

**New Hampshire Electric Cooperative, Inc.
Minutes of the Meeting of the
Audit Committee**

**Pemi Board Room & Zoom Meeting
March 27, 2023 11:00 a.m.**

Present: Committee members: In Person: Alana Albee (Chair), Madeline McElaney, Ed French, Sharon Davis
Other Board Members: In Person: Brenda Boisvert; Via Zoom: Jeff Morrill, Tom Mongeon, Bill Darcy, Harry Viens
NHEC Employees: In Person: Alyssa Clemsen Roberts, Kristen Taylor, Derick Royer, Michael Jennings, Kelley Achenbach, Carla Munoz, Karen Hanks, Autumn Doan and Edee Murphy (Recording)
Others Present: In Person: Paul Phillips-NHEC Counsel, Via Zoom: Terry McMichael and Jacob Morris from McNair, McLemore, Middlebrooks Co., LLC (NHEC external auditor)

Meeting Called to Order

Chair Albee called the meeting to order at 10:59 a.m. for introductions.

Agenda Review/Minutes Approval

Upon motion by Mr. French, seconded by Ms. Davis, it was

VOTED: That the committee **approves the 1/17/2023 meeting minutes**, both public and executive sessions.

The vote was unanimous.

Audited Financials

- Mr. Morris noted that he is the Manager over the NHEC 2022 financial audit, and Mr. McMichael is the Engagement Partner over said audit.
- Mr. Morris reviewed the first portion of the Summary of Audited Consolidated Financial Statements for year ended December 31, 2022, including the topics of 'Required Communications by the Independent Auditor' and 'Report on Compliance.' Covered in this portion of the presentation were the following topics:
 - Communication to Those Charged with Governance
 - Auditor's Responsibility Under Generally Accepted Auditing Standards
 - Planned Scope and Timing of the Audit
 - Compliance with All Ethics Requirements Regarding Independence
 - Significant Risks Identified
 - Qualitative Aspects of the Entity's Significant Accounting Practices
- Mr. Morris made the following comments:
 - The team was on-site in October 2022 to meet with management as well as gain an understanding of internal controls surrounding financial processes, etc. He added they noted no issues or management bias during this procedure.
 - Their team was on-site again in February 2023 to perform substantive procedures and prepare the actual financial statements.
 - Two significant risks identified were: 1) Management Override of Controls and 2) Lender

Compliance. He explained that the first risk identified is inherent in all audits.

- He also stated the following:
 - The team noted no difficulties during the entire process; there were no uncorrected or corrected misstatements noted; no disagreements with management.
 - After approval by the NHEC board of directors tomorrow, they will be requesting a signed representation letter.
 - During discussions with management, there was no consulting with other accountants.
 - There were no other significant matters, finding or issues to disclose.
- Report on Compliance:
 - In connection with the audit, nothing came to their attention that caused them to believe that the Corporation failed to comply with the terms, covenants, provisions or conditions of lending instruments with CFC. However, their audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had they performed additional procedures, other matters may have come to their attention regarding the Corporation's noncompliance with the above-referenced terms insofar as they relate to accounting matters.

Discussion:

- ❖ Chair Albee drew attention to the two "significant risks" and the way it is written up in the audit report. She commented she now understands after Mr. Morris' explanation that the 'Management Override of Controls' is inherent in all audits, and there were no issues found with 'Lender Compliance.' She requested this be clarified in the report. Mr. McMichael explained this is the standard reporting format and that if they had any issues/findings with these two items, it would be included under the "Significant Matters, Findings and Issues" section. He also commented this particular communication – "Matters to be Communicated with Those Charged with Governance" is intended only for NHEC and their lender, and not for public consumption; it is a separate communication from the audited financials.
- Mr. McMichael reviewed the second half of the auditor's presentation which included 'Independent Auditors Report' and 'Overview of Financial Statements.'
 - Auditors Report: He stated the consolidated financial statements are free of material misstatements and represent a fair presentation of the financial position and operations of the cooperative.
- Mr. McMichael then reviewed highlights of the audited financials and Notes to the Financial Statements.

