

Red Clay Community Financial Review Committee
Monday, September 13, 2010

Meeting Minutes:

The Community Financial Review Committee met on Monday, September 13, 2010 at 6:30 PM in the Brandywine Springs School Teachers Lounge.

Members in Attendance:

Paul Lloyd – Committee Chair
Jill Floore– Red Clay Chief Financial Officer
Kelly Krapf – Teachers Union Representative
Jane Rattenni – Community Member
Kim Williams – Board of Education

Others in Attendance

Jack Buckley – Board of Education
Merv Daugherty – Red Clay Superintendent
Frank DeFroda - Barbacane & Thornton
William Doolittle – Community Member
Eric Loftus – Red Clay Financial Analyst

I. Introduction and Opening Comments:

Mr. Lloyd welcomed everyone to the meeting. Mr. Miller and Ms. Thompson are unable to attend tonight's meeting. Mr. DeFroda is in attendance to answer questions regarding the audit Barbacane & Thornton performed for Red Clay.

The Committee reviewed the minutes of the May meeting. Ms. Rattenni made the motion to accept the minutes as written and Ms. Williams seconded.

II. Old Business

Audit

The School Board had suggested at the March BOE meeting that the committee consider recommending or not recommending continuing with the audit program. Mr. Buckley explained that the question would be if the audit is helpful to this committee. Ms. Williams asked what the cost of the audit would be. Mr. DeFroda said the RFP was written for \$61,000 the first year plus extensions with a 3% increase each year up to 5 years. Ms. Floore explained the policies with a bid and extensions. Mr. Lloyd asked what would the time frame be to continue the audit now that the first one has been completed. Mr. Defroda stated that it would depend on how soon they could get started as Dover/DOE has many pieces of the puzzle; possibly a 2-3 month time frame. The school district works on a cash basis of accounting but for GAAP purposes you must convert everything to an accrual basis, and it takes a great deal of journal entry transition to complete the audit. Ms. Floore stated the audit just completed was done was on Fiscal Year 2008. At this point, continuing would have to consider 2009 and 2010 since we

have just completed that year. Mr. Buckley asked would it make any sense to just now do 2010 or do you need 2009 in order to do 2010? Mr. Defroda explained that you would want to look at Fiscal Year 2009 cash basis to insure that the reserves and the controls are in place. The only thing they would do differently for 2010, they would look at the accruals. They would want to make a complete report as they could not do that in 2008 without opening numbers. Mr. Lloyd reiterated the 2009 was almost unnecessary. Mr. Defroda would recommend skipping 2009, but recommended 2010 and then 2011 as it is a new financial system. Mr. Buckley asked if that was still within the original contract. Mr. Defroda agreed that it wouldn't be an additional cost within the contract. Ms. Rattenni asked if the public perception would matter with skipping 2009. Mr. Defroda felt that it would be a waste of tax money to look over 2009 other than start and finish. Mrs. Rattenni feels that we've spent so much money to get where we are and she would not like to see that dropped only to be started in later years. She would recommend continuing with the next step. Ms. Floore felt that we worked well with Mr. Defroda's group and has no problem with the audit going forward. Mr. Lloyd also pointed out the question if the actual audit is useful to this committee? He would recommend modifying it slightly to weed out the items that were not useful to Red Clay. Ms. Rattenni asked if there was an industry standard for audits. Mr. Defroda stated that in Pennsylvania, each school has their own stand alone audit. Ms. Floore pointed out that as an entity, we are audited as part of the state not as Red Clay, each year. Barbacane's audit, however, is the only audit we are involved with that was contracted solely by the district. Mr. Buckley asked what are the benefits of going forward even in a modified form. Mr. Defroda explained that we could issue only fund level statements that may be more meaningful eliminating fixed assets as we have no control over those. He suggested the benefit is having an independent company coming in and making sure all of the procedures the BOE and the state have put into place are being followed by management. They will look at the year-end cash balance and their audit would verify that information. Mr. Lloyd explained his concern that the budget is set up as a check up to expenditures and revenue but doesn't show the total net worth including reserves. Ms. Floore stated that there is no side account of investments or cash; it is all listed on a cash basis in the budget. The only assets are buildings and property.

Mr. Lloyd asked if at the time this audit was voted for what were the reasons. Mr. Buckley stated we were just coming off a time when we were questioning our procedures. The question now is if the audit is still of value. Mr. Defroda also added that if we were going to referendum in the next few years, an audit of this type would help in the decision making of the public. Ms Floore also noted that Mr. Wagner, state auditor, requested that each school district have this done. It wasn't done at that time as the state could not fund it. We decided to do it on our own. Ms. Rattenni asked when this was done before. It was never done before.

