

METROPOLITAN DISTRICT COMMISSION
BOARD OF FINANCE
SPECIAL MEETING
MONDAY, FEBRUARY 3, 2020
4:00 PM

Location

Board Room
District Headquarters
555 Main Street, Hartford

Commissioners

Adil
Currey
DiBella (Ex-Officio)
Hoffman (VC)
Salemi (C)

Citizen Members

Aberasturia
Angelo
Gentile
King-Corbin

Quorum: 5

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1. CALL TO ORDER
 2. PUBLIC COMMENTS RELATIVE TO AGENDA ITEMS
 3. APPROVAL OF MEETING MINUTES OF NOVEMBER 26, 2019
 4. CONSIDERATION AND POTENTIAL ACTION RE: REALLOCATION OF CERTAIN BOND PROCEEDS
 5. DISCUSION RE: REQUIRED AUDITOR'S COMMUNICATION
 6. OPPORTUNITY FOR GENERAL PUBLIC COMMENTS
 7. COMMISSIONER QUESTIONS AND COMMENTS
 8. ADJOURNMENT

**REALLOCATION OF PROCEEDS OF CERTAIN OF THE DISTRICT'S GENERAL
OBLIGATION BONDS AND BOND PREMIUM**

To: Board of Finance for consideration on February 3, 2020

Staff is seeking authority for the District to reallocate:

(a) Proceeds from the District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018 from the those capital improvement projects set forth on **Exhibit A-1** attached to those capital improvement projects set forth on **Exhibit A-1**;

(b) Proceeds from the Bond Premium from the District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018 from the those capital improvement projects set forth on **Exhibit A-2** attached to those capital improvement projects set forth on **Exhibit A-2**;

(c) Proceeds from the District's \$108,315,000 General Obligation Bonds, Issue of 2016 Series C dated December 1, 2016 from the those capital improvement projects set forth on **Exhibit A-3** attached to those capital improvement projects set forth on **Exhibit A-3**;

(d) Proceeds from the Bond Premium from the District's \$108,315,000 General Obligation Bonds, Issue of 2016 Series C dated December 1, 2016 from the those capital improvement projects set forth on **Exhibit A-4** attached to those capital improvement projects set forth on **Exhibit A-4**.

Bond counsel prepared the following resolution for consideration by the Board of Finance:

It is therefore RECOMMENDED that it be:

Voted: That the Board of Finance recommends to the District Board passage of the following resolution:

**RESOLUTION AUTHORIZING THE REALLOCATION OF PROCEEDS OF CERTAIN
GENERAL OBLIGATION BONDS OF THE METROPOLITAN DISTRICT AND BOND
PREMIUM**

Proceeds from certain of the District's General Obligation Bonds and General Obligation Bond Anticipation Notes are hereby reallocated as follows:

(a) Proceeds from the District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018 from the those capital improvement projects set forth on **Exhibit A-1** attached to those capital improvement projects set forth on **Exhibit A-1**;

(b) Proceeds from the Bond Premium from the District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018 from the those capital improvement projects set forth on **Exhibit A-2** attached to those capital improvement projects set forth on **Exhibit A-2**;

(c) Proceeds from the District's \$108,315,000 General Obligation Bonds, Issue of 2016 Series C dated December 1, 2016 from the those capital improvement projects set forth on **Exhibit A-3** attached to those capital improvement projects set forth on **Exhibit A-3**;

(d) Proceeds from the Bond Premium from the District's \$108,315,000 General Obligation Bonds, Issue of 2016 Series C dated December 1, 2016 from the those capital improvement projects set forth on **Exhibit A-4** attached to those capital improvement projects set forth on **Exhibit A-4**.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott W. Jellison", written in a cursive style.

Scott W. Jellison
Chief Executive Officer

EXHIBIT A-1

District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018	\$
FROM: 2012 Paving Program (Water)	(11,000)
TO:	
2018 Madison Avenue Area Water Main Replacement, Hartford	11,000
FROM: 2013 General Purpose Sewer	(67,000)
2015 WPC Equipment and Facilities Improvement	(182,000)
2014 Sewer Replacement – Packard Street & Daniel Boulevard, Bloomfield	(202,000)
2014 Hartford WPCF Sludge Mixing Tank, Sludge Screening, GT & RSFR	
Upgrades	(313,000)
TO:	
2007 Wastewater Treatment Facility Security and Communication	
Improvements	764,000
FROM: 2013 General Purpose Sewer	(4,000)
TO:	
2013 WPC SCADA Upgrades	4,000
FROM : 2017 Business Transformation	(67,000)
TO:	
2016 Information Systems I/T Upgrades	67,000
FROM: 2009 Hartford Odor Control Construction	(116,000)
TO:	
2013 WPC SCADA Upgrades	84,000
2015 WPC Plant Infrastructure Renewal and Replacements	32,000
FROM: 2008 General Purpose Sewer	(923,000)
TO:	
2012 WPC Renewal and Replacements	3,000
2012 Hartford WPC Solids Handling & Processing	13,000
2007 Wastewater Treatment Facility Improvements	51,000
2013 WPC Renewal and Replacements	132,000
2015 Hartford WPCF SPB Electrical Upgrades (SPB Solids)	140,000
2009 Water Pollution Control Infrastructure Replacements and Improvements	310,000
2017 Hartford WPCF DAFT	270,000
2007 Wastewater Treatment Facility Security and Communications	
Improvements	4,000

