

Red Clay Community Financial Review Committee
Monday, March 8, 2010

Meeting Minutes:

The Community Financial Review Committee met on Monday, March 8, 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
Eric Randolph – Board of Education
Jane Rattenni – Community Representative
Kim Williams – Board of Education

Others in Attendance

Jack Buckley - Board of Education
Frank DeFroda – Barbacane Thornton & Company
Bill Doolittle – Parent/Community Member
Eric Loftus – Red Clay Financial Analyst
Pam Baker – Barbacane Thornton & Company
Steve Horgan – Parent/Community Member
Nancy Phelan – Parent/Community Member
Cathy Thompson – Parent/Community Member

I. Introduction and Opening Comments:

Mr. Lloyd welcomed everyone to the meeting and the members introduced themselves.

II. New Business

Mr. Frank DeFroda and Ms. Pam Baker of Barbacane Thornton & Company (BTC) gave a presentation of the audit their firm performed for Red Clay. Mr. DeFroda distributed a revised copy of the Draft Financial Statement Audit. Ms. Floore explained that the Board of Education elected over a year ago to have a financial statement audit done even though it was not required by the auditor's office. This is the result of that audit. The state did not pay for the audit; local funding was used as per the Board's decision. A bid was put out for an auditor in conjunction with the State Auditor's Office, and Barbacane Thornton & Company was chosen through that process.

Mr. DeFroda stated that this is the first draft of the financial statement audit. This is a new process for Red Clay and it will more than likely take 2 to 3 years to get the statements to a complete audit because one year relies heavily on the audited transaction of a prior year. In addition, it was a difficult process as many of the documents are kept Dover as well as within our Red Clay business office. Ms. Floore stated that we are considered an agency of the state and many times there are different documents and

pieces of information not collected at the local level. The audit covered all of our Red Clay Schools in Divisions 32, 54 & 58. Throughout the audit process they looked at the control process at each of the different “schools”, Red Clay, Meadowood & RPLC. They want to insure that management was adhering to the processes. They take control samples from all three schools. Then they took the state audit reports on a cash basis of accounting accumulating information and converted it to a modified accrual basis.

Page 1 is the main explanation of the independent auditor’s report. The report was done as of June 30, 2008. It explains that the financial statements are the responsibility of management. BTC’s responsibility is to express an opinion based on the audit procedures. It also explains an audit and its procedures. A couple things could not be done as a first year audit. They could not look at the FY2007 ending balances. Doing so would have cost the district a great deal more. This is a 2008 audit and not a 2007 starting balance audit so they qualified their report on that basis.

Mr. DeFroda pointed out the language for GASB No. 45 which speaks of the accounting for post-retirement. The calculations for retirements are done at the state level. They want to make the language clear to the reader, and as a draft may still slightly change the wording. Mr. DeFroda stated that it took an estimated 800-900 man hours to conduct the audit.

Page 3 is a statement of net assets. This reviews the entire school district; all 3 agencies combined, and records them on an accrual basis. Ms. Baker stated this is the perspective required by the government. It looks at the school district as a “business”. Our usual reports are fund basis. It is information rather than a tool to run and plan the district. They are the most problematic for Delaware to pull out. Even though we are Red Clay district, there are many pieces of these top level statements that are controlled by other state agencies.

Mr. Randolph asked if this is their first time doing this for a Delaware school district. Mr. DeFroda answered yes. They have done them for Pennsylvania schools. PA does it differently as the district is its own entity. If a district takes a loan or builds a building, they own the debt or building. Delaware has different agencies for the assets.

Mr. DeFroda explained that Page 5 is the balance sheet for the government funds. In our general fund we had \$18 million in cash. Looking at liabilities, without deferred revenue, we had about \$7 million in liabilities. Red Clay had enough cash to meet liabilities. Ms. Floore stated that FY2008 was the first year of the referendum when the voters put in the 15 cent increase. Half of that amount was dedicated to restoring the balance. This confirms that it did indeed restore the balance and you will see this consistent over time. Ms. Baker explained accrual basis; when our fiscal year ends, we still have liabilities due to the closing fiscal year that have not been paid yet including teacher salaries for summer, etc.

Page 6 is the Reconciliation of Balance Sheet – Governmental funds to Statement of Net Assets. Mr. DeFroda feels this is a bridge between the fund level statements of Page 5

and the equity statement on Page 3. This is a different way of accounting. At the fund level we don't show fixed assets.