Mr. Buckley asked how sound was the new system working out. Ms. Floore stated that this month there are no reports as the new system has to be tweaked to make sure that expenditures are listed in the true places. Mr. Doolittle stated that he has been to many other state meetings and he's hearing the same information from those districts as well. Ms. Floore stated that she will have a report but it is the beginning of the year. She has

confidence in the bottom line but not where the expenditure are listed. For Example, Parkway Positive School. The bid went out and the Board approved. If the purchase order had gone through, it would have charged directly to the Assistant Superintendent's budget. We caught it in time and placed it where it belongs within the system. Mr. Buckley asked if people are having trouble learning the coding or is the coding not coordinating with prior year. Ms. Floore stated both, but that the fiscal year not crossing has created more of an issue. Mr. Loftus reiterated that our focus was getting everyone logging into the system and working with it. They are now getting to how the process is working and now we are learning how to pull that information back out. Ms. Rattenni stated that we have a complicated budget and having this audit is beneficial for our own information and community transparency. She would recommend that we go forward with another audit of the district. She realizes the expense is an issue, but it is worth the cost. Ms. Williams agrees with Ms. Rattenni. Mr. Buckley stated that if it reassures the community, it is worth it at this time. Mr. Doolittle explained that he believes a cash audit makes more sense. Dr. Daugherty raised the issue of workload for staff, especially given the timing and struggles of the conversion.

Mr. Lloyd called for a motion to vote on whether we want to recommendation to the Board. Ms. Rattenni made a motion that we do an audit every 3-5 years. Mr. Lloyd asked if we want an audit for this year. Ms. Rattenni would support doing an all funds audit every 3-5 years as the Board deems necessary giving flexibility all around without locking into a set year. Ms Krapf seconded and all agreed. Mr. Lloyd asked how the recommendation gets transmitted to the Board. Mr. Buckley would add it as a read in. Dr. Daugherty offered to make it a read in on this coming Wednesday night's meeting. Mr. Buckley stated that if the Board was to take a vote, they would need to make a date. Mr. Defroda stated that the decision would have to be made early rather than late so his company can work with our office over the next year to get the information. If you decided 2011, his company could come in sporadically through the year gathering information as needed. Mr. Buckley asked if Ms. Floore could work with Mr. Defroda on timelines to present to the Board.

Policy

School Board Policy 6001 was distributed in the packet. Looking at Page 2 Mr. Lloyd incorporated verbatim from our website the CRFC role and mission as well as the role of the chair reporting to the school Board. Mr. Buckley stated that in the original policy, our role was vague. Mr. Buckley pointed out on the first page was an addition by himself to make the policy match our purpose. Ms. Williams asked if the community viewed things on the website could they make comments. Mr. Buckley stated that they could email a Board member. Mr. Lloyd separated the information on the CFRC into its own heading and added a line regarding expenditures at the bottom. Ms. Rattenni would recommend not being so specific about posting on the website. She would provide regular opportunities available to the public, but not be so specific. In the future, if technology improves you wouldn't be locked into a policy with the older technology. Ms. Williams pointed out that it states we meet monthly but we did not meet this year monthly and Ms. Floore agreed that we never have as there is usually a month off in the summer. Mr. Buckley wanted to move this document with our changes to the policy

committee and possibly back here before the Board. Ms. Rattenni asked to take the part about the chair of the committee responsibilities out. This should not be in the Board's policy. It is listed in our own policy but isn't needed here again. Mr. Lloyd asked the group to look at the purchasing portion. Should there be a dollar limit on what the superintendent should be allowed to approve. Ms. Floore stated that from the business office perspective, the policy exists at the state level that all purchasing must follow state guidelines regarding contracts, etc. The state has a prescribed process for purchasing. The current practice with board documentation exceeds what is required by state law. Everything that has gone through the bid process is listed. In our district, it has been the practice for bid awards to be brought to the school Board. If we feel it is necessary to act due to timing of school year, etc., it may be brought as an information item. If it's over \$50,000 we bring it to the Board as it went through the bid process. Ms. Williams stated that in the case of Teach for America that came to the Board as a surprise because it was a sole source contract. Mr. Doolittle asked if stated that following "state procedures" would make a good policy, why put a dollar amount on it here. It was decided to change the wording of the policy regarding sole source agreements stating that the Superintendent would continue to have authority to issue contracts and the Board would be notified of any sole source agreement over \$50,000 prior to the awarding of the contract.

Mr. Lloyd asked for a motion to recommend the policy as edited to the Board. Ms. Rattenni seconded and all agreed.

III. New Business

Financial Reports

Ms. Floore spoke about the fiscal year 2010 close out. The last monthly report for fiscal year 2010 was distributed in the packet. It feeds directly into the preliminary budget. The starting balances on Pages 12 & 13 of the preliminary budget are a direct result of the monthly report. Revenues were 99.99% of estimate. Much of this comes from our formula which includes taxes and expenditures. Our expenditures were 93.6 % but that was due to letting schools carry over some of their budget. Our starting balance was \$19.7 million.