EXHIBIT A-2

Bond Premium from the District's \$110,770,000 General Obligation Bonds, Issue of 2018, dated July 31, 2018		\$
FROM: 2014 Hartford WPCF Sludge Mixing Tank, Sludge Screening, GT & RSFR Upgrades		(33,000)
TO: 2007 Wastewater Treatment Facility Security and Communication Improvements		33,000
FROM: 2008 General Purpose Sewer		(68,000)
TO: 2017 Hartford WPCF DAFT		68,000

EXHIBIT A-3

District's \$108,3150,000 General Obligation Bonds, Issue of 2016, Series C, dated December 1, 2016		\$
FROM: 2010 WPC Electrical Systems Modernization Program		(41,000)
TO: 2008 WPC Infrastructure Replacement and Improvements		41,000
FROM: 2010 WPC Electrical Systems Modernization Program		(12,000)
TO: 2013 WPC SCADA Upgrades		12,000
FROM: 2009 Hartford Odor Control Construction		(69,000)
TO: 2015 WPC Plant Infrastructure Renewal and Replacements		69,000

EXHIBIT A-4

Bond Premium from the District's \$108,3150,000 General Obligation Bonds, Issue of 2016, Series C, dated December 1, 2016		\$
FROM: 2009 Hartford Odor Control Construction		(3,000)
TO: 2015 WPC Plant Infrastructure Renewal and Replacements		3,000

MEMO - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To: The Board of Finance, The Metropolitan District
From: Vanessa Rossitto, CPA, Audit Partner
Blum Shapiro & Company, P.C.
Date: January 7, 2020
Re: Auditing Standard No. 114, "The Auditor's Communication with Those Charged with Governance" regarding audit of The Metropolitan District

We are engaged to audit the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of The Metropolitan District for the year ended December 31, 2019. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our responsibilities under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards and the Uniform Guidance.

As stated in our engagement letter dated November 26, 2019, our responsibility, as described by professional standards, is to express opinions as to whether the financial statements, prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve those charged with governance or management of their responsibilities.

In planning and performing our audit, we will consider The Metropolitan District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether The Metropolitan District's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about The Metropolitan District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on The Metropolitan District's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on The Metropolitan District's compliance with those requirements.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform an examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly

planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Planned Scope, Timing of the Audit and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of our audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Nonattest Services

In addition to above services, we will also assist in performing certain nonattest services. These services do not constitute an audit under *Government Auditing Standards*. The services are as follows:

- preparing a draft of the financial statements,
- preparing a draft of the schedule of expenditures of federal awards (SEFA),
- preparing and submitting the federal data collection form,

Management agrees to oversee the nonattest services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Independence

There are no relationships between any of our representatives and The Metropolitan District that in our professional judgment impairs our independence.

Responsibilities under Auditing Standards Generally Accepted in the United States of America

Management's responsibilities include:

- The selection and application of accounting principles, the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information
- Establishing and maintaining effective internal controls, including internal controls over compliance
- Making all financial records and related information available to us and for the accuracy and completeness of that information
- The design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the government
- Identifying government award programs and understanding and complying with the compliance requirements

Auditor's responsibilities include:

- Express opinions on the financial statements based on our audit
- Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement
- Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements
- Consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

Audit Areas of Focus

- Cash
- Investments
- Receivables and revenues
- Capital Assets
- Payables, accruals, expenditures
- Payroll expenditures
- Debt
- Insurance and Self Insurance
- Grants – Federal Single Audit

Engagement Timing

Our initial planning for the year-end audit was performed during December 2019. Our focus was on documentation of the internal controls as required by auditing standards, fraud inquiry interviews with management and key personnel, preparation of certain confirmations some overall analytical procedures and audit fieldwork as applicable to the federal single audit.

