AUDIT COMMITTEE MEETING
MINUTES OF
OCTOBER 2, 2018

BoE: Sonia Mesika, Dan Heintz, Glenn Niles
BCSD: Valerie Henning-Piedmonte, Victor Karlsson, Michelle Gosh, Denise Harrington-Cohen, Susan Morgan
Community Members: Todd Dolphin
Presenters: Alan Kassay, Partner - PKF O'Connor, Davies, LLP, Eric Schmid & Marco DiRusso - Tobin & Company, LLP

Meeting began at 8:02am.

Victor began the meeting by providing an overview of the Audit Committee's function in relation to the Board of Education. He added that the roles and responsibilities are outlined in the Audit Committee Charter, which is reviewed by the committee and recommended to the Board for re-adoption each year.

The meeting minutes of the May 29, 2018 Audit Committee meeting were distributed for reference, and Alan began to present the financial statements focusing first on the Statement of Net Position, which presents a long range outlook of the District's financial standing. Victor explained to the committee that there are essentially two types of financial statements for local governments: 1) fund-level statements, which focus on the short term outlook similar to the annual budget process, and 2) government-wide statements, which compare to that of a corporation. He added that the intent of the government-wide statements was to put local governments on a level playing field with other corporations that issue debt. Alan stated that, in reality, bond rating agencies rarely evaluate the government-wide financial statements when considering a local governments' bond rating. Instead, the fund-level statements are those which we primarily focus on when considering a local government's financial health.

Alan described a significant change in accounting principle resulting from the Governmental Accounting Standards Board Statement (GASB) Number 75. This principle changes the accounting of long-term liabilities for future health insurance obligations of both active and retired employees. The result of this change was a decrease in net position of almost $167M. Victor suggested that the GASB principles were inconsistent in that long-term liabilities are accounted for at net present value, whereas the District's assets, such as land and buildings, are accounted for at historical cost.

Alan then reviewed the Statement of Net Position and Schedule of Revenues, Expenditures and Changes in Fund Balance, noting the positive revenue and expenditure variances. He explained that revenues are typically budgeted conservatively because outside of the tax levy and state aid, all other revenues vary from year-to-year and are mostly unpredictable. He went on to show that the net change in fund balance for the year decreased by $648K as a result of a one-time debt paydown.

He then reviewed the total fund balance and reserves. Sonia asked if there were industry standard benchmarks for the amount of unassigned fund balance, to which Alan explained that General Municipal Law restricts the amount of unassigned fund balance that a district can carry. Alan noted that the District has 4% of unassigned fund balance, the maximum amount allowed by law, and stressed the importance of maintaining the maximum amount to protect the District from unanticipated expenditures and/or revenue shortfalls.

Alan reviewed the Bond Anticipation Notes (BANs) outstanding and Victor reinforced the importance of the District's commitment to the transportation fleet replacement plan, which is accommodated through the issuances of BANs. Victor noted that the buses purchased five years ago will be paid off in-full this year, which, board and community permitting, would be replaced by a new borrowing. This approach provides for minimal impact on the tax levy, since new debt will be replacing old debt, keeping the payments level in future years.

Victor also stressed the importance of planning for long-term debt (bonds) extinguishment and long range capital planning. He reminded the committee that the current borrowing for the $39M capital improvement project is issued in short-term BANs, but will be converted to bonds in 2020-21 as current bonds are extinguished in 2019-20. Again, this minimizes the impact on the tax levy, since new debt will be replacing old debt. Victor pointed out that there would be another significant amount of debt expiring in the 2026-27 year, and that the District should begin planning for the replacement of that debt. Although it may seem very far off in the future, it takes quite a bit of time to develop a comprehensive facilities plan, attain voter approval, State Education Department approval, and for the work to actually be completed.

Valerie asked whether or not these bonds could be refinanced, to which Alan informed the committee of a new tax law that now prohibits advance refundings of bonds in most situations. He also noted the recent rise in interest rates, which would limit the feasibility of refinancing. Victor reminded the committee that bonds were refunded during the 2015-16 school year, saving the District $225K over the remaining life of the bonds.

Alan commended Susan and Denise for their superb record-keeping and organization. He also acknowledged their assistance in providing documentation in a timely manner during the audit fieldwork.

Marco reviewed the Risk Assessment update, which evaluates the risk associated with 11 operational areas tested. He first reviewed 14 notable improvements to internal controls and procedures within the past year, and applauded the District's segregation of payroll and human resources responsibilities. Victor noted that a software conversion provided an opportunity to implement this recommendation. He added that the change has been challenging, but both departments are working through it together. Eric added that he cannot recall another district which actually implemented this change, despite their recommendation.

Marco then reviewed areas for improvement, most of which were identified as "best practices" and may be implemented at the District's discretion. The risk assessment scores for the 11 operational areas were reviewed, and it was recommended that Buildings and Grounds be selected as the next focus area audit.

Marco suggested some of the areas of emphasis being:

- Work orders and efficiency
- Staffing analysis
- Tracking and safeguarding inventory and equipment

Victor asked whether the staffing analysis would take into consideration land acreage, in addition to building square footage of building, when performing their staffing analysis. Eric affirmed that and added that they would also look at similar districts, in terms of acreage and square footage (not enrollment), for comparison. Marco added that the staff and community's expectations often determine the staffing counts and level of service provided. Valerie suggested that they interview a focus group of high school students to gain their insight as well.

Glenn supported the focus area recommendation of the internal auditors, acknowledging the retirement of the current Director of Facilities next fall. The Focus Area report can act as a roadmap for his successor. Sonia agreed, and suggested that future consideration be given to the role of the District Registrar function at the conclusion of the Residency Verification program, possibly in 2019-20.

Victor informed the committee that the Office of the State Comptroller (OSC) has notified the District that they will be performing an audit of the 2017-18 year and 2018-19 year through their final day of fieldwork. OSC has not yet provided a timeline for their fieldwork, but it may require the Audit Committee to reconvene when they issue their report. The spring meeting is scheduled for Thursday, May 23, 2019 at 8am.

Meeting ended 9:27am.

Respectfully submitted,

Susan Morgan