10.0 million.

Mr. Frye

- Reviewed the reconciliation of change in net assets to internally reported net income. After backing out capital contributions, grant funded depreciation, and non-current year OPEB expense the result is \$2.0 million in net income.
- In addition reconciled the \$2.0 million net income result to the unaudited 3/31/12 green sheet value of \$1.9 million.

Mr. Miller

- Review of the Consolidated Statement of Net Assets
 - Total assets of \$153 million; an increase of \$13 million from the prior year which was a result of the investment in capital assets.
 - The Authority continues to be in a strong financial position with no long-term debt.

Mr. Miller

- Review of Available Unrestricted Net Assets (AUNA)
 - This calculation is taking the GASB basis of unrestricted net assets and removing items to arrive at what is actually available for the Authority to expend on Operations in the following years.
 - The calculation of AUNA begins with the unrestricted net assets from the balance sheet of \$23 million and adds back the OPEB accrual that does not require actual funding and subtracts inventory, prepaid, and the reserve accounts that are considered restricted by previous Board action. The result is AUNA at 3/31/12 of \$26.0 million.
 - Again noted that this shows the Authority has \$26 million of liquid assets to use against liabilities and future operating expenses in the following years and that it reiterates the point made on the balance sheet of a strong financial position to utilize in the coming years.

Mr. Frye

- Commented that AUNA is in essence a rainy day fund or fund balance available to fund future operating or capital purposes at the Boards discretion.

Commissioner Redmond

- Noted that while the Authority has \$26 million in unrestricted assets available there the operating loss of \$49 million (before federal, state, and county contributions).

Mr. Carpenter

- Added that with the uncertainty of federal and state funding having this level of reserves is necessary and not excessive given the way the federal and state governments are funding public transportation.

Commissioner Battaglia

- Pointed out that in the Multi-Year Budget Projections the \$26 million is gone in 4-5 years if the current assumptions pan out therefore this looks great but again it is not going to last forever.

Commissioner Jankowski

- Noted that it was good that the committee commented on this topic.

Ms. Clark

- Inquired if there were any other questions on the financial statements.

Commissioner Battaglia

- Inquired as to the passed audit adjustment impact if it had not been passed on. Asked for clarification that the \$163,000 would not flow to the bottom line each year but that it was a cumulative effect.

Ms. Clark

- Confirmed that it looks at what the balance sheet value should be and that only a portion of it would flow to the bottom line.

Commissioner Jankowski

- Requested clarity regarding the obsolete inventory reserve.

Mr. Frye

- Explained that we have outsourced the parts management function for approximately 7 years and that they are slow moving or non-moving parts that on-going analysis is being done to inform whether they should be disposed or retained but for now the prudent thing to do is remove the value from the books by establishing the reserve.

Commissioner Jankowski

- Requested clarification on the footnote for allowance for doubtful accounts with respect to a few of the regionals.

Mr. Frye

- The allowance of bad debt relates to fees charged for Medicaid funded transit services that were provided by various regional subsidiaries and which management has determined to be doubtful of being collected due to regulatory time limitations for Medicaid payments. This determination resulted from an investigation by management which was conducted as part the Medicaid Compliance Assessment conducted during FY 2012/2013. The investigation identified inconsistent and sometimes erroneous billing and receipt practices among the regional subsidiaries. Management has since established uniform practices and conducted staff training and follup up checks to ensure that the uniform practices are being followed – which they are.

Independent Financial Audit Report for RTS Union (ATU) Pension Fund

Ms. Clark

- A review of the summary data indicates that there are 725 total participants with \$41.2 million in actuarial assets compared to actuarial liabilities of \$41.7 million; typically plans are not fully funded, therefore this is in a very strong position.
- Required Communications
 - Unqualified Opinion
 - No deviation from planning
 - During the audit year the plan did not adopt new accounting policies
 - Sensitive accounting estimates include the estimate of actuarial accrued liability based on the data provided to the actuary as well as assumptions about interest and discount rates, and salary scale.
 - There were no difficulties encountered in performing the audit or in dealing with management.
 - No material misstatements were identified.
 - There were no disagreements with management.
 - Bonadio is not aware of management consulting with any other accountants.

Mr. Frye

- Advised the Committee that the mortality assumption utilized for the latest valuation was based upon an updated mortality table which contained longer estimated lifetimes and subsequently resulted in slightly higher pension liabilities.