Discussion:

- ❖ Chair Albee suggested changes as follows:
 - Page 8 – add footnote to clarify that the change in deferred debit amount for 2021 is due to a re-grouping/re-classification.
 - Page 9 – remove the word "certain" before members.
 - Page 19 – update the percentage from 4.41% to 3.80% (pointed out by Ms. Achenbach).
 - Page 25 post-retirement healthcare benefits - update the table that was cut off to show remaining data.
 - Page 28 – take out reference to "other" receivables and replace to "accounts."
- ❖ Chair Albee also asked the auditor's opinion about the \$8.7M mentioned under "Contingencies" on page 28, as far as materiality. She added this may be answered in executive session if the auditors so choose.
- ❖ Mr. Darcy had a question about the BEA grant/expenditures, etc., and will talk with the finance department offline. His other comments/question included:
 - Referring to page 9 – Notes to Financial Statements – Mr. Darcy clarified that NHEC's members in fact voted to reduce the level of NHPUC regulation.

- He would like to know the auditor's answer to Chair Albee question regarding the \$8.7M mentioned under "Contingencies" on page 28, and who decides 'materiality' – management or the auditor. Ms. Clemens Roberts suggested this is a discussion for executive session.
- Sparked by a comment from Mr. Darcy, there were general comments related to cash being FDIC insured, or not.

Board members thanked Messrs. McMichael and Morris for their informative presentation.

At 12:02 p.m. Chair Albee motioned to go into executive session with the auditors for the purpose of discussing confidential legal matters; she excused Mr. Phillips at this time. The motion was seconded by Ms. Davis and the committee entered executive session.

The committee came out of executive session at 12:06 p.m.

Upon motion by Mr. French, seconded by Ms. Albee it was

VOTED: That the committee recommends the Board of Directors accept the 2022 audited financial statements with the noted changes listed above.

Vote was unanimous.

Chair Albee and Ms. Taylor commended the finance team and the auditors for a smooth transition to the new auditor.

In answer to a question from Mr. French, Mr. McMichael ensured delays that happened this year, with it being a first-time audit for NHEC, will not occur next year.

Messrs. McMichael and Morris left the meeting at 12:10 p.m.

Internal Controls Audit

Ms. Hanks reviewed her presentation on the results of the fiscal 2021-2022 Internal Audit included in today's meeting packet.

The audit objectives were as follows:

- Consider internal controls over the audit area
- Confirm the existence of recorded transactions and obligations
- Determine completeness and accuracy of recorded transactions
- Confirm the clerical accuracy of schedules and transactions

Scope and methodology were as follows:

- Limited to compliance and general controls – January 1, 2021 to December 31, 2022
- Audit Procedures: Inquiry of staff, inspection of documents, test of controls
- Audit conducted in accordance with generally accepted auditing standards

Ms. Hanks summarized Observations and Corrective Actions with the committee. Her conclusions were as follows:

- Based on our evaluation, we believe management could improve the environment's efficiency and control by addressing the following observations:
 - Finalize draft procedures: 600.00, 601.00 and 800.00.
 - Review the use of auto-generated purchase order numbers.

- Retain calculations for member deposits, evidentiary review of refunds and include refund processing time in departmental procedures.

Ms. Hanks reviewed the 2023 Financial Audit Plan as follows:

- Cash Management – Checks
- Purchasing – Blanket Purchase Orders, Office Supplies, General <\$75K, General Plant >=\$75K
- Commitments – Contracts/RFPs

She also reviewed the Non-Financial Audit Plan as follows:

- Procedures Test of Controls – 381.00, 480.00
- Licenses Program Design
- Certifications Program Design
- Vendor Management Test of Controls
- External Reporting Program Designs

She then reviewed historical and current Management Action Plan Status (MAPS), and well as 2023 Open MAPS.