- Audit Timing:

Trial Balance Files to BlumShapiro	3/12/20
Commencement of Fieldwork	3/16/20
End of Fieldwork	4/3/20
Issuance of Draft Financial Statements	4/17/20
Client Approval of Draft Statements	5/1/20
MD+A Finalized	5/1/20
Issuance of Financial Statements	5/15/20
Issuance of Management Letter, if applicable	5/15/20
Post Audit Meeting with Management	TBD

Engagement Team

The engagement team that will be responsible for audit, and other services, is as follows including contact information to reach us:

- Vanessa E. Rossitto, Audit Partner
Direct Line: 860-561-6824
Email: vrossitto@blumshapiro.com
- Nikoleta D. McTigue, Concurring Audit Partner
Direct Line: 860-570-6377
Email: nmctigue@blumshapiro.com
- Jessica Aniskoff, Audit Manager
Direct Line: 860-570-6451
Email: janiskoff@blumshapiro.com

Other Communications

At the completion of our audit we will communicate in writing the following information related to our audit:

- Management judgments and significant sensitive accounting estimates
- Significant accounting policies
- The adoption of new accounting principles or changes in accounting principles
- Significant audit adjustments (recorded and unrecorded)
- Disagreements with management about auditing, accounting or disclosure matters
- Difficulties encountered in performing the audit
- Irregularities and illegal acts
- Consultation by management with other auditors
- Matters affecting independence of auditors
- Material weaknesses, significant deficiencies and control deficiencies

Knowledge of Fraud

- If management or those charged with governance has any knowledge of fraud or potential fraud, this information needs to be communicated to us. As part of the audit process, we will be meeting with management to discuss fraud risks and any further issues.

Best Practices and Industry Updates

Cybersecurity Threats

Cybersecurity has reached a new crossroads. Municipalities can no longer have a “wait and see” attitude toward securing operations and data. Proactively assessing and managing operations and IT environment(s) in anticipation of cyber threats is critical. Managing your organization’s risk to cyber threats starts with a consideration of the following:

- Cybersecurity is now considered a key business risk by most boards.
- Global spending on cybersecurity is projected to increase each of the next 10 years.
- Nearly 70% of funds expended due to a cyber event are unrecoverable.
- Ransomware attacks force the majority of impacted businesses to pay to get their data back.
- The scale of data breaches and lost funds due to phishing and business email compromise is exponentially trending upward.
- Most companies do not know all locations where personal/confidential information is stored and/or how it is protected.
- With the most frequent cybersecurity attack vector migrating from the network perimeter, directly to the individual user, everyone who touches technology can be a point of exposure.

As such, cybersecurity strategies require a new approach to identify where critical information exists that needs to be protected, a new way of foreseeing and deterring the threats that could result in the theft of information or the loss of funds, and a new way to understand the overarching corporate risk associated with cyber-attacks.

Understanding your baseline exposure to cyber threats is a critical best practice. An annual security and vulnerability risk assessment should be performed that identifies and evaluates exposures, hazards and/or potential for breach that could negatively impact an organization's ability to conduct business. These assessments help to identify the inherent cyber risks and provide measures, processes and controls to reduce the impact of these risks to business operations. From this assessment you should identify and locate personal/confidential information and understand how this information is secured and gain a clear understanding of potential for exposure. Risk mitigation plans should be designed to tighten areas of exposure and establish stronger security protocols. Limited resources will be applied to the areas most in need of protection.

As a key component to building and maintaining a resilient culture of cybersecurity, strengthening employee cybersecurity awareness through focused training will be a critical component of an organization wide cybersecurity initiative. Progressive ways of assessing how employees respond to targeted threats through phishing simulation attacks can proactively identify areas of exposure, reinforce learning objectives, identify training opportunities, and help identify missing security protocols.

BlumShapiro offers a range of services to assess your company’s cybersecurity strategy and develop a plan to mitigate risk. It can start with a short educational session for employees. We also offer a portfolio of Implementation services to help mitigate overall risks.

Industry Developments – Current Year (December 31, 2019) Accounting Standards

- **GASB Statement 83 – Certain Asset Retirement Obligations** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

- **GASB Statement 84 – Fiduciary Activities** The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- **GASB Statement 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements** The objective of this statement is to improve disclosure regarding direct borrowings and direct placements.
- **GASB Statement 90 – Majority Equity Interests** This statement defines majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment, and measured using the equity method unless it is held by a special-purpose government engaged only in fiduciary activities and then would be measured at fair value.

Industry Developments - Future Accounting Standards - December 31, 2020

- **GASB Statement 87 – Leases** This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.
- **GASB Statement 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period** This statement requires interest cost incurred before the end of a construction period to be expensed in the period in which the cost is incurred.

Industry Developments - Future Accounting Standards – December 31, 2021

GASB Statement 91 – Conduit Debt Obligations - Conduit debt obligations are debt instruments issued by a state or local government to provide financing for a specific third party, which is primarily liable for repaying the debt instrument. The GASB's existing standards, Interpretation No. 2, Disclosure of Conduit Debt Obligations, allowed variation in practice among governments that issue conduit debt obligations, which adversely affects the comparability of financial statement information. The variation arose from the option for government issuers either to recognize conduit debt obligations as their own debt or to disclose them.

Statement 91 eliminates the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting;

Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. Statement 91 requires a government issuer to recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

Areas of Concerns

- If you have any concerns that you would like to discuss with Blum Shapiro, we will make ourselves available either by phone or in person to discuss such concerns.