

The Regional School District 13 Board of Education Educational Resources Committee met on Tuesday, December 11, 2018 at 6:00 PM in the Library at Coginchaug Regional High School, 135 Pickett Lane, Durham, Connecticut.

Committee members present: Mrs. Geraci (arrived at 6:20 PM), Mr. Moore and Mr. Roraback
Other Board members present: Mr. Augur
Administration present: Dr. Veronesi, Superintendent of Schools, Mrs. Neubig, Business Manager and Tippi Popp, Senior Accountant
Guests present: Vanessa Rossitto, Blum Shapiro

Blum Shapiro 2017-2018 Audit Report

Mrs. Neubig introduced Vanessa Rossitto from Blum Shapiro and explained that she has worked on the district's audit for seven years.

Vanessa Rossitto explained that they will also send an electronic copy of everything to the Board members. She began with the financial statements and explained that their opinion is on pages 1-3. They have issued a clean, unmodified opinion on the financial statements.

Ms. Rossitto urged the committee members to read the management's discussion and analysis, but she did not go through that. Pages 10 and 11 are the government-wide financial statements, where you can find capital assets, net of accumulated depreciation and all of the long-term debt.

The balance sheet starts on page 12 and the statement of revenues, expenditures and changes in fund balance starts on page 14. The general fund had an increase from the prior year of \$720,000, bringing the fund balance to \$2.127 million. The school cafeteria fund had a negative fund balance of \$21,000 last year and lost more this year, bringing the fund balance to a negative \$38,000.

Pages 16 and 17 are the fiduciary funds. There is \$8.5 million in the pension benefits fund which is an increase from the prior year of about \$353,000. There had been contributions of about \$500,000, benefits paid of about \$462,000 and investment income of \$322,000.

The pension plan starts on page 33 and the pension liability is a little over \$1 million. The total liability is \$9.6 million and assets set aside to fund that, as of June 30th, were \$8.5 million. That translates to 88 percent funded and is a very good position. Ms. Rossitto then discussed deferred inflows and outflows.

Ms. Rossitto explained that there had been talk about the state giving back a third of the pension liability to the municipalities and districts, but it has not happened yet. The total pension number now stands at \$51 million, so the district's liability would be between \$15 and \$20 million.

Moving to page 41, Ms. Rossitto explained the OPEB plan and noted that the district does not have a trust fund for this as there is for the pension. The liability for the OPEB plan is a little over \$5 million. Mr. Moore explained that this is the health benefit contribution for retirees and is for any potential retirees as well. Ms. Rossitto explained that the district would benefit from having a trust fund by receiving a bigger discount rate on the liability. Currently, the district's liability is discounted at 3.87 percent which is the 20-year municipal bond rate. If the discount rate were to increase by just 1 percent, the liability would decrease to \$4.582 million. Other clients who have trust funds and plans to fund the OPEB plan see discount rates between 6 and 7 percent. Mr. Moore asked what the yearly expense was for benefits and

Ms. Rossitto explained that they had been \$147,000. She suggested that the district talk to an actuary to develop a plan for this.

Ms. Rossitto wasn't sure if the state was talking about the districts taking a third of the OPEB plan as well. She also explained that retired teachers have the option to enroll in the state benefits plan and drop the district's plan. Ms. Rossitto reviewed that the OPEB obligation was changed according to new GASB standards.

For the final budget, the district has revenues of about \$37.138 million and actual was \$36.338 million. Expenditures are on pages 50 and 51 and came in well below budget at \$35.659 million, leaving a positive variance of \$1.478 million. Ms. Rossitto then went on to review several other fund balances.

The meeting was called to order at 6:20 PM as there was a quorum.

Pledge of Allegiance

The Pledge of Allegiance was recited.

Public Comment

None.

Approval of Agenda

Mr. Roraback made a motion, seconded by Mrs. Geraci, to approve the agenda, as presented.

In favor of approving the agenda, as presented: Mrs. Geraci, Mr. Moore and Mr. Roraback.

Approval of Minutes - October 10, 2018

Mr. Moore stated that Mr. Augur and Mr. Hicks were present at the October 10th meeting, but should not have been reported as Committee members.

Mrs. Geraci made a motion, seconded by Mr. Roraback, to approve the minutes of October 10, 2018, as amended.

In favor of approving the minutes of the October 10, 2018 meeting: Mrs. Geraci, Mr. Moore and Mr. Roraback.

Blum Shapiro 2017-2018 Audit Report

Ms. Rossitto went on to review that, because the district receives grants, they had to perform a state single audit but the district did not meet the threshold for the federal single audit. The various state grants were outlined as well as the expenditures for each. They tested the school security infrastructure grant and the Healthy Foods Initiative grant. Blum Shapiro issued a clean opinion of compliance on the grants.

They also did not find any deficiencies in controls, though they had some suggestions for improvement in controls that are included in the management letter. Ms. Rossitto reviewed that there are still some purchase orders that are being dated after the invoice. They recommend that a purchase order be created

for every purchase that is made. She also mentioned that Mrs. Neubig has provided some responses to the management letter.

Blum Shapiro also suggests that the district perform a fraud risk assessment. Ms. Rossitto also noted that there are still a couple of outstanding items from the information technology assessment that they did a couple of years back. Laptop hard drives are not encrypted, fire suppression equipment has not been implemented, there is no documented disaster recovery plan, no documented "e-discovery" policy and policies and manuals for IT need to be updated.

In closing, Ms. Rossitto felt that the audit went very well. Dr. Veronesi thanked Ms. Rossitto for recommending the new accounting software system (Infinite Visions). She also formally acknowledged the Business Office for the work that they've done in the implementation of the new system.

