Board of Education **Regional School District 13** **December 9, 2020**

Educational Resources Committee

The Regional School District 13 Board of Education Educational Resources Committee met in regular session on Wednesday, December 9, 2020 at 6:00 PM via Zoom.

Committee members present: Mrs. Geraci, Mr. Moore and Mr. Yamartino
Committee members absent: Dr. Friedrich and Mr. Roraback
Administration present: Dr. Serino, Superintendent of Schools and Mrs. Neubig, Director of Finance
Guests present: Ms. Zoll, BlumShapiro; Mr. Flint, BlumShapiro and Mr. Nichols, Morgan Stanley

Mr. Moore called the meeting to order at 6:00 PM.

Pledge of Allegiance

The Pledge of Allegiance was recited.

Public Comment

None.

Approval of Agenda

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

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

Approval of Minutes - July 15, 2020 and July 28, 2020

Mr. Yamartino made a motion, seconded by Mr. Moore, to approve the minutes of the July 15, 2020 and July 28, 2020 meetings, as presented.

In favor of approving the minutes of the July 15, 2020 and July 28, 2020 meetings, as presented: Mr. Moore and Mr. Yamartino, with Mrs. Geraci abstaining. Motion carried.

Audit Report - BlumShapiro

Mrs. Neubig introduced Leslie Zoll and David Flint, from BlumShapiro. The field workers were out in the last week of September into October and the final audit documentation was provided via the secure document portal. Mrs. Neubig thanked Ms. Popp and the rest of the Business Office staff as well as all of the administrators and their assistants for all of their support.

Ms. Zoll explained that they will present the audit for the FY ending June 30, 2020. She explained that it is the district's responsibility to prepare financial statements in accordance with GAP and design and maintain internal controls so that those statements are free from material misstatement. The auditors' responsibilities include auditing those financial statements and forming opinions. They look at government activities, each major fund and the aggregate remaining funds and then also perform a state single audit under the Connecticut State Single Audit Act.

Ms. Zoll went on to state that the audit does have a clean opinion, meaning that the financial statements were presented correctly and no significant deficiencies or material weaknesses were found. Ms. Zoll then reviewed some of the financial statement highlights and stated that the net position as of 6/30/20 was $25.6 million, which is a decrease of $388,000 from last year. She showed Exhibit 3 which is the major funds that they look at, including the General fund which had a balance of $2.4 million as of 6/30/20, which is a decrease of $509,000. The Cafeteria fund has a negative $119,000 which is down $75,000 from last year. The Capital Reserve fund is at $767,000, up $358.00 which is attributable from money that was transferred from the General fund. The smaller funds went up $24,000 from last year, with a total fund balance of $204,000.

Ms. Zoll then reviewed that the net position in the Pension fund is $9.4 million and is up $196,000 for the fiscal year.

Dave Flint explained that state single audit and noted that the district expended just shy of $440,000 in state grants last year. Expenditures on federal grants were a little over $700,000, but the threshold for a federal single audit is $750,000. He noted that that may be necessary in the future if more federal money is granted. They tested three different grants this year, the Connecticut Youth Employment Program, Adult Education and the Healthy Foods Initiative and are pleased to report that a clean opinion was given for the state single audit with no material weaknesses or significant deficiencies. There were, in fact, no findings at all when auditing these three programs.

Moving on the Management Advisory Letter, Mr. Flint explained that there were no comments other than the Information Technology Assessment comments that have been present for the last couple of years. The district has been crossing off those recommendations over the last couple of years, with just a few remaining issues: not all laptop hard drives are encrypted, there is no documented disaster recovery plan, some of the Windows servers are approaching the end of their support life and should be upgraded, there is no documented Ediscovery policy and information technology policies and manuals need to be updated.

Mrs. Neubig explained that the laptop encryption has been done in stages, with 35 to 50 percent being encrypted so far. The Windows servers will happen and the other issues are really just documents and policies. They will work to put those into formal procedures and policies. She explained that they are working on checking all of the items off as they go along, but they have increased their passwords to make them more restrictive.

Mr. Flint explained that there are required auditor communications and this includes a letter that highlights some high-level points, including accounting policies which have not changed. It also includes accounting estimates, the most sensitive of those being management's estimate of the net pension liability as well as other post-employment benefit liability. The other significant estimate is the useful life of the government activities capital assets which is used in computing depreciation. The auditors have determined that those estimates are reasonable.

Mr. Flint proudly reported that they encountered no significant difficulties in dealing with management in the performance of the audit. No material misstatements were identified and there were no disagreements with management. Mr. Flint also reported that there were no consultations made with other accountants.

Moving on to upcoming GASB standards, Ms. Zoll explained that one new standard that will impact the district next year is GASB 84 on Fiduciary Activities. That will mean that agency funds will go away and those funds will be divided into different areas of the financial statements. In 2022, GASB 87 on Leases will take effect. They will look at all of the district's leases and assess whether or not they should be on the balance sheet. Statement 89 means that interest costs on construction will no longer be able to be capitalized. Statement 97 is about deferred compensation plans and offers new guidance on how to report those plans.