Ms. Rattenni asked about 2011. Ms. Floore stated that our revenues will go up, due to our referendum, and we are estimating \$85 million in local funds. The state cut funding but replaced it with federal funds. These are one time federal funds. We were able to support the teachers with the carry forward funding from state fiscal stabilization funds.

In revenues, we see an increase as the state is funding back the 2.5% in salaries that were cut last year. On the expenditure side we are see the same \$2.7 million as we are funding back for those salaries. Our balance is now \$20.6 million. In part it is real in terms of cash, but we have many purchase orders from last year which closed. If it wasn't for the new system, those purchase orders would have carried over. We have to pay for those purchases out of current funds. Mr. Buckley asked if at the end of 2011, will we see this again. Ms. Floore stated no, this is a one time transition process.

As we go through the detail on the revenues, there will be changes for 2011. The new reports do not have IBUs or object codes. Now we have operating units. We will walk through the report at the next month's meeting. We are in pilot mode, still readjusting. Needs based funding is a critical component. The way we count students is changing. Right now we are walking two lines at the same time. We see how they used to count children and how they will in the future.

We allowed the schools 15% carryover of their budget. Some schools chose not to. Ms. Williams assumes the negatives listed reads to that. Forest oak reads down 2% but that means that they have less carry over than last year. Conrad is up as they are fully funded as a high school. In the past they were not. They also have an allocation for start up. This is the last year for the start up funds.

The district was successful in securing a sublease for two floors of Linden Park. The business office, curriculum and special services are leaving in the first wave resulting in a savings of over \$600,000 through 2013. The lease cost will not show as much in savings this year as it will next and following as they are coming in late in the fiscal year. When our lease expires in 2013, we would have been leaving anyway. The expenses are in one operating unit so we can see what is involved in the move. The operating unit is listed as District Office.

The state assessment has been absorbed by the state for DCAS.

Salaries are 75% of our budget. We fund strictly based on our unit count. We do not go above our units. Mr. Buckley asked if we projected local salary due to unit count. Has there been a great change between when the budget was put together and now? Is there a significant change in the budget. The unit count ends September 30th. We have more staff in the schools than ever before, but it also includes race to the top and state stabilization funds. We are staffing only to our projected September 30th count. Ms. Krapf asked if we would see a huge shift. Ms. Floore stated there was not. Mr. Buckley stated that if we do have 260 more students that would impact our local budget. Ms. Floore stated with that number compared to our overall, it would but it would not impact too greatly.

Race to the top is \$1.9 million each year for 4 years. ARRA and stimulus was a one time allocation in 2010. We are still spending it. We have been very careful not to establish artificial cliffs so we have stretched the money over a period of years.

Nutrition is based on revenues from lunches and federal funding. They retain a small amount in reserve and did not have to ask for an increase in lunch cost this year. The Minner teachers were cut from the federal budget. We kept them through stabilization funds both last year and this year.

If approved by the BOE, this is the document we will track against each month. Ms. Floore and Mr. Loftus feel confident they will be able to bring a monthly report through the new system to the committee.

Ms. Floore then turned to the financial position report and stated it showed we would have sufficient cash to make local payroll through the receipt of taxes in October. Mr. Buckley asked when the next one would be presented and Ms. Floore stated it would be February 2011.

Mr. Lloyd would like an orderly transition of chair of the committee and he has a list of responsibilities that should be distributed. Mr. Lloyd thanked the committee for letting him serve these past years. The CFO, Ms. Floore, would now be responsible for setting the agenda. Ms. Floore would like to put the year's "plan" on next month's agenda. She would take suggestions to what topics should be reviewed. The Board members on the CFRC can make the reports to the Board in the future. The CFRC email will be directed to Laura Palombo as secretary. She will notify the sender that the email will be reviewed at the next CFRC meeting. The emails will be compiled, sent to the members prior to the meeting, and reviewed at the next possible meeting. Ms. Rattenni asked if the Board members could review time limits on the meetings. Ms. Williams agreed that we will have trouble getting new participants due to lengthy meetings.

Ms. Rattenni praised Mr. Lloyd's efforts and thanked him for his commitment to the committee. Mr. Buckley added that he has given a great service to the community. Ms. Rattenni offered to be Chair with the new division of duties. Mr. Buckley will make the announcement at the Board meeting. Ms. Floore asked that the division of duties be given to the Board and added into the minutes or simply included in our meeting minutes. Along with the financial report, no other report may be needed.

IV. Public Comments

There were no public comments at this time.

V. Announcements

The next CFRC meeting will be held Monday, October 11, 2010 in the Brandywine Springs Teachers Lounge at 6:30 PM.

VI. ADJOURNMENT

The meeting adjourned at 9:00 PM.

Respectfully Submitted,
Laura Palombo
Recording Secretary