



**NEW YORK STATE THRUWAY AUTHORITY  
NEW YORK STATE CANAL CORPORATION**



## **MINUTES**

### **AUDIT AND FINANCE COMMITTEE MEETING NO. 8**

**March 19, 2008**

Minutes of a meeting of the New York State Thruway Authority/Canal Corporation Audit and Finance Committee, held in the Board Room at Administrative Headquarters, 200 Southern Boulevard, Albany, New York and by video conference from the New York State Thruway Authority's Buffalo Division office, 455 Cayuga Road, Suite 800, Cheektowaga, New York. The meeting began at 10:00 a.m.

The following members of the Audit and Finance Committee were present, constituting a quorum:

**Present:**

Chairman John L. Buono, ex officio Audit and Finance Committee Member  
Frederick Howard, Audit and Finance Committee Member  
Jeffrey D. Williams, Audit and Finance Committee Member via video conference

E. Virgil Conway was not present at this meeting and did not vote on any of the Items.

In addition, there were present the following staff personnel:

Michael R. Fleischer, Executive Director  
Daniel Gilbert, Chief of Staff  
Kevin Allen, Acting Director, Audit and Management Services  
Wendy Allen, Deputy Chief of Staff  
Betsy Graham, Acting Director of Public Affairs  
John Bryan, Chief Financial Officer  
Michael Sikule, Director of Investment and Asset Management  
Jill Warner, Board Administrator  
Sharon O'Connor, General Counsel  
Richard Garrabrant, Division Director, Syracuse Division

Dorraine Steele, Director, Office of Fiscal Audit and Budget  
Liz Yanus, Office Manager, Office of the Deputy Chief of Staff  
Dave Malone, Assistant Director, Office of Accounting and Disbursements

Also in Attendance:

William M. Kahn, CPA, Partner, UHY Advisors NY, Inc.  
Paul Minni, Production Coordinator, New York Network  
Luke Slayton, Staff Member, Assemblyman Steve Hawley's Office

## **PUBLIC SESSION**

Mr. Howard called the meeting of the Audit and Finance Committee to order.

Ms. Warner recorded the minutes as contained herein.

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### **Item 1**

#### **Approval of Minutes of Audit and Finance Committee Meeting No. 7**

After full discussion, on the motion of Mr. Williams, seconded by Chairman Buono, without any objections, the Audit and Finance Committee approved the Minutes of Audit and Finance Committee Meeting No. 7, held February 20, 2008.

### **Item 2**

#### **Review and Discuss the Authority's 2007 Financial Statements**

Mr. Bryan stated that this item was a summary of the results provided in the November and December blue books. At Mr. Howard's request, Mr. Bryan summarized the figures. For 2007, operating and capital expenses totaled \$913 million, which was \$64.5 million below the level estimated in the 2007 Revised Financial Plan. This variance is due to the following factors: The Capital Program spent \$66.5 million less than expected as more than \$60 million in contractor payments that were scheduled to be made in December were made in early 2008 (simply a payment timing issue). In addition, \$2 million in Canal Capital projects that are funded by Transportation Bond Act proceeds were not started as staff have not yet completed a final funding agreement between the Authority and DOT (who manages these funds); Thruway,

I-84 and total Canal Operating Expenses came in \$5.3 million below the level estimated in the 2007 Revised Financial Plan, which indicates that ongoing cost containment efforts continued to have a positive impact in the final months of the year.

An additional \$3.8 million deposit was made into the Indemnity and Claims Reserve. This additional deposit is a prudent step to make in light of the results from a re-evaluation of future litigation claims against the Authority suggested greater exposure than previously estimated. Debt Service Expenses came in \$3.5 million above earlier estimates due to a higher amount of General Revenue bonds being issued in 2007 and a slight increase in interest rates.

Sources in 2007 are also down \$64.5 million. Of this total, Toll Revenue came in \$2.5 million below expected levels because of lower than expected traffic growth in December, principally due to unusually poor weather conditions. For the year, traffic increased by 0.2 percent compared to projected growth of 0.5 percent underlying the 2007 Revised Financial Plan. There were other small unexpected variances for other revenue collections. Note/Bond proceeds were not drawn down and Federal/other funds were not received in 2007 (reimbursement basis).

Mr. Williams requested clarification of the \$60 million unspent from 2007. Mr. Bryan explained that the bills were associated with Capital Program work that was performed in 2007 however the bills were not paid until 2008. Mr. Williams asked if the \$902,000 in additional interest earnings was a result of the \$66 million that was not spent on the Tappan Zee Bridge. Mr. Bryan acknowledged that the delay in the Bridge project was a contributing factor as was a slight increase in interest rates. Mr. Howard inquired as to the status of the bond act expenditures on the Canal. Ms. O'Connor responded, noting that an agreement is imminent as issues with specific language have been settled. The agreement will still need to be approved by the New York State Offices of the Attorney General and the State Comptroller. Mr. Howard identified a discrepancy in the 2007 Thruway revenue number provided to the Board. Mr. Bryan acknowledged the error and noted that the memo should have read \$1.1 million overage "higher" rather than "lower" than the \$580.6 million projected.

After full discussion, the Audit and Finance Committee noted as received the Authority's 2007 Financial Statements.