Ms. Clark

- Communication of Matters Related to Internal Control Over Financial Reporting and Other Matters
 - No deficiencies in internal control that were a material weakness were identified
 - No internal control matters were considered a control deficiencies

- Review of Statement of Plan Assets and Change in Plan Assets
 - Total net assets didn't change significantly a difference of \$272,000 going from \$39.7 million down to \$39.5 million. The change is attributed to benefit payments slightly outpacing contributions and investment return.

Mr. Frye

- Commented that plan year 2010 investment return was the big rebound from the 2008-2009 market decline.

Agreed Upon Procedures – Employee Incentive Program

Ms. Clark

- Advised that the engagement is not an audit rather the Authority decides what the scope is, then the auditors test it, and then report on it.
- Summary of agreed upon procedures and results
 - Performed in accordance with attestation standards established by AICPA
 - Incentive pay performance reviewed from May 1, 2011 through April 30, 2012
 - Reviewed incentive plan description from 2011-12 Comprehensive Plan
 - Selected 20 participants from all entities for proper communication and approval of performance incentives
 - Selected 5 out of the 20 and obtained detailed descriptions from the employees supervisors and determined the metric used to determine the performance incentive was measurable and procedures were in place to track performance against the goals
 - No exceptions were noted on the supervisor approval testing
 - Procedures are in place for measuring, tracking, and compiling information on performance metrics were complied with for the sample selected and tested.

Motion to Accept and Recommend Acceptance to the full Board of Commissioners

Committee Members

- After discussion regarding the timeline of future Board action on acceptance of these reports; that no changes will be made to these drafts; and the importance that the minutes reflect that all three items were reviewed a motion was proposed by Commissioner Battaglia.

Commissioner Battaglia

- Motion to accept the reports and recommend to the full Board for acceptance.

Commissioner Adair

- Advised that he was ok with advancing the reports but thought Executive Session would be appropriate to discuss the agreed upon procedures engagement further.

Commissioner Redmond

- Seconded the motion

All Commissioners

- Voted in favor of recommending the reports to the full Board for acceptance.

Motion to move in to Executive Session

- A motion was made by Commissioner Redmond, seconded by Commissioner Battaglia, and approved to move into Executive Session. Management adjourned from the meeting and subsequently returned upon notice from the Commissioners.

Motion to exit Executive Session and reconvene the regular meeting

Commissioner Jankowski

- Called the meeting back into session and stated no actions were taken.

Chairman Jankowski adjourned the meeting at approximately 1:30pm.

Attachments to these minutes include the PowerPoint presentation.



Rochester Genesee Regional Transportation Authority

**Audit Committee Meeting
June 21, 2012**

Audit Committee

Agenda: June 21, 2012

- RGRTA - Independent financial audit report for FY ended 3/31/2012. - Bonadio & Co.
- Agreed Upon Procedures - Bonadio & Co.
 - Employee Incentive Program
- Independent financial audit report for Regional Transit Service Pension Fund for Union Employees for plan year ended 10/31/2011. - Bonadio & Co.



Presentation to RGRTA Audit Committee

**By
Bonadio & Co.
June 21, 2012**

Part A

**Audit of the Financial Statements as of and
for the year ended March 31, 2012**



Required Communications

- We anticipate issuing an unqualified opinion on the March 31, 2012 financial statements of the Authority and its component units.
- During 2012, the Authority adopted
 - GASB 61 *“The Financial Reporting Entity: Omnibus”*
 - GASB 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”
 - The adoption of these standards did not have a material effect on report assets, liabilities, or change in net assets.



Required Communications

- **The particularly sensitive accounting estimates contained in the financial statements are:**
 - **The Authority has recorded a liability for other postemployment benefits of approximately \$24.8 million.**
 - **The Authority has reserved approximately \$3.9 million for workers' compensation and \$2.4 million for general liability claims.**
 - **The Authority has recorded a liability for soil remediation of approximately \$643,000.**
 - **The Authority has recorded an allowance for uncollectable accounts receivable of approximately \$111,000.**
 - **We have evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements as a whole.**



Required Communications (Continued)

- **There were no significant difficulties encountered in performing the audit and dealing with management.**
- **During our audit of the financial statements, we identified the following adjustments, which have been reclassified in the financial statements:**
 - **Adjustment to reclassify Federal and NYS portion of \$100k check from Allison Transmission (\$90,000)**
 - **Adjustment to reclassify local share of capital assets transfers to appropriate entity (\$40,346)**
 - **Adjustment to reclassify receivable for Lift Line share of preventative maintenance grant received at RTS (\$12,500)**



