

**NEW YORK CITY WATER BOARD
AND
NEW YORK CITY MUNICIPAL WATER
FINANCE AUTHORITY**

**12:00PM Joint Audit Committee Meeting of the
Board and the Authority**

October 14, 2021

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[START RECORDING]

DEB: Okay, so it is noon, so I am just going to make sure we have everyone that we need on the line before we get started. So I heard Max , and Alfonso. Is Marc Shaw on? Selvin Southwell? Jonathan Goldin?

MR. GOLDIN: Yes, I'm here.

DEB: Great. Adam Freed?

MR. ADAM FREED: Here.

DEB: Great, so won't you give Mark and Selvin a couple of more minutes. I heard Omar already. Bob Balducci?

MR. BALDUCCI: Bob is on.

DEB: Great. I see Olga. Nicholas from Grant Thornton?

NICHOLAS: I'm here, good morning.

DEB: Okay.

OLGA: Good afternoon.

MR. JOE MURIN: And Deb you also have from DEP, it's myself Joe Murin, Cecil McMaster for BIT and Loncey Conyers for miscellaneous revenue and expense.

DEB: All right. Thank you, Joe.

MR. WOMACK: And Deb, David's on.

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DEB: Right.

MR. ALFONSO CARNEY: It's Carney. I'm going to mute until there's a need for me to talk. There's background noise and I can't avoid it.

DEB: Okay. Thanks Alfonso. Have Selvin Southwell, or Marc Shaw joined? Okay. We'll just give him a couple more minutes. We do have a forum so we could start without them. I just want to give them a couple more minutes. I will check them with the e-mail. Oh, Marc, I see you.

MR. MARC SHAW: Hi.

DEB: Hi. Good Afternoon. Okay. So I think we are just waiting on Selvin Southwell. I'm going to send him a very quick e-mail and if he's not joined by 12:05, I think we can get started. I've started the back-up recording, table 10, could you turn on the team's recording?

AUTOMATED FEMALE SPEAKER: This meeting is being recorded and are transcribed.

DEB: Selvin, have you joined? Okay, why don't we go live and get started. I've e-mailed Selvin so hopefully he'll be able to join

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shortly. Max, I will turn it over to you.

MR. VON HOLLWEG: All right. Good afternoon, everyone. I'm Max Von Hollweg, the chair of the joint audit committee of the New York City Municipal Water Finance Authority, New York City Water Board. I'd like to ask everyone to keep their phones muted unless they're speaking through it, you know that background and the noise issue. I'll now call the order of the joint audit committee meeting and ask for the row to be called. Deb, if you could call the roll, please.

DEB: Conducting the roll call. Max Von Hollweg.

MR. VON HOLLWEG: I'm here.

DEB: Alfonso Carney?

MR. CARNEY: Present.

DEB: Marc Shaw?

MR. SHAW: Here.

DEB: Adam Freed?

MR. FREED: Here.

DEB: Jonathan Goldin?

MR. JONATHAN GOLDIN: Here.

DEB: Selvin Southwell? We have a quorum.

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MR. VON HOLLWEG: Great. Thanks, everyone. As usual, the first order of business we have is for resolution to approve the minutes of our last meeting on May 11th of 2021. The minutes have been circulated to everyone's review. I would ask if anyone has any comments or corrections to those minutes, and also ask if we could have a—someone could move the resolution and the seconds?

MR. CARNEY: Seconds.

MR. VON HOLLWEG: And again, any last request for any comments or corrections to the minutes that have been circulated? Hearing none, I'll want to call the roll for a vote. Mr. Carney how do you vote?

MR. CARNEY: Approve.

MR. VON HOLLWEG: Mr. Southwell how do you vote? Selvin—did he join yet?

DEB: (Interposing) No, I don't think he joined yet.

MR. VON HOLLWEG: I see. Mr. Freed?

MR. FREED: Approve.

MR. VON HOLLWEG: Mr. GOLDIN?

MR. GOLDIN: Approve.

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2 MR. VON HOLLWEG: Mr. Shaw?

