

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Audit-Finance Committee Meeting Minutes
September 15, 2021

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority held a telephonic meeting at 12:30 p.m. on Wednesday, September 15, 2021.¹

The telephonic meeting was called to order by Mr. Mark Varholak, Committee Chair, at 12:32 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: Peter W. Lisi, Board Chair
Mark Varholak, Committee Chair
Michael Angelini
Lawrence Davis
Darrell V. Hill² (Designee for CT State Treasurer Shawn T. Wooden)

OTHER BOARD MEMBERS PRESENT: Susan Martin³

ALSO, PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Carlee Levin, Senior Accountant
JoAnne Mackewicz, Controller
Michael F. Morris, Managing Director, Client Services
Cynthia D. Peoples-H, Managing Director, Operations & Finance
Julia Pollano, Operations Reporting Analyst
Kara Stuart, Manager of Administrative Services of the Connecticut Health and Educational Facilities Authority

GUESTS: Kristen Brown, CPA, Director, CohnReznick
Melissa Ferrucci, CPA, Partner, CohnReznick
Josh Labonte, CPA, Senior Associate, CohnReznick

APPROVAL OF MINUTES

Mr. Varholak requested a motion to approve the minutes of the June 16, 2021 meeting of the Audit-Finance Committee. Mr. Davis moved for approval of the minutes, which was seconded by Mr. Angelini.

Upon a voice vote, the “Ayes,” “Nays” and “Abstentions” were as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--------------------|--------------------|---------------------------|
| Michael Angelini | None | None |
| Lawrence Davis | | |
| Peter W. Lisi | | |
| Mark Varholak | | |

Ms. Peoples introduced new CHEFA staff member Julia Pollano, Operations Reporting Analyst.

¹ All attendees participated in the meeting via conference telephone that permitted all parties to hear each other

² Mr. Hill joined the teleconference meeting at 12:41 p.m.

³ Ms. Martin joined the teleconference meeting at 12:40 p.m.

REVIEW OF THE INVESTMENT POLICY

Ms. Peoples provided a brief history on the investment policy and stated that the policy has been updated from the September 2019 Board approved policy. Ms. Peoples noted that if significant changes are warranted, financial advisors, bond counsel, and/or trustees are consulted, and various investment firms may be consulted regarding Qualified Investments and related definitions.

Ms. Peoples provided an overview of the FY 2022 modifications made in the policy that impact current practice:

- Throughout the policy the reference to Authority subsidiaries has been removed. The policies are under development by Ms. Weldon for CHESLA and CSLF and will be established to mirror the general fund policies for CHEFA. Investment policies for both CHESLA and CSLF will be presented for approval to the respective boards during the November 2021 meetings.
- There was a section removed from the State Mandated (Restricted) Reserve Funds, State of CT Office of Early Childhood. This section has been removed as the required funds were returned to the State of Connecticut at the termination of the memorandum of agreement.
- There was a change in the way the General Fund Permissible Investments were listed. Ms. Peoples reported that two bullets were removed from the “With Approval by an Authority or Authorized Officer” and made to be standalone statements due to the maturity of these two types of investments that are ordinarily greater than 365 days. The section under which they previously were listed defines permissible investment less than 366 days. Additionally, guaranteed investment contracts will now require approval of the Executive Director.

A brief discussion ensued.

Mr. Varholak requested a motion to approve the changes to the investment policy. Mr. Lisi moved for approval, which was seconded by Mr. Angelini.

Upon a voice vote, the “Ayes,” “Nays” and “Abstentions” were as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--------------------|--------------------|---------------------------|
| Michael Angelini | None | None |
| Lawrence Davis | | |
| Darrell V. Hill | | |
| Peter W. Lisi | | |
| Mark Varholak | | |

PRESENTATION OF FY 2021 DRAFT AUDITED FINANCIAL STATEMENTS

Ms. Peoples introduced guests Melissa Ferrucci, Kristen Brown and Josh Labonte of CohnReznick. Ms. Peoples stated this is the end of the second 3-year engagement with CohnReznick and it has been wonderful to work with them.