Required Communications (Continued)

- **Management passed on recording an adjustment of \$163,772 over 10 entities to increase the paid-time off accrual to match the payout policy.**
- **There were no disagreements with management.**
- **We were not aware that management consulted with other accountants.**
- **Our discussions with management were in the normal course of our professional relationship and our responses were not a condition to our retention.**
- **The supplemental information accompanying the financial statements was prepared consistent to prior periods, the information is appropriate and complete in relation to our audit of the financial statements.**



Communication of Matters Related to Internal Control Over Financial Reporting and Other Matters

- **We did not identify any control deficiencies in internal control that we consider to be a material weakness.**
- **We have identified the following control deficiency that we do not consider to be a material weakness or significant deficiency:**
 - **Certain Monthly Closing Review Procedures**



Statement of Revenue, Expenses and Changes in Net Assets

(000's omitted)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE AND PUBLIC SUPPORT	\$ 30,810	\$ 28,795
OPERATING EXPENSES (EXCLUSIVE OF DEPRECIATION)	<u>(80,497)</u>	<u>(74,228)</u>
LOSS FROM OPERATIONS	<u>(49,687)</u>	<u>(45,433)</u>
NONOPERATING INCOME (EXPENSE)	<u>7,170</u>	<u>7,257</u>
EXTERNAL OPERATING ASSISTANCE SUBSIDIES:		
FEDERAL	7,792	7,816
STATE OF NEW YORK	31,246	31,128
LOCAL GOVERNMENTAL ENTITIES	<u>3,726</u>	<u>3,726</u>
TOTAL EXTERNAL OPERATING ASSISTANCE SUBSIDIES	42,764	42,670
CAPITAL CONTRIBUTIONS - FEDERAL AND STATE	21,243	14,344
DEPRECIATION	<u>(11,762)</u>	<u>(9,973)</u>
CHANGE IN NET ASSETS	9,728	8,865
NET ASSETS - beginning of year	<u>100,339</u>	<u>91,474</u>
NET ASSETS - end of year	<u>\$ 110,067</u>	<u>\$ 100,339</u>



Reconciliation of Net Income

(000's omitted)

	<u>2012</u>	<u>2011</u>
Change in net assets, per audited financial statements	\$ 9,728	\$ 8,865
Capital contributions	(21,243)	(14,344)
Grant funded depreciation	10,571	8,926
Impairment of assets	24	53
OPEB Accrual	2,426	2,311
GTCS (income)/loss	<u>499</u>	<u>(1)</u>
Operating net income, as internally reported	<u>\$ 2,005</u>	<u>\$ 5,810</u>



Reconciliation of UnAudited Net Income (Loss) 3/31/12 to Audited Result

Net Income (Loss) Unaudited 3/31/12	\$	1,889
Audit Adjustments:		
Other Revenue	\$	90
Staff Performance Incentive	\$	28
Bad Debt Expense	\$	10
Local Depreciation	\$	(12)
Net Income (Loss) Audited 3/31/12	\$	2,005



Consolidated Statement of Net Assets

(000's omitted)

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and short-term investments	\$ 20,171	\$ 29,730
Self insurance and capital reserve funds	7,975	9,762
Accounts receivable	11,871	11,482
Other current assets	801	651
Total current assets	40,818	51,625
NONCURRENT ASSETS:		
Capital assets, net	87,287	75,989
Reserve funds	3,207	11,776
Hedge derivative	-	1,514
Government securities	21,827	-
TOTAL ASSETS	<u>\$ 153,139</u>	<u>\$ 140,904</u>
CURRENT LIABILITIES:		
Accounts payable, accrued expense and other current liabilities	\$ 11,247	\$ 10,608
Current portion of soil remediation liability	228	552
Reserves for workers' compensation and other third party claims	6,404	5,207
Total current liabilities	17,879	16,367
LONG-TERM LIABILITIES:		
Soil remediation liability, net of current portion	415	331
Other postemployment benefits	24,779	22,353
TOTAL LIABILITIES	<u>43,073</u>	<u>39,051</u>
DEFERRED INFLOWS:		
Accumulated increase in fair value of hedge derivative	-	1,514
NET ASSETS:		
Invested in capital assets, net of related debt	87,287	75,925
Unrestricted	22,779	24,414
Total net assets	110,066	100,339
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 153,139</u>	<u>\$ 140,904</u>



