

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Special Audit-Finance Committee Meeting
Minutes
September 18, 2018

The Audit-Finance Committee of the Board of Directors of the State of Connecticut Health and Educational Facilities Authority met in session on Tuesday, September 18, 2018 at 11:00 a.m. The special meeting was called to order by Mr. Mark Varholak, Committee Chair, at 11:04 a.m. and, upon roll call, those present and absent were as follows:

PRESENT: Mark Varholak, Chair
John Biancamano
Christopher Martin¹, Designee for Denise Nappier, State Treasurer
Dr. Peter Lisi, Board Chair
Barbara Rubin²

ABSENT: Michael Angelini

ALSO PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Carlee Levin, Senior Accountant
JoAnne Mackewicz, Controller
Michael F. Morris, Managing Director
Kathy Owens, Administrative Assistant
Cynthia Peoples, Managing Director
Debra M. Pinney, Manager, Administrative Services
of the Connecticut Health and Educational Facilities Authority

GUESTS: Robert Smalley, Senior Manager, BerryDunn
Katharine Balukas, Manager, BerryDunn
Kristen Brown, Senior Manager, CohnReznick LLP
Joseph Centofanti, Partner, PFK O'Connor Davies
Michael Delaney, Manager, PFK O'Connor Davies

¹ Mr. Martin attended the meeting via conference telephone that permitted all parties to hear each other.

² Ms. Rubin attended the meeting via conference telephone that permitted all parties to hear each other.

APPROVAL OF MINUTES

Mr. Varholak requested a motion to approve the minutes of the June 8, 2018 special meeting of the Audit-Finance Committee. Dr. Lisi moved to approve the minutes and Mr. Biancamano seconded the motion.

Upon roll call, the “Ayes”, “Nays” and “Abstentions” were as follows:

AYES

Mark Varholak
John Biancamano
Dr. Peter Lisi
Christopher Martin
Barbara Rubin

NAYS

None

ABSTENTIONS

None

INTERNAL AUDITOR INTERVIEWS AND SELECTION OF FIRM

Ms. Peoples invited Mr. Robert Smalley, Senior Manager, and Ms. Katharine Balukas, Manager, BerryDunn to join the meeting at 11:09 a.m.

Mr. Smalley introduced himself and provided his professional background and an overview of the BerryDunn team. He stated that Mr. Mark Laprade is the Principal and the Leader of BerryDunn’s Governmental Insurance Group and was unfortunately not available to attend the meeting.

Mr. Smalley introduced Ms. Katharine Balukas, Manager at BerryDunn. Ms. Balukas provided her professional background and relevant experience for reference.

Ms. Balukas and Mr. Smalley provided a history of their firm’s experience and expertise.

Mr. Varholak thanked Mr. Smalley and Ms. Balukas for their presentations and opened up the floor for questions. A discussion ensued.

Mr. Smalley and Ms. Balukas left the meeting at 11:31 a.m.

A discussion ensued.

Ms. Peoples invited Mr. Joseph Centofanti, Partner, and Mr. Michael Delaney, Manager, PFK O’Connor Davies to join the meeting at 11:40 a.m.

Mr. Varholak welcomed the firm and turned the floor over to Mr. Centofanti. Mr. Centofanti provided background on the history of the firm’s experience and services they provide to a variety of public entities.

Mr. Centofanti turned the floor over to Mr. Michael Delaney, Manager of PKF O’Connor Davies to provide his experience with the firm.

Mr. Varholak asked if there were any questions. A discussion ensued.

Mr. Varholak thanked Mr. Centofanti and Mr. Delaney and they left the meeting at 11:48 a.m.

A discussion ensued.

Mr. Biancamano moved to approve BerryDunn for a period of three years with a review of their performance on an annual basis. Dr. Lisi seconded the motion.

Upon roll call, the “Ayes”, “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Mark Varholak	None	None
John Biancamano		
Dr. Peter Lisi		
Christopher Martin		
Barbara Rubin		

Ms. Rubin left the meeting at 11:50 a.m.