### **Item 3**

#### **Review and Discuss Any Significant Accounting and Reporting Policies and Issues, Risks and/or other Material Communications Between Staff and UHY LLP**

William Kahn of UHY LLP summarized the independent audit report that the firm had conducted in 2007. He highlighted the impacts of Other Post Employment Benefits (OPEB) numbers, cash investments and various disclosures relating to special bond programs and post-employment benefits. Mr. Williams asked if the annual decrease in net assets was due to OPEB. Mr. Kahn attributed approximately half of the amount to OPEB. Of the \$156 million decrease in net assets, \$66 million relates to the OPEB adjustment, a substantial portion of which is unfunded OPEB liabilities. In response to Mr. Howard's question as to the relationship between the \$66 million and \$47 million, Mr. Kahn explained that the difference between what was funded on a current basis to pay expenses which was the past methodology employed prior to GASB 45 (47 million), and the total liability (cash and unfunded: \$66 million).

Mr. Williams asked if the Authority billed \$12.629 million to the New York State Department of Transportation (NYSDOT) for I-84. Mr. Bryan advised that just under \$2 million for November and December was billed. Ms. Steele added that the Authority received additional federal aid on the Interchange 17 project which offset capital expenses that the Authority did not have to fund through bond proceeds. In response to Mr. Williams' comment that he wants to make sure the Authority is getting paid the appropriate amount, Mr. Bryan stated that the Authority is currently direct billing and will continue to do so.

Mr. Kahn stated that cash and investments of the Authority are secure due to its investment policy that limits investment options to repurchase agreements and time deposits. Mr. Kahn highlighted various notes to the financial statements including State supported debt and the new required OPEB disclosures.

Mr. Williams expressed concern that the cost of carrying State debt on the books would negatively impact the Authority. Mr. Howard rephrased Mr. Williams' question, asking if the Authority gets fully reimbursed for its cost of issuance. Mr. Kahn and Authority staff assured Mr. Williams that the State debt does not affect the Authority's bond rating and they are not aware of any future perceived costs to the Authority that would be associated with this debt. Mr. Malone added that the debt is not reflected in the balance sheets; it is merely disclosed in the notes. Requesting additional assurance, Mr. Williams asked if the Authority has a personal guarantee on the debt it issues on behalf of the State in the event that the State was to become insolvent. Ms. O'Connor advised that the Authority is not obligated to make payments on debt services beyond the monies that are appropriated for that purpose by the State.

Mr. Kahn noted that the report was unqualified and that no deficiencies in internal controls over financial reporting were identified that were considered to be a material weakness. In addition, no instances of non-compliance required to be reported pursuant to government auditing standards were recognized.

Mr. Howard commended staff for their efforts that contributed to the positive audit results. He then requested clarification of capitalization thresholds relative to the useful life of each project categorization and bond terms. Staff confirmed that the Authority determines the project and then UHY LLP audits these figures. Mr. Bryan explained that all bonds mature at different times and the term of each is pre-determined and matched with the useful life of the projects they finance. Mr. Howard asked if the Authority pays its bonds off within the designated time period. Mr. Bryan assured Mr. Howard that bonds were paid off appropriately and added that independent outside bond counsel monitors/tests compliance as violations have serious tax implications.

Mr. Kahn also noted substantial improvements relative to reconciliation efforts that was reported in a prior year audit.

**Item 4**

**Review, Discuss and Accept the 2007 Financial Statements and Related Audit Reports Prepared by UHY LLP**

After full discussion, on the motion of Mr. Williams, seconded by Chairman Buono, the Audit and Finance Committee noted as received the Authority's 2007 Financial Statements and Related Audit Reports Prepared by UHY LLP and accepted them as written.

**Item 5**

**Review, Discuss and Accept USI's Report A Postretirement Welfare Benefit GASB 45 Actuarial Valuation as of January 1, 2007**

Mr. Bryan stated that Mr. Kahn had appropriately covered this item in his previous discussion.

After full discussion, on the motion of Chairman Buono, seconded by Mr. Howard, without any objections, the Audit and Finance Committee accepted the report.

**Item 6**

**Review and Approve the Authority's Annual Investment Report for Board Action**

After full discussion, on the motion of Chairman Buono, seconded by Mr. Williams, without any objections, the Audit and Finance Committee authorized submission of the Annual Investment Report to the Authority Board for consideration.

## **Item 7**

### **Review and Discuss, as Necessary, the Following Items:**

- **Summary of Significant Audit Recommendations and/or Recent or Proposed Changes to Significant Accounting Policy or Procedures;**
- **Audits by the Office of the State Comptroller;**
- **Committee/Board Member Training Opportunities;**
- **Audit and Finance Committee 2008 Draft Work Plan**

### **Proposed Changes Accounting Policy or Procedures**

Mr. Bryan noted two items; the first of which is the positive reconciliation efforts made relative to the E-ZPass account. A second significant policy/procedural change will go into effect upon implementation of the Thruway Financial Project. The project involves the unification of approximately 26 financial systems and will enhance report creation and the ability to monitor financial activity. Beginning April 1, 2008, the Authority will pay its bills directly to contractors. The New York State Office of the State Comptroller supports this practice and will continue to review the Authority's contracts. Chairman Buono asked how the new financial system will affect vendors. Mr. Malone responded, stating that the Authority will offer EFT payments which will speed up payment processing. Mr. Bryan advised that payments will be processed within days instead of weeks. Mr. Howard asked about the impact this change would have on the Authority's cash flow and Chairman Buono asked if the change would have an adverse affect on interest earnings. Mr. Bryan replied that there will be no significant impact. Mr. Williams commented that the Authority should pay its obligations as quickly as possible.

### **Board Member Training**

Mr. Williams asked if he would be required to attend additional Board training. Ms. O'Connor was of the opinion that the basic training he had already received met the current legal requirements. Additional or enhanced training may, however, be required in the future.

## **Adjournment**

There being no further business to come before the Audit and Finance Committee, on the motion of Chairman Buono, seconded by Mr. Williams, without any objections, the meeting was adjourned at 10:35 a.m.