Page 7 is the Statement of Revenue and Expenses which shows \$219 million in revenue and \$261 million in expenditures leaving a deficiency of \$42 million. There were other funding sources that still left a deficit of over \$42 million. The general fund sees a loss of \$3 million but that is distorted due to FY 2007 accounts payable items that were not part of this audit. There really is not a revenue vs. expenses deficit, but because the audit started with FY08, this is where you need to see two years worth to see that disappear as you are basically counting summer payments twice in FY08. When the audit is done next year, after 2 years of information, these numbers will even themselves out giving a truer picture than only one year of operations.

Page 8 is the Reconciliation of Statement of Revenues. Again, this is due to the different treatment of the fund level and the equity fund level. Page 9 is a Statement of Net Assets in Fiduciary Funds. This is related to funds that are directly related to the school and fund back to that particular school. Ms. Floore explained that this is what we call our internal accounts. Mr. Defroda stated that many other districts have their own petty cash accounts. Red Clay is the only district that controls student accounts at the district level which he commended. Ms. Baker explained that it is the biggest area of problems in the PA schools.

Several pages of the report explain accounting policies. These are required disclosures as part of the audit process. Also explained is the practice of the District balances being held by the State of Delaware. The money is pooled and held for the District. These policies cover custodial credit risk, capital assets, leases, long-term debt, pension plans, risk management, commitments and contingencies.

Page 17 is the Combining Consolidated Balance Sheet with all three schools combined; Red Clay, Meadowood and Intensive Learning Center. It is broken out by the different funds. For State funding we had \$7.5 million in cash at the end of the year. For local we had \$10.8. Federal funding is listed as 0. Federal programs do carry over through our fiscal year. However, as it is recorded, you don't have that cash available until it is spent.

The following pages explain the balance sheets of each agency broken out.

On Page 25 are BTC's findings in a report back to the BOE. In 2007 several audits were done by the state. BTC reviewed those audits to make sure that all of the requests for changes had been made. BTC found that all of the requests made in the prior reports have been met. BTC did come across two areas of recommendation involving our food service organizations. First, they didn't have any records of capital assets. Secondly, they are required to fill out two semi-annual reports to the state. What they are doing is booking their cash, showing more revenue for the month of reimbursement rather than the actual receipt of those funds. Therefore, the funds were overstated in one month and understated in another. Ms. Floore stated this has been discussed with nutrition and they have changed their procedures to book in the month received. Since they are currently

using QuikBooks, this will change permanently when they migrate to the state financial system in July. Ms. Floore explained that because they were never part of the state process that records state assets, they had never been part of the state asset process. They now will be putting that information in. Next month Ms. Floore will bring Nutrition P&Ls by school for the Committee's information.

Mr. Randolph asked what their thoughts for the school district having the audit done yearly. Ms Baker stated that she works with many schools that do an audit on a yearly basis. She feels every school district in Delaware should do it on an annual basis. But she suggests revisiting the process in the end product. She feels the community and BOE needs to know that someone is looking at the internal processes and insuring that they are being followed on an annual basis. She feels it takes 3 years to drill down the control cycles. Each time the recommendations would be to make the system stronger, not that there are problems, but that the processes are continually followed. The statements they look at in the modified accrual basis, the ones that tell you at the end of the year, it's not just about the cash but that we capture everything that has happened through the year. For top level statements for assets and debt, she doesn't know that there is a large benefit of this information to running our district.

Mr. Horgan asked what percentage of expenditures the auditors look at for a basis. Mr. DeFroda stated they look at over 100 expenditures. They use sampling techniques and randomly go through taking a look at all schools. They test the controls to see that the proper procedures are in place. When you look at the number of invoices that come through the business office, on a whole, procedures are being followed. Ms. Baker stated that when they pull a random transaction and see that every process is followed, they can be comfortable with their findings. They also do preliminary and final analytics where they do compare the budget to actual and judge the trends they expected to see.

Mr. Doolittle asked if there was any aging information on the tax receivables. Mr. DeFroda stated that the receivables were from prior years as well. The County keeps detailed records of this, not the district.

Mr. Lloyd asked about asset accounting. Mr. DeFroda explained that they used the records on new additions, settlement sheets, etc. For the others, they based it on the district information. They did not go back to the source documents from building acquisitions. Ms. Floore explained that whenever there is a capital improvement or addition, the district is required to record in CWIP (Construction Work in Progress). There is a fixed asset table in the financial system. There is history with different properties. Because we have historically been 70/30 funding, the state would pay 70% of the cost. In the capital process they would put their portion in the bond bill. If we ever sell a building we only have the 30% of the revenues. If someone donates property to us, we do own the 100%.