PRESENTATION OF FY 2018 DRAFT AUDITED FINANCIAL STATEMENTS

Ms. Peoples invited Ms. Kristen Brown, Senior Manager, CohnReznick to join the meeting.

Ms. Peoples stated that for this presentation, Ms. Mackewicz would provide highlights of the CHEFA performance, followed by Ms. Brown who would provide a presentation of the fiscal year 2018 audit process.

Operating Revenues

Ms. Mackewicz reported that for fiscal year 2018, the Authority had a slight increase of its revenues, but maintained expenses. The operating revenues were \$7.9 million as compared to \$7.8 million in the prior year as well as budgeted at \$7.8 million. Ninety-four percent of those revenues were generated from the administrative fees assessed to each institution based on their outstanding bonds. The top three institutions are Yale University, Yale New Haven Healthcare, and Hartford HealthCare, respectively. Ms. Mackewicz reported that in fiscal year 2018, CHEFA closed 18 bond transactions totaling \$.9 billion, which is a decrease of \$462 million from fiscal year 2017.

Operating Expenses

Ms. Mackewicz reported that operating expenses decreased nominally by \$17,000 from fiscal year 2017 and was \$208,000 under budget. The contributing factors were a decrease in vacation, marketing and conference expenses and some non-capital purchases that did not occur during the fiscal year. Total operating income increased by \$4.5 million in fiscal year 2018 compared to \$4.3 million in the prior year.

Ms. Mackewicz stated that total operating income increased to \$4.5 million in fiscal year 2018 compared to \$4.3 million in the prior year. The change in net position for fiscal year 2018 after grant funding, was \$1.8 million. The change in net position after the mandated transfer to the State was \$.9 million, which was reserved in fiscal year 2017, left a positive \$0.8 million.

Ms. Mackewicz reported that the balance sheet remained consistent year over year with a nominal change in the board designated investment and the State transfer reserve, reflecting the transfer previously mentioned. She stated that \$228 million of the restricted investment from

institutions represents the construction funds held on behalf of the institutions which increased from \$212 million in 2017.

Total Net Position

Ms. Mackewicz reported the total Net Position for CHEFA at June 30, 2018 is \$14.0 million.

Ms. Brown stated from the auditor's perspective she would be summarizing the various reports that CohnReznick would issue and provide a brief summary of CSLF and CHESLA, the communications that are required by the Board and future considerations related to GASB.

Ms. Brown reported that the notable item is that the financial audit has an unmodified or clean opinion. CohnReznick also reported on Generally Accepted Government Auditing Standards to which CHEFA is in compliance.

Ms. Barbara Rubin rejoined the meeting at this time.

Ms. Brown stated that since the CHEFA Board is the overriding Board of all three organizations, CohnReznick will also issue an Agreed Upon Procedures report for CSLF which is in compliance with a Specified Federal Family Education Loan Program requirements and will be reporting that they are in compliance with those requirements. Ms. Brown added that the auditors also complete the tax returns for CSLF as well and will go into in depth details with the CSLF Board so that they are aware of the activity on it prior to issuance of the IRS form 990 to the U.S. Government.

Mr. Biancamano asked for clarity regarding the structure of the audit including separate component units with no consolidation. Ms. Brown indicated that GASB as well as State law requires that the component units be addressed separately without regard to Statute which consolidate the three entities and blending is also not an option given the size of both CHESLA and CSLF.

Ms. Brown stated that that there were no findings or recommendations during the audit. She provided overall management and communications for all three entities. There were no findings in accounting policies; they are operating as they were designed. The Investment Policy note for CHEFA was reworded to be consistent with the statutory language being used for CHESLA and CSLF. It is important to note that CHEFA has estimates in the financial statements. The two largest were estimates on uncollected loans for both CHESLA and CSLF. Ms. Brown stated that the team reviewed those estimates based on the calculations and assumptions that were made. There have been no changes to those calculations and they are reasonable. The estimate of fair value having to do with investments was reviewed and is reasonable as well.