Mrs. Neubig reviewed that she has taken action over the past year on the purchase orders and after-the-fact purchase orders are ultimately approved if they are in the best interest of the students. The new system should help to streamline the purchase order system. Regarding the fraud risk assessment, Mrs. Neubig stated that they have done a bit of that in the office and there is a fraud tip line. They have also segregated duties for all of the different funds. In terms of the IT technology assessment, Mrs. Neubig had asked Mr. Pietrasko for an update and he stated that there will hopefully be some funds in the 2019-2020 budget to begin the laptop encryption. She is looking into locations of the fire suppression equipment. The documented disaster recovery and e-discovery policies are being worked on as are policy manuals.

Mr. Moore thanked both Ms. Rossitto and Mrs. Neubig for their work. He felt that the committee members would like to read the report before recommending it to the full Board. Mrs. Neubig thanked Tippi Popp for all of her valuable work.

Mrs. Neubig also had prepared some explanations for the variances that she will share with the committee members. Dr. Veronesi asked her to send an electronic copy to the full Board.

Capital Needs/Bonding Recommendations and Timeline

Mrs. Neubig reviewed that Board has a great opportunity in front of them to expand on what can be done with some bonding money. Any percentages talked about are in a vacuum and not affected by any other changes to the budget. Mrs. Neubig worked off of various assumptions. If Lyman is closed, the operating cost avoidance would begin in 2021-2022 and would be about \$925,000. Existing debt service would remain as close to level-funding as possible. Fund balance carryover is 4.1 percent of the 2018-2019 budget and was due to areas of savings (mostly salaries and benefits).

The capital cost avoidance for Lyman is based on the capital plan. If all improvements were made in one budget year, it would be \$7 million or a 19.4 percent increase. In 2023, another \$5.5 million or 15 percent would be needed. Bonding is a way to spread that out over the next 20 years and not significantly affect the operating budget.

Mrs. Neubig reviewed the various building options and explained the amount of money that would be needed for each. The cost to district for Option A is \$2.15 million, status quo is zero for construction costs and Option D would be \$5.74 million. Total funding needed for critical systems and construction is \$8 million for Option A, \$8.5 million for status quo and \$11 million for Option D. The total referendum would be higher because it cannot include any state reimbursement.

Brewster's total capital needs are \$5.4 million, with the critical systems at \$847,000 though there are a few outstanding questions. At the end of 2023, an additional \$1.35 million will be needed for critical systems as well.

Memorial's total capital needs are \$5.3 million, with the critical systems at \$2.8 million, also with some outstanding questions. Lyman's total capital needs are \$4.03 million, with the critical systems at \$2.39 million. Strong School's critical systems come due in 2023 and Coginchaug has \$2.1 million out of \$3.5 million coming due in 2023. Central Office total capital is \$1.05 million and includes connecting to the water and natural gas lines, resurface Pickett Lane and finishing the work on the culvert. There are also some ADA issues in the auditorium.

Mrs. Neubig reviewed that the existing debt goes down to zero in 2025-2026. She then showed the combined debt at several different levels. The \$6.9 million level was identified as the most that could be borrowed with negligible budget impact. Another option is \$13 million and then \$17 million to provide a frame of reference.

The existing debt is \$1.293 million. If the district were to level-fund, it could be done at \$1.594 million and that would have a zero budget impact. Mrs. Neubig also noted that the Lyman cost avoidance would be less in the first year due to one-time costs. The cost avoidance then equates to about a 2.5 percent decrease in the budget.

If the district were to bond \$6.9 million, Option A could be completed and 46 percent of the critical systems could be addressed. If Option C was chosen, 54 percent of the critical systems could be addressed. If Option D was chosen, 11 percent of the critical systems could be addressed. This would be level-funding to the debt service and would not increase the yearly budget, but would extend the debt out another 14 years. Lyman capital avoidance would begin in 2019-2020.

If the district were to bond \$13 million, Option A could be completed and 100 percent of the critical systems could be addressed as well as 5 percent of the remaining. If Option C was chosen, 100 percent of the critical systems could be addressed and 2 percent of the remaining. If Option D was chosen, 70 percent of the critical systems could be addressed. This would increase the debt service by .66 percent in 2020, 1.15 in 2021 and then decrease as the existing debt falls off.

If the district were to bond \$17 million, Option A could be completed and 100 percent of the critical systems could be addressed as well as 46 percent of the remaining. If Option C was chosen, 100 percent of the critical systems could be addressed and 44 percent of the remaining. If Option D was chosen, 100 percent of the critical systems could be addressed as well as 10 percent of the remaining. This would increase the debt service by 1.13 percent and 1.16 in 2021, with the decrease of 1.17 as the debt falls off.

Mrs. Neubig explained that these numbers are all assuming that the total bond amounts are taken all at once, but they, of course, can be feathered in. She will share her presentation with the Board members.

Mrs. Geraci asked if the question could be phrased for the referendum to reflect what the tax effect would be. Dr. Veronesi wasn't sure that that could be noted in the question and noted that a lot of communication would need to happen to help the public understand the vote. Mrs. Neubig also explained that she had asked representatives from the two towns to help her develop what the effect on the mill rate would be.

Public Comment

None.

Adjournment

Mrs. Geraci made a motion, seconded by Mr. Roraback, to adjourn the meeting.

In favor of adjourning the meeting: Mrs. Geraci, Mr. Moore and Mr. Roraback.

The meeting was adjourned at 6:55 PM.

Respectfully submitted,

Debi Waz

Debi Waz
Alwaz First