For fiscal year 2021, Ms. Mackewicz reported a year over year increase in operating revenue and a slight decrease in operating expenses. The operating revenue was \$7.6 million as compared to \$5.8 million the prior year and was budgeted at \$7.7 million. Ms. Mackewicz stated 97% of revenues are generated from administrative fees assessed to the institution. Ms.

Mackewicz noted that in the prior year, \$1.8 million was waived as part of the COVID-19 mitigation initiatives. Ms. Mackewicz reported that in fiscal year 2021, 17 bond offerings were closed for \$743 million as compared to \$1.1 billion the prior year, and 53% of those issuances were new money deals. In addition, CHEFA issued 3 loans on the Revolving Loan Fund Program totaling \$150,000 with interest income of \$1,800.

Ms. Mackewicz reported operating expenses year over year decreased by \$95,000 and were \$252,000 under budget. This was predominantly from working virtually and from attending virtual conferences with no registration fees. Ms. Mackewicz reported that total net operating income is \$3.8 million compared to \$1.9 million in the prior year. The non-operating income decreased by \$234,000 which was mostly due to investment income having a significant decrease of \$189,000, due to significant decreases in interest rates. Change in net position for fiscal year 2021 after grant funding of \$3.1 million was a net gain of \$0.8 million as compared to a net loss of \$0.9 million in the prior year.

Ms. Mackewicz stated some notable items on the balance sheet:

- Investments increased year over year and administrative fee receivables decreased by \$1 million. This reflects the delay of 2020 fees, which were billed in September 2020 and received in September and October 2020.
- The due from CHEFA CDC increased by \$39,000. This was for CHEFA support services in which CHEFA staff was providing CHEFA CDC services.
- \$297 million on the balance sheet of current restricted assets represent construction funds held on behalf of the institutions.
- CHEFA's total net position at June 30, 2021 is \$14.3 million.

Ms. Mackewicz thanked CohnReznick for their hard work during the audit process.

Ms. Melissa Ferrucci of CohnReznick thanked CHEFA staff for their hard work and phenomenal cooperation during this year's audit process.

Ms. Ferrucci noted a change that will be made to page 12 of the Management Discussion and Analysis in the CHESLA revenue section. A sentence will be added to the final audit "interest income on loans receivable increased \$563,000 to \$7.755 million from \$7.192 million in the prior year."

Ms. Ferrucci turned the floor over to Ms. Kristen Brown.

Ms. Brown reported the following notable items:

- The audit was conducted in accordance with generally accepted government auditing standards, and in accordance with the plan, scope, and timing anticipated.
- The team reviewed the significant accounting policies, the significant estimates regarding the allowance for uncollectable accounts related to the loans for CHESLA and CSLF, and the fair value of the estimates to ensure that all are reasonably presented.
- Based on the audit procedures performed and the discussions had, the team did not become aware of any identified or suspected fraud, there were no significant difficulties in performing the audit, no audit corrections related to the financial statements, no disagreements with management, and there were no consultations with other accountants by management.
- Management will be requested to sign a representation letter that the information provided was true and accurate.

- Performed an agreed upon procedures report for CSLF and prepared a CSLF tax return.
- Tax return for CHEFA CDC is a 990N, or postcard version.
- Reported no findings or no management recommendations.

Ms. Brown reported the following information regarding CHEFA:

- CHEFA is a blended component unit with CHEFA CDC.
- Current assets are greater than current liabilities by \$9.554 million with a restricted net position of \$4.388 million.
- Operating income of \$3.848 million and nonoperating expenses of \$3.051 million with an overall increase in net position of \$797,000.
- Operating activities resulted in \$4.987 million of cash flow and noncapital financing activities resulted in \$6.854 million of cash flow.
- Utilized \$103,000 of cash to purchase capital assets and utilized \$11.191 million of cash to purchase investments.
- Overall increase in cash of \$547,000.
- No new guidance required to be implemented.

Ms. Brown turned the floor over to Mr. Josh Labonte to report on CHESLA and CSLF.