3 MR. SHAW: Approve.

4 MR. VON HOLLWEG: And I vote in favor of the
5 resolution. Now we have a sufficient majority
6 of the resolution approving the minutes. It is
7 hereby approved, and we now come to the—I guess
8 I would say the heart of the meeting, the
9 presentation by management and the independent
10 auditors regarding the auditor's financial
11 statement of the water and sewer system of the
12 City of New York. The system, for fiscal year
13 2021, and Robert Balducci, the Authority's
14 Comptroller is here to introduce the independent
15 auditors, Grant Thornton, and they will present
16 the systems' audited financial statements. I
17 turn the floor over to Bob.

18 MR. BOB BALDUCCI: Thank you, Max, and thank
19 you committee members for the opportunity to
20 present the combining financial statements of
21 the City—of the New York City Water and Sewer
22 System for the fiscal years ending June 30, 2020
23 and 2021. Let me begin by thanking all of those
24 in providing the information for the audit and
25 preparation of the financial statement. And we

1 have a little bit of a background noise. Our
2 colleagues from the Water Board, Omar Nazemand
3 his teams, thank you. and we recognized that
4 this was a particularly challenging times for
5 them as they were busy with the onboarding of
6 the new CIS system while responding to audit
7 request and providing data to be prepared for
8 the financial statements. Our auditors thank
9 you. This is your second year performing the
10 audit and we appreciate the return of familiar
11 team members and we thank you for your
12 professionalism. Lastly, to the water finance
13 team, Olga Chernat, Marlana Sebungia, Liana
14 Mattis and let's not forget the person who puts
15 these all together, Nameca Sharma. Before I
16 turned it over to the auditors for their
17 presentation, allow me to give a summary of the
18 New York City audited financial statements
19 during fiscal year 2021, starting with
20 operations. Operating revenues during fiscal
21 2021, was \$3.66 billion. This is a decrease of
22 approximately \$175 million from the previous
23 year. The decrease in revenues reflects a
24 combination of no rate increase for fiscal year
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2021. A 3.8 percent, year over year declining water consumption by customers billed and meter rates, and an increase in customer's delinquencies, which were all discussed on Page 5 of the MDNA. Operating and maintenance expenses for fiscal year 2021, was \$1.69 billion, an increase of \$72 million from the previous year. The increase is primarily due to an increase in waste water and operation cost, which is discussed in Page 6 of the MDNA. On to financing activity. We issued \$2.6 billion on water and sewer revenue bonds, including \$1.6 billion of the refunding bonds, \$981 million of new money bonds. And additionally, we issued \$337 million of refunding bonds to EFC. The refunding activity allow us to pay a present value savings of approximately \$554 million. Now, let me turn it over to the auditors for their presentation and we-after-and after we will open up a discussion for any questions on the financial statements for the auditor-or the audit itself. Nick Lazzaruolo, the partner from Grant Thornton, will introduce himself and his team and Nick.

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2 MR. NICK LAZZARUOLO: Thank you, Bob. Good
3 afternoon, members of the joint audit committee.
4 It's great to be with you. As Bob mentioned, my
5 name is NICK LAZZARUOLO. I'm the audit partner
6 for the engagement on joined by Kyle Chuber, who
7 is the audit manager for the engagement as well
8 as Marla Hummell, who is the overall lead
9 engagement partner of the City Of New York
10 audit. I believe that you guys have received
11 our audit committee and result presentation.
12 What I'm going to do is focus on some key
13 highlights and then I'll open up to questions
14 that you may have. So to start, just to
15 reiterate what our responsibilities were, we
16 performed and completed an audit of the
17 combining financial statements of the New York
18 State Municipal Water Finance Authority and New
19 York City Water Board, as of, and for the year
20 ended June 30, 2021. Included within the draft
21 combining financial statements within the
22 reporting package, you will note that we have an
23 unmodified or clean opinion. In addition, we
24 are responsible for reading the management
25 discussion and analysis as well as the required