Available Unrestricted Net Assets

(000's omitted)

UNAUDITED

UNRESTRICTED NET ASSETS,

per March 31, 2012 financial statements

\$ 22,779

Add: Unfunded Other Postemployment Benefits
GTC unrestricted

24,779

389

47,947

Less: Reserve funds investment

(21,099)

Inventory

(451)

Prepaid expenses and other assets

(240)

(21,790)

AVAILABLE UNRESTRICTED NET ASSETS -

as of March 31, 2012

\$ 26,157

Part B

RGRTA

Retirement Plan for Union Employees of Regional Transit Service, Inc.

**Financial Statements as of
October 31, 2011 and 2010**

Summary Data

	RTS <u>Union</u>
Plan Year Ended	10/31/2011
Active Participants	457
Retirees	254
Terminated participants entitled to but not yet receiving benefits	<u>14</u>
Total	<u>725</u>
 Total Assets	 <u>\$39,464,527</u>
Actuarial:	
Value of the Assets	<u>\$41,241,687</u>
Accrued Liability	<u>\$41,678,549</u>

Note: The Plan is a separate legal trust.



Required Communications

- **Our Responsibilities under U.S Generally Accepted Auditing Standards**
- **The audit of the Authority's the Plan was performed with no deviation from planning.**
- **During the year under audit, the Plan did not adopt new accounting policies.**
- **The particularly sensitive accounting estimates contained in the financial statements are:**
 - **The Plan Administration's estimate of the actuarial accrued liability based on data provided to the actuary as well as assumptions about interest and discount rates, and the salary scale.**
- **The particularly sensitive disclosures contained in the financial statements are:**
 - **The disclosure of the funded status and funding progress in Note 3 to the financial statements due to the fact that it is based on actuarial values of plan assets that are increasing or decreasing over time relative to the actuarial accrued liability for the benefits.**



Required Communications (Continued)

- **There were no difficulties encountered in performing the audit and dealing with management.**
- **No material misstatements were noted during our audit of the financial statements.**
- **There were no disagreements with management.**
- **We are not aware that management consulted with other accountants.**



Communication of Matters Related to Internal Control Over Financial Reporting and Other Matters

- We did not identify any deficiencies in internal control that we consider to be material weaknesses.
- We did not identify any internal control matters that we consider to be control deficiencies.



RTS Union Plan Statements of Plan Assets and Changes in Plan Assets

(000's omitted)

	<u>2011</u>	<u>2010</u>
Statements of Plan Assets		
Investments	\$ 39,352	\$ 39,552
Receivables	<u>112</u>	<u>185</u>
Net assets held in trust for pension benefits	<u><u>\$ 39,464</u></u>	<u><u>\$ 39,737</u></u>
Statements of Changes in Plan Assets		
Contributions	\$ 950	\$ 992
Net investment income (loss)	1,732	5,170
Other Income	<u>-</u>	<u>12</u>
Total additions to plan net assets	2,682	6,174
Benefit payments	<u>(2,954)</u>	<u>(2,551)</u>
Change in net assets available for benefits	(272)	3,623
Net Assets Held in Trust for Pension Benefits - begin	<u>39,737</u>	<u>36,114</u>
Net Assets Held in Trust for Pension Benefits - end o	<u><u>\$ 39,465</u></u>	<u><u>\$ 39,737</u></u>

Part C

Incentive Compensation Program

Agreed-Upon Procedures



Summary of Incentive Plan Agreed-Upon Procedures Engagement

- **Performed in accordance with attestation standards established by the AICPA**
- **Incentive pay performance reviewed from May 1, 2011 through April 30, 2012**
- **Reviewed Incentive Plan description from 2011-2012 Comprehensive Plan**
- **Selected 20 participants from all entities for proper communication and approval of performance incentives**
- **Selected 5 of the 20 and obtained detailed descriptions from the employees supervisors and determined the metric used to determine the performance incentive was measurable and procedures were in place to track performance against the goals.**



Summary of Incentive Plan Agreed-Upon Procedures Engagement

- **No exceptions noted on supervisor approval testing**
- **Procedures in place for measuring, tracking and compiling information on performance metrics were complied with for the sample selected and tested.**