Mr. Lloyd inquired regarding Page 7, the concern he has it looks like the district spent more than they had that year. Mr. Defroda explained that on Page 5 accounts payable is \$7 million, assume in 2007 you would have the same. Because we didn't have the opening numbers for 2007, they had to use 0. Ms. Baker explained that there were 2

summer school salaries on this spreadsheet. Next year they will have the starting numbers, so this disparity would disappear.

Mr. Buckley asked how this would be presented to the Board. It was agreed a summary rather than the detailed report given here be presented to the board at the next school board meeting.

Mr. DeFroda thanked Ms. Floore and her staff for their help and cooperation.

Ms. Rattenni asked if the district would have to go out to an RFP for an audit done in 2009. Ms. Floore explained that there is an option with BTC for a follow up audit. This was a \$65,000 contract. She stated that the option was for two additional years if it was approved. Mr. Randolph asked how it went working with the state. Ms. Floore explained that the state auditors office told us that we could not finalize this audit without their, the state's, input. Plus, the state was conducting their own audits, so the timing was difficult. BTC does want to return to work with us. Mr. Horgan asked if they audit what we should receive and that we actually receive what is due us. Ms. Floore explained that they do an analysis of county receipts based on our tax rate. The county has almost 100% collection rate, but with sheriff sales, it may take years to collect all of the past due amounts.

Ms. Floore had also distributed other audits done this year. Regarding the audit of debt service, there were no findings for Red Clay.

The construction audit is interesting as much of it is about the accounting policy and CWIP (Construction Work in Progress) as well as FAS (the State's Fixed Accounting System). That is the data used placed in the accounting system. They found minor faults with Red Clay as we have many construction projects nearing completion. Our district response is also contained in the audit report. They found that there was an internet bill for \$60 that should not have been capitalized on the FAS. The district agreed and a correction was made for 2009. Finding 09-02: The state has determined that the cost of the asbestos abatement be expensed in the year it occurred and excluded from CWIP. That was, in our opinion, contrary to what we have been instructed to do in the past but has been changed. Ms. Floore stated that we do review the audits carefully to submit our response and any corrective action. Given the size of the construction projects and their completion, she was comfortable with the findings and response.

Ms. Floore stated that she received another audit today. What was said prior was that we would present these audits within these monthly meetings. She will bring it next month. She will bring the state position audit and the voc Ed audit. Our position audit confirms that we lived within our units and used them appropriately. She will bring them in April.

Mr. Lloyd asked regarding the construction audit, Page 12. There is \$3.5 million that is unspent; the largest balance is Wilmington Campus. Ms. Floore explained that we don't pay 100% of the invoice until the entire project is completely finished. Every project has the ability to transfer funds to another project with the proper approvals. It has to be less

than 10% of the total project. The state would not approve a transfer of over 10% without extenuating circumstances. Mr. Buckley asked if other districts such as Appoquinimink are holding a referendum for these funds. Ms. Floore explained that would be local funds, these are state funds. Mr. Horgan clarified that none of the construction is over budget and there is still \$3.5 million leftover for retainages and punch lists and final completion of the billings for Wilmington project. Ms. Floore stated that over the life of the major cap initiative, many projects became more expensive due to the economy and supplies. You cannot go over budget per se as the funds cannot go negative. So the alternative is you scale back on the project. You can transfer from another project, but that is limited. So on a whole, it doesn't come in over budget but projects were scaled back. Mr. Doolittle explained that you change the scope rather than the budget.

The minutes of the January meeting were then reviewed. The February meeting was canceled due to inclement weather. Mr. Lloyd informed the Committee that his term is up in August rather than October. Ms. Rattenni moved to accept minutes and Mr. Randolph seconded.

III. Old Business

Mr. Lloyd asked Ms. Floore regarding the financial board policies. The policies are finished in terms of the internal process. She will bring them in April. Mr. Lloyd agreed as Ms. Floore may not be here in May. Ms. Floore can send them to the Committee out electronically in advance. Taylor Green had informed Ms. Floore that they were on the website and no comments were made. Because there were no policy/process changes, there was not a presentation to the Board. Mr. Buckley wanted to make sure that our policies matched and were consistent with the thoughts of the committee. Ms. Floore stated that because they are done, we could circulate them by the end of this week. They will be on the April agenda. Ms. Rattenni wanted Mr. Lloyd to remind the Committee to review them prior to the meeting. Ms. Williams stated that if the policies have been reformatted, they did not need a review by the board.

