

THE LANDIS SEWERAGE AUTHORITY  
REGULAR MEETING  
July 3, 2017

Pledge of Allegiance.

The regular meeting of the Landis Sewerage Authority was called to order by Chairman Villar at 6:00 p.m. The following members were present at roll call: Barse, Merighi, Reuben and Villar were present. Errickson was absent.

The proper notice was given to all members in accordance with the by-laws.

Chairman Villar stated that public notice of this meeting, pursuant to the Open Public Meeting Act, has been given in the following manner:

1. Posting written notice in the lobby entrance of the Authority.
2. Hand delivering notices to the offices of the Daily Journal and The Press.
3. Filing written notices in the offices of the Authority and City Clerk.

Also, present: Dennis W. Palmer	Executive Director/Chief Engineer
Robert A. Schwarz	Field Engineer
A. Steven Fabietti	Solicitor
Carol A. Ricci	Executive Assistant
Thomas J. Post	Business Manager
Stephen P. Testa	Auditor

It was moved by Barse and seconded by Merighi that the reading of the minutes of the regular meeting held on June 19, 2017 be dispensed with and the same be approved in the form submitted to all members by mail. Roll call: Barse, Merighi, Reuben and Villar voted "yes".

The Chairman asked if there were any general public comments or comments on the proposed Resolutions. There were none.

Stephen P. Testa, of Romano, Hearing, Testa & Knorr, CPA gave the following Audit Report:

We reviewed the draft of the audit report in detail with the finance committee and management. Copies of the draft were distributed to the rest of the Authority members. I have delivered final copies of the report this evening. I would like to give a brief overview of the report at this time and would welcome any questions you may have.

First a global statement. In 2015 the Authority adopted GASB 68 related to pension reporting, which resulted in the prior year financials having to be restated. There were no

major changes or restatements necessary for the 2016 financial statements, although the impact will continue to be felt as the Authority has seen its proportionate share of the Net Pension Liability, deferred inflows and outflows and pension expense that is reported on a generally accepted accounting principles, GAAP basis, increase over the prior year. I will discuss that impact during the presentation.

The Authority received an “unmodified” or clean opinion on its financial statements for the years ended December 31, 2016 and 2015 as reflected on pages 1-3, which essentially says, in our opinion, the basic financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority for the years ended December 31, 2016 and 2015 in accordance with GAAP.

Since this audit is subject to Government Auditing Standards, there is also a report on compliance and on internal control over financial reporting on pages 4 and 5. With respect to internal control over financial reporting, there were no material weaknesses or significant deficiencies to be reported. With respect to compliance, we noted no instances of noncompliance that were required to be reported under Government Auditing Standards and audit requirements prescribed by the Division of Local Government Services of the State of New Jersey.

I would briefly like to review some of the financial highlights. Management prepared the Required Supplementary Information, namely the Management Discussion and Analysis (MD&A) section which is a reader friendly summary of the financial statements including comparisons to the prior year’s information on pages 6 through 11.

This is the review of Exhibit B on page 14 (used our Comparison Exhibit B with the Variances).

Operating Revenues increased from \$10.393 million in 2015 to \$10.560 million in 2016, an increase of approximately \$167,000 or approximately 1.61%. It should be noted that the Authority defines operating revenues as user charges and fees, connection fees, income from its farm operation, lab testing fees and receiving station income.

Total Operating Expenses, which includes depreciation, increased from \$10.689 million in 2015 to \$10.689 million in 2016, which is an increase of approximately \$599,000 or 5.61%. The Authority’s Cost of Providing Services increased by \$494,000, approximately a 7.51% increase. I would point out this is on a GAAP basis and the bulk of the increase is the result of the pension expense recorded under GASB 68 which was approximately \$796,000 higher than on a Budgetary Basis. On a budgetary basis, the Costs of Providing Services actually decreased by 1.7% showing the Authority is holding the line on Operating Costs.

The Admin and General Expenses increased by \$104,000 or 5.30%. Similar to the Cost of Providing Services, I would point out this is on a GAAP basis and the bulk of the increase is the result of the pension expense recorded under GASB 68 which was approximately \$216,000 higher than on a Budgetary Basis. On a budgetary basis, the

Admin and General Expenses actually decreased by 2.6% showing the Authority is holding the line on Admin and General Costs as well.