Mr. Yamartino asked what the replacement will be for LIBOR and Ms. Zoll did not know the specific name, but felt it would not be a significant change. He also asked if the accounting structure will allow for the leases to be readily audited. Ms. Zoll stated that they have talked to Mrs. Neubig about doing an inventory of leases. Mrs. Neubig stated that they are very easily identifiable and have been an end-of-year audit entry. Mr. Yamartino also asked if the change in reporting the agency funds was an easy change and Ms. Zoll did not feel it would be too much of an issue and will be more about the auditor analyzing the funds. Mr. Yamartino asked if they would be easily able to do a year-over-year comparison once these changes are made and Ms. Zoll noted that there will be an income statement just as there is now. Mrs. Neubig added that each fund has its own fund number and the detail can be easily provided.

Mr. Moore thanked Ms. Zoll and Mr. Flint for their presentation and felt that the audit was fairly easy to understand and the note were helpful. Mrs. Geraci thanked Mrs. Neubig and her team as well as the auditors. Dr. Serino mentioned that there is a tremendous amount of pride in the district's Finance Department and it shows in every single area. She acknowledged Mrs. Neubig's leadership and her partnership with Tippy Popp. Mr. Yamartino added that the level of professionalism is outstanding and the ethical layer is unquestionable.

Mr. Moore asked if the audit is ready to present to the full board tonight and Mrs. Neubig stated that she will present some details and, if the board is ready, they can vote to accept the report.

Mr. Yamartino asked about the contract with BlumShapiro and Mrs. Neubig explained that this was the first year of a three-year renewal.

Pension Investment - Morgan Stanley

Mrs. Neubig introduced Kevin Nichols from Morgan Stanley and began with market perspective.

Mr. Nichols reviewed that there has been a lot of volatility, but the recovery has been a lot stronger than most people would have imagined. Stocks are extremely more attractive at this point, mostly due to record low rates on the fixed income side of things and interest rates increasing over the coming years. Treasury rates have increased over the past two to three months.

Kevin Nichols then reviewed the different rates today and where they were in the past. Everything sort of flattened out at the beginning of 2019 and then rates started to come up after that. Everything was below 1 percent, including the 30-year treasury, back in March but the longer-term treasuries have trended up. Increasing interest rates mean decreasing bond prices. Mr. Nichols continued to review the current indicators and added that the US has recovered much faster than the rest of the world. He added that they have always stayed high quality with the pension portfolio to achieve lower volatility and have enough cash flow to pay pension payments.

Mr. Nichols then moved on to factors and noted that small cap has underperformed large cap for at least the last three years. Growth vs. value is a big outlier and growth has outperformed value for the last 10 years. He noted that they are worried about high-growth companies and would now favor value companies. Lower-quality companies have done very well with the exception of the March-April time period. They favor brand name, higher-quality companies with good management teams.

Mr. Moore asked where pharmaceutical companies would fall and Mr. Nichols felt that a lot of them fall into the value category. They grow pretty fast, but have had lower valuations over the past few years. He felt that Johnson & Johnson would be a value company, but a biotech company would be more geared towards growth.

Moving on to the performance report, Kevin Nichols reviewed what's happened over the past few years. The account started with $9.2 million in 2020, net withdrawals of $164,000, $225,000 was received and stock went up by almost $66,000, for a net after-fee return of 3.24 percent. Mr. Nichols explained that that was in the top 28 percent of all public funds nationwide. Looking at the last three years, the fund is actually in the top third of public funds nationwide. As of the last night's close, the fund is up 13.23 percent, with a total pension value of $10.78 million. He reiterated that it has been a very strong recovery and a very strong fiscal year.

Mr. Nichols then reviewed the total value vs. net invested capital and explained that it has been trending up. The pension fund is now at its highest value ever. He then went on to review the specific accounts. Bond rates of return for the last fiscal year kept pace with John Hancock and outpaced the equity managers. Mid-size companies and emerging markets are at better and attractive valuations than large companies.

They propose to change the portfolio in a few ways, focusing more on companies that are growing their earnings. They would like to switch them to a manager called Boston Large Cap Value. They would also like to switch from Congress Mid Cap Growth to Nuance Mid Cap Value. This would help to reduce risk by going to value companies. They would also propose to remove Boyd Watterson Intermediate Fixed Income and Western Asset Management because they are both intermediate maturity, fixed income managers. They would like to move to maturities that are less than five years and switch managers. These changes would help to insulate the interest rate risk and would keep a similar yield. It would also provide a certain amount of the portfolio to be used for pension payments or be reinvested in higher yields.

Mrs. Neubig asked if the committee would like to vote on the change in investment managers or bring it to the full board and Mr. Moore stated that they could add it to New Business at the full board meeting. Mr. Yamartino stated that he had many questions and Mr. Nichols agreed to come back to another meeting. It was agreed to have a short meeting at 6:30 next Wednesday.

Public Comment

None.

Adjournment

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

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

The meeting was adjourned at 6:58 PM.

Respectfully submitted,

Debi Waz

Debi Waz
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