Mr. Labonte reported the following information regarding CHESLA:

- Operating loss of \$909,000 with a decrease in net position by \$840,000.
- Decrease in allowance on loans receivable of \$120,000.
- Additional \$500,000 in funds transferred from CSLF for scholarships.
- Overall decrease in cash of \$8.714 million.
- Restricted net position \$26.574 million out of \$32.499 million of net position.

Mr. Labonte reported the following information regarding CSLF:

- Operating income of \$1.623 million with an increase in net position by \$1.126 million.
- Additional \$500,000 in funds transferred from CSLF for scholarships.
- Overall increase in cash of \$129,000.
- Restricted net position \$3.418 million out of \$24.203 million of net position.
- Decrease in loan loss reserves of \$226,000.

Mr. Labonte turned the floor over to Ms. Ferrucci to report on future considerations that may be relevant to CHEFA.

Ms. Ferrucci reported on new accounting standards that will be issued in FY 2022 and FY 2023:

- GASB 87: The need to report both operating and capital leases on the balance sheet. This will require management to take inventory of their leases to determine the type of leases and whether they will need to be reported in accordance with GASB 87.
- GASB 93: Replacement of Interbank Offered Rates. This relates to agreements with variable payments made or received that depend on an interbank offered rate, with the most common being LIBOR. LIBOR will cease to exist in its current form as of December 31, 2021 and new standards will be implemented. This will ensure that if the Authority has any of these types of agreements, the financial instruments used will be amended to replace LIBOR.
- GASB 96: This will be for Subscription-Based Information Technology Arrangements. Accounting for these types of arrangements will need to be added to the balance sheet.

Mr. Varholak opened the floor up to questions and a brief discussion ensued.

EXECUTIVE SESSION WITH INDEPENDENT AUDITORS - MANAGEMENT'S PERFORMANCE FY 2021 AUDITED FINANCIAL STATEMENTS

Mr. Varholak requested a motion to go into Executive Session at 1:07 p.m. to discuss Management's Performance FY 2021 Audited Financial Statements. Mr. Lisi moved to go into Executive Session and Mr. Hill seconded the motion.

Upon a voice vote, the "Ayes," "Nays" and "Abstentions" were as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--------------------|--------------------|---------------------------|
| Michael Angelini | None | None |
| Lawrence Davis | | |
| Darrell V. Hill | | |
| Peter W. Lisi | | |
| Mark Varholak | | |

At 1:07 p.m. all Board members and members of CohnReznick left the telephonic meeting to attend the Executive Session via a separate telephonic meeting room.

All Board members and members of CohnReznick returned to the telephonic meeting at 1:19 p.m. and the meeting reconvened.

Mr. Varholak thanked the CHEFA team and the members of CohnReznick for their successful work and collaboration during the audit process.

Mr. Varholak requested a motion to approve the FY 2021 Audited Financial Statements with the correction previously stated by Ms. Ferrucci. Mr. Angelini moved for approval and Mr. Lisi seconded the motion.

Upon a voice vote, the "Ayes," "Nays" and "Abstentions" were as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--------------------|--------------------|---------------------------|
| Michael Angelini | None | None |
| Lawrence Davis | | |
| Darrell V. Hill | | |
| Peter W. Lisi | | |
| Mark Varholak | | |

ADJOURNMENT

There being no further business, at 1:22 p.m., Mr. Lisi moved to adjourn the meeting and Mr. Hill seconded the motion.

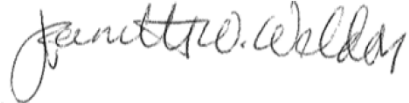
Upon a voice vote, the "Ayes," "Nays" and "Abstentions" were as follows:

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--------------------|--------------------|---------------------------|
| Michael Angelini | None | None |
| Lawrence Davis | | |
| Darrell V. Hill | | |
| Peter W. Lisi | | |
| Mark Varholak | | |

FINAL

Approved on: November 15, 2021

Respectfully submitted,

A handwritten signature in cursive script that reads "Jeanette W. Weldon". The signature is written in black ink and is positioned below the text "Respectfully submitted,".

Jeanette W. Weldon
Executive Director