The authority's non-operating revenue (expenses) netted to an expense of \$265,000, \$8,000 less than in 2015 aided by a \$69,000 decrease in interest expense.

The net effect of all of this is, for the year 2016, the Authority experienced a decrease in net position (equity) equity of \$993,000 while in 2015 the decrease was approximately \$509,000. Note that depreciation for the year is \$2.15 million which helps create the loss, as does the additional pension expense for GAAP purposes as a result of GASB 68 of \$1.011 million.

Those results are on the Generally Accepted Accounting Principles basis as shown on Exhibit B on page 14. On a Budgetary Basis (Sch. 2 on pages 42 and 43) the Authority's revenues exceeded expenditures by approximately \$1,205,000. That amount was \$854,000 in 2015 so it is an improvement of \$351,000 over the prior year.

The Authority did meet the rate covenant contained in the Authority's Bond Resolution as detailed in Note 2 to the financial statements on page 26.

Some of the other more significant disclosures in the notes to the financial statements are:

Note 3 Page 27 Cash and Equivalents: Note that over \$21.3 million is FDIC insured because Capital Bank placed amounts under \$250,000 in a number of banks

Note 4 Page 31: Bonds payable describes the issuance of the \$25 million in bonds

Note 4 Page 33: The contingencies paragraph relates to the contested NJDEP Permit fees

Note 5 Page 33: Pension note is over six (6) pages long. Note the net pension liability increased from \$9.74 million to \$13,663 million on page 35

Note 6 Page 39: We show the breakdown of the unrestricted net position (deficit) which is \$10,089 million deficit related to pensions, \$4.264 million positive net position before the pension impact. Those net to a \$5.825 million deficit.

Note 9 Page 39: Subsequent events disclosed the announcement of the proposed 2017 closing of the Progresso Plant and the steps the Authority has taken to mitigate the impact.

The Authority Commissioners, Management and its staff are to again be commended for a job well done.

Dennis, Tom and the rest of the staff have done an excellent job again this year as evidenced by the fact that there were no findings or recommendations reported in the

2016 audit report. In addition, as usual, outside of the GASB 68 related adjustments, there were very few audit adjustments required.

I would also point out that we have provided the Commissioners with a correspondence which is in addition to the audit report. This is known as the "Communication to those charged with Governance" which in LSA's case we have taken to mean the full board. This correspondence explains the auditor's responsibilities, describes certain accounting practices, management's responsibilities, certain aspects of interaction with management and certain other matters. There were no items to be reported in the "other matters" section of the correspondence.

You have before you this evening a resolution acknowledging that the audit report for the year 2016 has been received and that you have reviewed the report particularly the findings and recommendations section, of which there were none. This resolution should be adopted and evidenced by having each of the Commissioners sign the group affidavit. A synopsis which is to be published in the newspaper, has also been prepared and provided to the Authority. A copy of each of these is to be filed with the NJ Division of Local Government Services. Since there were no findings/recommendations, the Authority is not required to file a correction action plan with the State.

Lastly, The Authority is required to post the audit report on its website. Once accepted by the Board, we will provide an electronic version of the report to the Authority to be posted on the website.

Thomas Merighi asked what is the sinking fund? Steve Testa answered that the Authority's prior set of bonds had sinking fund requirements because they basically they were regular serial maturities and then there were term bonds and the term bonds were due at a point in the future. They call them term bonds because they say they will come due later but what happens is because there are sinking fund requirements you basically have to put that maturity you would normally pay them before and put them into the sinking fund and that makes the payment. So, you are still making the same payments but the actual bonds have not matured until later. You are paying them as you go anyway. The sinking fund is an account that was established that once the regular serial bonds were gone and the term bonds kicked in, the Authority now puts money into the sinking fund to make those payments. It's another debt service account.

Tom Post stated that he wanted to thank his staff because they make his job easier.

