

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Audit-Finance/Human Resource Committee Meeting
September 17, 2013

The Audit-Finance/Human Resources Committee of the State of Connecticut Higher Education Supplemental Loan Authority met at 10:30 a.m. on Tuesday, September 17, 2013.

The meeting was called to order at 10:38 a.m. by Steve Kitowitz, Chair of the Audit-Finance/Human Resource Committee. Those present and absent were as follows:

Present: Jeffrey A. Asher
Steven Kitowicz (Rep. for Secretary Benjamin B. Barnes)
Julie B. Savino

Absent: Barbara Rubin
Paul Mutone

Also Present: Paula L. Herman, General Counsel, CHEFA
Joshua Hurlock, Portfolio and Marketing Associate, CHESLA
JoAnne Mackewicz, Controller, CHEFA
Kathleen Owens, Administrative Assistant, CHEFA
Debra M. Pinney, Manager of Administrative Services, CHEFA
Norberto Ramirez, Compliance Internal Auditor, CHEFA
Samuel Rush, Deputy Director, CHESLA
Jeanette Weldon, Executive Director, CHESLA

Guests: Frank J. Miceli, Audit Partner, Saslow, Lufkin & Buggy, LLP
William L. Pomponi, Senior Audit Manager, Saslow, Lufkin & Buggy, LLP
Tim Webb, Vice President, FirstSouthWest

Mr. Kitowitz requested a motion for approval of the minutes of June 18, 2013 meeting. Ms. Savino moved for approval of the minutes which was seconded by Mr. Asher.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Jeffrey Asher Steven Kitowicz Julie Savino	None	None

Presentation of FY 2013 Draft Audited Financial Statements

Ms. Weldon reported that the Audited Financial Statements this year are consolidated. The CHEFA statements include CHESLA as a subsidiary. Because this is the first time having a consolidated statement, there is no comparable prior period to be displayed. In the Management’s Discussion and Analysis document, a three-year comparison on CHEFA and CHESLA was provided. Ms. Weldon stated that a noteworthy change in the statements, which pertains to CHESLA and does not affect CHEFA, is that GASB 65 was adopted, which changes the treatment of bond issuance costs and deferred revenues.

There is a three-year timeline in the MD&A on the Statement of Revenue and Expenses reflecting all three funds, the operating fund, and two bond funds. The larger source of revenue is interest income on loans and that amount has been fairly consistent at \$7.9 million over the past three years. In the operating account alone, the larger source of revenue is administrative fees. The largest expense item is interest expense on bonds. The other two line items are general and administrative expenses, and salaries and related expenses. For salary and related expenses, one change noted in the past FY 2011 and 2012 reported that line item as salary only. Therefore related items, health benefits or pensions were not included on that line. This is not directly comparable; the salary only amount for FY 2013 is approximately \$140,000.

Ms. Weldon reported that the general and administrative expenses are incorporated into all three funds and not solely the operating account. The bond fund includes the Firstmark fees, collection agency and other trustee fees. The operating account includes the outsource service charges paid to CHEFA and other service charges. Historically, in 2011 and 2012, that included the General Counsel which was outsourced, the fee to CCIC, and the outside accountants.

In FY 2013, when CHESLA transitioned to CHEFA providing some of these services, there was some overlap with outsourced services as part of the transition. The CHEFA overhead charge, excluding rent, was approximately \$110,000. Overall, this totals approximately \$232,000 in overhead service fees which involves CHEFA and the overlaps that occurred in 2013 and that compares to FY 2012 when it was \$216,000. For FY 2014, approximately \$70,000 of savings is expected to be achieved relative to FY 2012 levels for these services.

On the Balance Sheet, the largest asset is loans receivable which has remained at approximately \$120 million for the last three years. This is a function of pay-downs and new loans offsetting each other.

Ms. Weldon added that for investments, CHESLA is primarily investing in STIF and guaranteed investment contracts.

Ms. Weldon introduced Mr. Frank Miceli, and Mr. William Pomponi, of Saslow Lufkin & Buggy LLP, who conducted the audit, and Mr. Tim Webb, FirstSouth West, financial advisor.

Ms. Weldon acknowledged the efforts of Ms. JoAnne Mackewicz and the Accounting Staff who worked very hard to get the Accounting system set up and implemented for CHESLA, building it on a bond series by bond series basis. She also stated, in addition, Mr. Samuel Rush, provided some very useful information from an historical perspective as well as additional data. Ms. Weldon stated that the Auditors from Saslow Lufkin & Buggy were of great assistance in offering helpful feedback.

Mr. Miceli stated that he would also like to thank Ms. Mackewicz. Mr. Miceli also thanked Ms. Weldon, and Mr. Rush for the assistance they provided on the audit.

Mr. Miceli presented the audited financials to the Board and stated that the auditors will remain available throughout the year to be of assistance to Management for any accounting matters or any technical questions that may arise.

Mr. Miceli pointed out that one area of audit emphasis is getting an understanding of internal controls and walking some transactions through the cycle. Their major focus was on the balance sheet and income statement line items.

Mr. Miceli reviewed the Auditor's Required Communications, noting that the Auditors consider internal controls but they do not conduct a full audit of internal controls when conducting the financial statement audit.

Mr. Miceli reported that there were no disagreements with Management on any matters; there were no unadjusted audit differences, no material audit adjustments other than post-close adjustments made in conjunction with management and were no material weaknesses that were identified.

Mr. Miceli reported that GASB 65 resulted in an approximately \$379,000 net position increase for CHESLA.

Under GASB 65 bond issuance costs, except bond insurance, are expensed in the period in which the bonds are issued. The other item impacted by GASB 65 is loan origination fees both on the income side.

Mr. Miceli stated that the MD&A is one of the better places to view the traditional historical comparative on the financial statements.

Ms. Savino moved to go into Executive Session at 11:10 a.m. Mr. Asher seconded her motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Jeffrey Asher Steven Kitowicz Julie Savino	None	None

The Committee reconvened at 11:21 a.m.

There were no votes taken during Executive Session

Mr. Asher made a motion to accept the audit as presented by the auditors. Ms. Savino seconded his motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Jeffrey Asher Steven Kitowicz Julie Savino	None	None

The meeting adjourned at 11:22 a.m.

Respectfully submitted,

Steven Kitowicz, Committee Chair