Ms. Brown reported that there were no difficulties encountered in performing the audit. There were no consultations with other accountants or disagreements with CohnReznick had. She stated that CohnReznick reviewed the MD&A to insure that it corresponds with the information that is in the audit. The auditors also reviewed the supplementary schedules to make sure that they are reasonable based on the audit figures. There was a past adjustment journal entry for CHESLA and there was a difference between the reacquisition price of the debt and the net carrying amount of the debt is supposed to be amortized over the life of the shorter of the new debt over the old debt. In this case, it was \$277,000 that would be amortized about \$47,000 per year for the next six years because that is the remaining life of the new debt. This amount is not

material to the financial statements and is not posted in the financial statements as we do not believe users decisions will be affected by not reporting it.

Ms. Brown reported that CHESLA has a strong balance sheet with \$47 million in current assets in excess of their current liabilities. The net position for CHESLA increased to approximately \$2 million. There was an increase of approximately \$283,000 in the loan loss reserve and a significant portion of that is due to the refinance program. Finally, there is \$2 million in revenue due to the CSLF refinance program and the \$2 million for the scholarship program.

Ms. Brown reported CSLF has a strong balance sheet totaling \$45 million. The net position decreased by \$1.8 million related to the transfers to CHESLA. The \$2 million for the refinance program was transferred this current year and they have a liability for the second \$2 million for the scholarship program authorized by the board, that due to timing was not yet transferred to CHESLA by year end. Additionally, CSLF has reviewed the loan loss reserve and will make a small increase in the coming fiscal year.

Ms. Brown reported that there are two accounting standards that will apply to CHEFA, GASB 88 (Certain Disclosures Related to Debt) which requires providing disclosure in the financial statements for all GASB entities related to lines of credit or assets as collateral for debt, events of default, termination events or acceleration claims. The other is GASB 87 in 2021, related to leases. Operating leases, and similar to the for-profit world, will have to be put on the balance sheet as intangible right-to-use assets on the balance sheet. This will be very immaterial to CHEFA. A discussion ensued.

Mr. Biancamano recommended that in the future, the Committee should review more detail related to CSLF and CHESLA in consideration of the Committee approving the full report.

Ms. Peoples and Ms. Brown identified some changes that have been made to the draft (MD&A and financial statements) since it was received by the Committee in the mailing that will be reflected in the final audit.

Mr. Varholak requested an additional modification to change the wording on the income statement on CHEFA's 'administrative fees' to CHEFA's 'support service fees'.

Mr. Varholak requested a motion to approve the fiscal year 2018 draft audited financial report. Dr. Lisi moved to approve the fiscal year 2018 draft audited financial report. Mr. Biancamano seconded the motion.

Upon roll call, the "Ayes", "Nays" and "Abstentions" were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Mark Varholak	None	None
John Biancamano		
Dr. Peter Lisi		
Christopher Martin		
Barbara Rubin		

Mr. Angelini joined the meeting at this time.

EXECUTIVE SESSION – DISCUSS MANAGEMENT’S PERFORMANCE IN CONNECTION WITH THE FISCAL YEAR 2018 AUDITED FINANCIAL STATEMENTS

Mr. Varholak requested a motion to go into Executive Session at 12:12 p.m. Dr. Lisi moved to go into executive session and Mr. Biancamano seconded the motion.

Upon roll call, the “Ayes”, “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Mark Varholak Michael Angelini John Biancamano Dr. Peter Lisi Christopher Martin Barbara Rubin	None	None

All meeting participants left the meeting with the exception of the Board members and Ms. Kristen Brown.

The meeting reconvened at 12:25 p.m. Mr. Varholak stated that no votes were taken during Executive Session.

The meeting adjourned at 12:28 p.m.

Respectfully submitted,

Jeanette W. Weldon
Executive Director