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supplementary information to ensure consistency with the combining financial statements. And lastly, during the course of our audit, if we came report any instances of fraud, abuse, material weaknesses or significant deficiencies in material controls on the financial reporting, or material non-compliance, would be required to report those instances to this committee as those charged with governance. And we do not know any of those matters on the course of our audit, and therefore we have nothing to report within those items that I just stipulated. To reiterate our audit plan, we basically have been conducting our second-year audit. So last year, we had to obtain an understanding of the internal control environment. This year, we needed to update our understanding of to the internal control environment to ensure that there were no changes that then could alter what we redeem our risk assessment process and we performed that risk assessment process, to see where within the financial statement, could there be material mis-statement or more likely that the material mis-statement to the financial

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statements. We determine materiality and then we'd focus our procedures within those areas. And so, what I'd like to do is turn it over to my manager, Kyle Chuber, just to remind the committee of the significant areas of audit focus that we conducted during the course of the engagement. So, Kyle?

MR. KYLE CHUBER: Yes, thank you Nick, and good afternoon, everyone. As Nick mentioned the next couple of slides, I'll just go to the significant risk of the audit as well as some other areas of focus that we focused on during the year as well. As the first area of focus and really the most significant on audit area, is the billed and unbilled revenue and receivables. So in order to test these balances, we performed a predictive test, where we reviewed the water and sewer consumption during the year. We reviewed the rate released during these as well, as well as some minor reconciling items, to ensure that revenues were appropriate during the year. We then selected samples individual billings to ensure they were appropriate and within the current year. We

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2 also selected a sample of receivable balances
3 both billed and unbilled and performed
4 subsequent cash testing to ensure the receivable
5 was reasonable like year-end as well. And then
6 lastly, we reviewed the allowance policies. I'm
7 ensured all percentages were appropriate for the
8 current year, and we will calculate the status
9 as well, to ensure that it is appropriate in the
10 financial statements. Our next area of focus is
11 the valuation of investments, in order test
12 investments, we confirmed all investment
13 balances as of year end or reviewed statements
14 when we needed to and then we determine the
15 investment leveling was appropriate and in line
16 with the guidelines of the water and sewage
17 system which as a reminder is check all level
18 two investments. And then to test actively
19 these investments, we performed purchase of the
20 sales testing as well as fair market value
21 testing as of year-end. At utility plant and
22 construction, I reviewed the rollforward for
23 completeness and tested significant capital
24 activity such as capital additions and
25 disposals. And then we ensure the depreciation

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was reasonable in line with the additions during the year as well. In terms of our testing over debt, we confirmed all debts balances as of year-end and we tested new activity to test interest expense, we performed a week calculation based on our understanding of this balance. I can sure it's reasonable and then we reviewed any debt covenants of the new agreements to ensure the system was in compliances to those covenants as well. In the next area focus is expenses. In order to test expenses, we selected a sample of these expenses, agreed all information to invoices and ensure that these balances flowed up appropriately into the combining financial statements. And then for disbursement, especially those of new vendors, we ensure that all disbursements were appropriate and controls were operating effectively in this area. And the last area focus is our financial disclosures. So we reviewed all disclosures to ensure they were complete. We agreed all balances back to our work papers and our testing throughout the audit. We reviewed all policies

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to ensure they were appropriate and consistent where necessary for the prior year. If there are no questions regarding our significant risk, then I'll turn it over to Nick, who's going to walk us to the technology support as part of the audit.