#### Resolutions:

It was moved by Barse and seconded by Reuben that Resolution No. 2017-60, "Be it resolved by the Landis Sewerage Authority, that the following bills of items or demands are hereby approved and authorized for payment out of the Revenue Fund Revolving Payroll Account.....\$74,457.14", be adopted. Roll call: Barse, Merighi, Reuben and Villar voted "yes".

It was moved by Barse and seconded by Reuben that Resolution No. 2017-61, “Be it resolved by the Landis Sewerage Authority, that the following bills of items or demands are hereby approved and authorized for payment out of the Revenue Fund Bills....\$140,845.02”, be adopted. Roll call: Barse, Merighi, Reuben and Villar voted “yes”.

It was moved by Barse and seconded by Merighi that Resolution No. 2017-62 “A Resolution of the Landis Sewerage Authority certifying that the Commissioners of the Landis Sewerage Authority have reviewed the 2016 Audit Report...” be adopted. Roll call: Barse, Merighi, Reuben and Villar voted “yes”.

It was moved by Barse and seconded by Merighi that Resolution No. 2017-63, “A Resolution of the Landis Sewerage Authority authorizing the Executive Director to sign a Letter of Intent with REV LNG, LLC and SJI MIDSTREAM, LLC...” be adopted. Roll call: Barse, Merighi, Reuben and Villar voted “yes”.

Reports:

Executive Director

Dennis Palmer reported that for action at the next meeting, in your package was an amendment request for some property, KLS Property on Landis Avenue and it is sometimes referred to as the “duck pond” but it’s between Doren and Mill Road. They have gone to DEP and DEP has put it in the New Jersey Register but they do need to come back and get the City’s resolution endorsing ours as well as the County. That will be on for the next meeting.

We had a nice report from HomeServe and they are up to 500 customers and what was interesting was 55 customers had 55 repairs so by having that program it is like insurance or a maintenance plan, 55 people saved a lot of money for a plumber by paying that monthly premium.

Dennis also stated that we had a conference call with Stan and his electrical person for about an hour and a half last week with my guys and it was beneficial and we wrapped up a lot of things on the electrical design and the SCADA system which is the system used to interface with the equipment.

We had the finance committee and that went very well.

Field Engineer

Bob Schwarz reported that paving bids are due on Thursday, July 6<sup>th</sup> and will be opened and read aloud.

Also, the lateral for the Landis Square Apartment complex is scheduled for this week.

Lidl intends to have a bakery on the premises. They will need to update their application for allocation to reflect this change.

Solicitor:

Steve Fabietti stated he had no report and we took action on the Audit with Resolution No. 2017-63.

Chairman:

Carlos Villar stated that he wanted to commend Tom, Dennis and the staff for another successful Audit report.

Issues and Correspondence: It was moved by Barse and seconded by Merighi that the Executive Director be authorized to adjust the Agriculture Site Foreman's rate in accordance with the Executive Director's memo of June 29, 2017. Roll call: Barse, Merighi, Reuben and Villar voted "yes".

Committee Reports:

Engineering/Plant:

Dennis Palmer reported that Sears is getting closer to giving us an easement but eventually will let the paperwork follow rather than lead. Unfortunately, we had two permits at DEP which is currently closed. I made phone calls and sent emails Tuesday and Wednesday of last week and another one on Friday asking where do we stand but right now it's deaf ears for whatever period of time.

Budget/Finance:

Tom Merighi stated that there is no report and Dennis stated that we took action on the Audit this evening and we will be starting the budget process next month.

Human Resources

Dennis reported that we took action under issues and correspondence and the two new men started at the farm. They've been there about two weeks. Both are very eager and have a good work attitude and ethic.

Public Relations: None

Insurance Committee: No Report

Allocations/Administration: None

Old Business: None

New Business:

Dennis stated that he put a note out on the AEA dinner event. It's at the Authority and it's being catered. It's in Mount Laurel. Steve said he's interested and its executive directors and commissioners getting together to talk about issues in an informal setting. If you are interested drop me a line.

Adjournment:

At 6:26 p.m. there being no further business to come before the Board, it was moved by Barse and seconded by Merighi that the meeting be adjourned. Roll call: Barse, Merighi, Reuben and Villar voted "yes".

THE LANDIS SEWERAGE AUTHORITY

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G. STEVEN ERRICKSON, Secretary