The final regulation passed on what districts are required for financial review committees. This Committee was formed 3 years ago by our BOE. The law was passed that all districts are required to have one. Ms. Floore would like to send our by-laws to the Secretary of Education so that we can be grandfathered in. Mr. Buckley asked if there is anything in the law that we are not doing. Ms. Floore stated that there is training required for Committee members. We're saying that the training for the sitting members will stand. Any new member would require 4 hours of training; one for the financial review committee and 3 for the board. The training is the only thing not addressed in our bylaws. Mr. Buckley stated that the training for Board members is very lax due to scheduling. Ms. Rattenni asked for a copy of the legislation. Ms. Floore will send the regulations to the committee. Ms. Rattenni stated that we could amend our bylaws.

Regarding replacement of vacancies, Mr. Lloyd stated that there are leadership positions open on the committee. The chair and vice chair roles would be open in August. Ms.

Rattenni asked that the prospective members not feel they need to make the commitment as a leadership role. She encouraged them to join at whatever level they are comfortable. Mr. Buckley feels that the BOE cannot function without this committee. Ms. Rattenni spoke for herself and Mr. Miller; they feel very comfortable with the information presented and the detail provided. Mr. Lloyd asked if the BOE had to approve their membership on the committee which Mr. Buckley answered yes. Mr. Lloyd stated that the election for the leadership roles is in June based on the bylaws. Mr. Lloyd also questioned if adding two members at this time would not conflict with the bylaws. Ms. Rattenni stated that there was also the suggestion that the membership be expanded. Mr. Lloyd explained to the new members and guests how to navigate the Red Clay website to see Committee documents and missions.

Ms. Floore had provided the financial position report in the packet. Because we missed our February meeting, it was presented to the BOE in February and is given tonight as information. Mr. Buckley stated that the next position report will be given in May.

Ms. Floore presented the monthly financial statements. For the expenditure report, at this time of year, the report is quite valuable in tracking overall status. Our revenues are 89%, a mixture of local and state. Our local revenues are just slightly over 100% due to successful collection of delinquency payments. MCI technology and eRate are at 89.5%. These are funds paid from the public to the phone company then paid to us in grants which we apply for. Income from fees is rentals of the use of our buildings. The costs usually go back to pay for the custodians and supplies used during the rental. Tuition receivable is tuition bills we receive from other districts such as for the First State School. Where students from all over the state attend. We calculate the cost of running the program, and charge back to the district where the attending student resides. State division one revenue is the state share of teacher salaries. The report shows we have received over 95% of our state revenues. The state loaded the school improvement monies as 2007 funding so that one will show as short for the remainder of the year even though we have received the funds in a different account. As soon as we received it, the money was considered "prior year".

On the expenditures side. There are 0 that fall outside the watch threshold– this month's number is 66.7%. Ms. Williams asked why the Richardson Park School is only at 25% of their budget. Ms. Floore explained that it is because he is a new principal; it is difficult to anticipate every need until you've been through a complete cycle so it is not uncommon, and often prudent, for new principals to be conservative in their first year. For next year, the district has told schools they can carry-over a portion of their budget, but that it is limited to 15% of their FY10 budget. Ms. Floore explained that we are moving to a new fiscal system. Our system will be down for 3 weeks and no payments will be made to vendors.

Next month we will have the federal program closeout presentation. Federal monies often have different close out dates than our fiscal year so in one fiscal year, we typically report two years of federal funding. Mr. Buckley asked about going over budget in

Red Clay Community Financial Review Committee

March 8, 2010

Page 8 of 8

federal. Ms. Floore stated that you cannot spend more than you're allocated because it is based on a daily processing of funds.

Mr. Lloyd asked if there was any new business. There was not.

IV. Public Comments

Mr. Lloyd stated that there have been no emails that need to be addressed. Mr. Doolittle stated that he received a letter that indicated that tuition may be eligible under needs based IDEA. This would be a bookkeeping issue for special education.

V. Announcements

The Committee's next meeting will be Monday, April 12th in the Brandywine Springs School Teacher's Lounge at 6:30 PM. There will be a presentation on the federal close out of funding. We will also discuss the new accounting system coming online in July.

VI. ADJOURNMENT

The meeting adjourned at 8:50 PM.

Respectfully Submitted,
Laura Palombo
Recording Secretary

To Do:

1. Jill Floore will bring the state position audit and the voc Ed audit to the April meeting.
2. Jill will send out the Board Policies electronically to the committee prior to the April meeting.
3. Jill will send our bylaws to the Secretary to grandfather us in.
4. Jill will bring a copy of the legislation on CFR Committees to our committee.