MR. LAZZARUOLO: Thank you, Kyle. And in this—and as Kyle mentioned, in addition to the financial statement procedures that we performed, we also have information technology audit as part of our overall engagement team. And what they do, is they performed procedures over the financial reporting systems that generate the financial statements which then, we also—that also generate the report that we rely upon in conducting our testing. During the course of the audit, we did not know any material weaknesses or significant deficiencies with regards to the information technology testing that was performed. Therefore, we were able to rely on the report that were generated from the system, and we did not have to alter our audit plan that we presented to this committee earlier in the year. Now last, the

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next I would like to cover is our required communications. And these communications are required for us to formally discharge our responsibilities as your external auditor. So during the course of the engagement, we did not know any going concern matters. We did know any fraud or non-compliances with laws or regulations, nor did we not identify any significant deficiencies or material weaknesses and internal controls over financial reporting. We were not aware of the use of any other auditors for this engagement. We did not utilize internal audit or relate-party related-party transactions are disclosed within the financial statements and we performed procedures to make sure such transactions were performed that are as planned. We did not know any significant or unusual transactions during the year. We did not have any disagreements with the management team. We are not aware of management's consultations with any other accountants. There were no significant issues discussed with management, and we had no difficulties encountered on performing the

1
2 audit. We found that the management teams to be
3 extremely well-prepared for the audit and we
4 very much appreciate the collaboration with the
5 management team throughout the process,
6 beginning in our planning stages as well as
7 throughout the engagement where we met on a
8 weekly basis to ensure that all parties were up
9 to speed with regards to the status of the
10 engagement. Everything that the management team
11 communicated to us during the planning was
12 accurate and therefore did not allow us to have
13 to change anything that we thought that we
14 needed to perform during the course of the audit
15 which allowed us to stay on budget and on time
16 in terms of the deliverables that were agreed
17 upon. We are not aware of any other findings or
18 issues that are relevant to you as to fulfill
19 your oversight responsibilities. As I've
20 mentioned, we did not have any modification to
21 our audit report. It is an unmodified opinion.
22 And other information that contains the
23 financial statements, we would be required to
24 review in their entirety to make sure that there
25 is nothing contained in those documents that

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begin contradictory to the financial statements or the opinion that we rendered. And with that, that concludes our formal presentation. I'm happy to answer any questions any of the committee members may have.

MR. CARNEY: Nick, it's Al Carney. Thank you very much. It's an upbeat report, very-very appreciative about it.

MR. LAZZARUOLO: Thank you, sir.

MR. GOLDIN: This is Jonathan GOLDIN, I second that. Thank you.

MR. LAZZARUOLO: Thank you.

MR. BALDUCCI: With no other question? I'll turn it back to our chair, Max?

DEB: Max, you might be muted. Max, we still can't hear you.

MR. CARNEY: Max, we can't hear you if you're talking. Are you muted?

DEB: Max, you might need to hang up and dial back in, if you're having technical issues. Okay. I see Max leaving and I think he would be dialing back in shortly. I think we hold on for a moment.

MR. CARNEY: While we wait for Max, it's

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Carney again. Once again, this this year, Bob Balducci and his staff of course we worked their magic on the financial statements. That was a great report that that the auditor gave Bob. It reflects the effort particularly that part of the report where he speaks to the cooperative nature. The relationship between the outside and inside financial folks. Thank you very much again.

MR. BALDUCCI: Yes. Thank you for recognizing. There's a few of us involved. We have the DEP—we know we have folks for the success within the DEP sections. Joe's folks, I know this particularly—I hope Omar is on, and I really—we really appreciate him trying to juggle between getting the new CIS system on, and supply the information for the auditors and this easily deserves really—you deserve a shout out. We really appreciate that - - for what you did.

MR. CARNEY: And, Bob, you're gracious to share whatever act of leaves you're earning with others on the staff and of course, everybody on your staff, and everybody on the Water Board staff who works on the financial statements,

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deserve recognition, no question but in my end, it's about leadership and as a leader of that group, you have consistently performed. Now, I don't want to jinx it. I don't want somebody to tell me next year, that it didn't work, but you're doing a fantastic job over there. Those of us who read the endgame materials are grateful for the work you do.

MR. BALDUCCI: Thank You.

MR. VON HOLLWEG: This is Max Von Hollweg . I hope that people can hear me now.

DEB: Yes, we can Max.

MR. VON HOLLWEG: I don't know what happened, but I can hear everybody else so I got back in and I just want a second when everybody said about Bob and his team, and the fact they did all these in extremely difficult environment given the COVID and related to you know, and all the related issues there too. So well job, well done all round. Are there any additional comments or questions, if not I guess I would ask if someone could move for resolution to recommend for the authorities of board of directors of the Water Board the acceptance for

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the independent auditors report in the financial statements?