Upon motion by Ms. McElaney, seconded by Mr. French, it was

VOTED: That the committee recommends the Board of Directors accept the internal audit and recommendations to 1) merge the Cash Disbursements and Cash Receipts audit areas and change the designation to Cash Management and 2) remove Construction Deposit compliance from the Internal Controls Audit Plan as presented.

Vote was unanimous.

Discussion:

- ❖ Chair Albee commented that the procurement procedure has been going on since 2017 and asked that a completion date be put on the grid. Ms. Hanks replied she will provide completion dates at the April 2023 Audit Committee meeting. Ms. Taylor clarified that the procurement procedure is not revising one procedure, but editing and combining about five procedures.
- ❖ Chair Albee asked that target completion dates be added to the grid for topics such as retrievable reconciliation module, member-facing work order process, vendor guidelines, pole attachment procedures, safety management plan, and formal vegetation management plan. Ms. Clemens Roberts pointed out that some items are NISC-related, therefore will be difficult for NHEC to provide a completion date – those will be labeled “NISC contingent.”
- ❖ In answer to a comment from Mr. Mongeon about the recent “banking issue,” Ms. Taylor mentioned that NHEC added another layer of review from the internal auditor; when NHEC is revising procedures, Ms. Hanks will review from an internal audit perspective to ensure that there is nothing missing and making sure our controls are in place to mitigate risk.
- ❖ Board members thanked Ms. Hanks and team for the hard work.

Brief lunch break 12:30 p.m. – 12:51 p.m.

Deferred Revenue Discussion

Mr. McMichael rejoined the meeting at 12:52 p.m. for the Deferred Revenue Discussion. He explained that deferred revenue is an allowable mechanism for a regulated entity to take certain portions of revenue they have collected from their members in one period, and ultimately defer it to a future period in which you would recognize it. What it is intended to do, and should be used for, is to properly match revenue and expenses in the period which they are incurred but allow you to collect them in a prior period to minimize volatile

fluctuations in electric rate structure. Somewhat unique to cooperatives, certainly if you are an RUS or Federal Financing Bank (FFB) borrower, you are required to get this approved by your lender prior to recording that transaction in your financial statements and ultimately your year-end annually reporting to them. The second component is the requirement to restrict cash equal to the amount of deferred revenue until the period in which it is subsequently recognized. For a CFC only borrower, in NHEC's case, you are not required to have CFC approve that prior to; however, you are required to approve a board resolution and provide that to them for their records so they make sure they understand how it impacts your Form 7 and financials. Also, there is no covenant requirement or mortgage requirement to restrict cash related to it. Obviously, you have that option for cash management purposes. For best practice purposes, most people elect to restrict the cash regardless if they are an RUS or FFB borrower.

Mr. McMichael briefly reviewed answers to board member questions; the questions and answers are included in today's meeting packet along with an ASC 980 Regulatory Operations presentation compiled by McNair et al, as well as the ASC 980 full codification.

Discussion:

- ❖ Mr. Darcy noted that regulators do two other things that are kind of related and perhaps more extreme than a reserve fund – Rate Freezes and Rate Phase-ins. Those in many ways have a related function to seek moderation of rates and are also permitted/accommodated within 980 as well. Mr. McMichael confirmed that is correct, however, phase-ins are not technically allowed anymore unless you had one already in place. He added that Debt Sinking Funds and Asset Retirement Obligations are other semi-related reserve accounts.
- ❖ Mr. Darcy commented he was pleased with the answers, as it sets the bounds for the discretion the board has. He does not propose anything be done now; in future discussions, where it is appropriate, we now have a firm basis of the rules that are applicable.
- ❖ Chair Albee thanked Mr. McMichael commenting it gives the board a good framework for the future, although no immediate action needed at this time.

Mr. McMichael left the meeting at 1:05 p.m.

Upon motion by Ms. Davis, seconded by Ms. McElaney, the committee voted unanimously to go into executive session at 1:05 p.m. for the purpose of discussing confidential cyber security matters.

The committee came out of executive session at 1:41 p.m.

Upon motion by Ms. Boisvert, seconded by Ms. Davis, Chair Albee adjourned the meeting at 1:41 p.m.