MR. CARNEY: So move, Mr. Chairman, Carney.

MR. FREED: This is Adam, seconds.

MR. VON HOLLWEG: I'll now call for a vote, Mr. Carney how do you vote?

MR. CARNEY: To approve.

MR. VON HOLLWEG: Mr. Freed?

MR. FREED: To approve.

MR. VON HOLLWEG: Mr. GOLDIN?

MR. GOLDIN: Approve.

MR. VON HOLLWEG: Mr. SHAW?

MR. SHAW: Approve.

MR. VON HOLLWEG: And I too approve. The resolution's hereby approve. Thanks, everyone. The next item on the agenda is the - - resolution to review and approve our audit committee charter. We're required by section 3R of our charter to annually review and approve our charter. We're not proposing any changes at this time. If there are comments or questions about that, I would welcome them now and then hearing them. I would ask if someone could move that resolution.

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MR. GOLDIN: Move.

MR. VON HOLLWEG: I'll now call for a vote,
Mr. Carney, how do you vote?

MR. CARNEY: To approve.

MR. VON HOLLWEG: Mr. Freed?

MR. FREED: Approve.

MR. VON HOLLWEG: Mr. GOLDIN?

MR. GOLDIN: Approve.

MR. VON HOLLWEG: And Mr. SHAW?

MR. SHAW: Approve.

MR. VON HOLLWEG: And I vote in favor of the
resolution as well. It is hereby approved. The
next item on the agenda is simply a review of
our audit committee schedule and dates. Let's
again schedule dates, provide information on the
items to be discussed with the annual meetings
with the joint audit committee and that schedule
of dates has been circulated to everyone. No
changes are proposed to that, if anyone else may
comments about that or any suggestions, now is
the time, that this is the review item so no
vote or resolution is required, but I just—we
just want to make everyone aware that we're not
proposing any changes to our existing schedules.

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1 Last item on the agenda is another review item.
2 This has to do with the financial integrity
3 compliance statement that are required by the
4 Comptroller's Directive number one. And
5 circulated to everyone, is the result of those
6 potential integrity compliance statements for
7 both the Water Authority and the Water Board,
8 which notes—which items are not applicable to
9 each entity and which items are fully complied
10 with and the—I could say handful of items where
11 there's some explanation to catch and Bob
12 Balducci and Omar Nazem are both of them are
13 both available to discuss these statements.
14 Again, it is the review item but I guess I would
15 ask if anyone has any comments, or questions
16 with Bob or Omar about the results of those
17 compliance statements. Hearing none, I'll move
18 on to the last item of the agenda, which is
19 simply the motion to adjourn. I believe we have
20 no further business, but in which case, I will
21 ask for a roll for a vote to adjourn.

22 MR. SHAW: I'll make that motion Mr. Chair.

23 MR. VON HOLLWEG: Do I have a second.

24 MR. FREED: Second.
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MR. VON HOLLWEG: Mr. Carney, how do you vote?

MR. CARNEY: To adjourn, sorry.

MR. VON HOLLWEG: Mr. Freed?

MR. FREED: To adjourn.

MR. VON HOLLWEG: Mr. GOLDIN?

MR. GOLDIN: To adjourn.

MR. VON HOLLWEG: Mr. SHAW?

MR. SHAW: To adjourn.

MR. VON HOLLWEG: And I too, voted favor of adjournment. The - - committee meeting is now adjourned. Thanks, everybody, for your participation, and once again, good job by all.

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C E R T I F I C A T E

I, Christine Conn, certify that the foregoing transcript of NYC Water Board Meeting, was prepared using standard electronic transcription equipment and is a true and accurate record to the best of my ability. I further certify that I am not connected by blood, marriage or employment with any of the parties herein nor interested directly or indirectly in the matter transcribed.

Signature:



Date October 18, 2021