

FINANCE AND LONG RANGE BUDGET PLANNING COMMITTEE
MINUTES – MEETING OF JANUARY 20, 2010

In attendance:

Committee: Thomas Reinboth; Mark Miller; Jane Schrader Lynch (7:25 PM)

Board: Cynthia Mueller; Andrew Pollock

Staff: Timothy Vail; Thomas Turnbaugh; Susan Klyman; Bob Reed; Vic Lasher

Public: Pam Baker; Robert Schaffer; Bruce Beaton; Paul Rokuskie

Press: None

Call to Order:

Mr. Reinboth called the meeting to order at 7:00 p.m.

Approval of Minutes

Motion to approve the minutes of the December 14, 2009 meeting as corrected by Mr. Miller.
Second by Mr. Reinboth. Motion Carried 2-0.

2008-2009 Audit and Financial Statements Review

Mr. Vail reported that the Board is required under the PA school code to commission an independent Certified Public Accounting firm (CPA) to perform an annual audit of school district financial records and procedures. Centennial School District has contracted with Barbacane Thornton Company of Wilmington, Delaware to perform these services. Firm partner Pamela Baker, CPA is in attendance this evening to present the 2008-2009 Financial Statements, and Federal Single Audit to the Committee in detail. Mr. Vail noted that a copy of the draft document is attached to this evening's agenda for Committee review and also thanked all of our hard working staff for making this an ongoing priority. Upon presentation and review of the report to the Committee's satisfaction, the document will need to be forwarded on to the full Board for review and formal acceptance.

Ms Baker went through the high points of the audit report indicating the following:

- Pages 1 and 2 represents the auditor's unqualified opinion on the financial statements as presented in the report. This indicates that the report represents a clean audit.
- Pages 3 through 11 represents the Management Discussion and Analysis (MC &D). She noted that this document was prepared by the District's business office and represents a narrative summary of the important points contained in the audit report. She noted that the numbers contained therein represent the fully accrued rather than the modified budget basis of accounting and are therefore higher in some cases than the reports Board members are accustomed to seeing. She noted that assets increased because the District borrowed money in 2008-2009 toward the WTHS construction project and the liabilities increased due to the corresponding debt associated with that borrowing. She noted this is a significant change for the District as Centennial has historically rarely gone out to the bond market.
- Page 12 – Ms. Baker indicated that the \$44,000 in post employment benefits is a new item on the Financial Reports this year resulting from full implementation of GASB 45.
- Page 16 represents a recap of the changes in fund balance. She noted that transfers out to other funds places much of the fund balance in reserved status. She further indicated that, similar to Centennial, most districts they audit are designating some of their fund balance toward retirement escrow in anticipation of the anticipated spike in the retirement rate over the next several years. She also noted that the Capital Reserve Fund ended the year with a negative fund balance due to the stadium loan that remains in active status on the District's books. Ms. Baker indicated that the loan in effect reduces the

unreserved/undesignated fund balance for the general fund that shows on the financial statements in this report. She indicated that as the audit firm they are concerned with this situation and have recommended that it be addressed in during the 2009-2010 Fiscal Year as no fund should have a negative fund balance. Mr. Vail indicated that, although the status of the stadium loan has not been resolved, the Board's action at the June 23, 2009 meeting to transfer excess funds in the amount of \$2.4 million pending the outcome of the 08-09 audit into the Capital Reserve Fund, had eliminated the negative balance for the Capital Reserve Fund. However, he indicated that this positive status for the fund may only be temporary as the Board determines the need to use these excess funds for upcoming capital projects, and as such, the matter of the stadium loan will have to be dealt with at some future point in time. Discussion focused on the history behind this loan. Mr. Miller and Mrs. Mueller indicated that the District should take maximum advantage of any and all opportunities to bring in funds via the business partnership program in order to reduce the amount of this loan. Mr. Reinboth indicated that the Board will need to look at options during the remainder of this year to zero out this loan on the books.

- Page 42 represents the analysis of the Federal Single Audit required of all Districts receiving Federal funds. She indicated that the audit reveals no instances of non-compliance or deficiencies. She indicated that it is good to get this kind of result, but cautioned that stimulus funds which will be forthcoming in the 09-10 Fiscal Year will result in closer testing. She indicated that she does not anticipate this will be a problem in Centennial's case as there are good controls already in place here.
- Ms. Baker noted that her firm is also making a management recommendation on financial reporting. She noted that GASB 34 has implemented new audit rules limiting auditors to their role in preparing the financial statements. She noted that her firm has been holding training sessions with clients to get them up to speed on what they need to be doing before the audit team arrives to prepare the financial statements.

Questions on the report were limited to Mr. Reinboth pointing out the need for two corrections on Pages 5 and 9 of the report and questioning by Mr. Miller on the audit team's review of the Amper audit of the District's food service operation conducted in February, 2009. Ms. Baker indicated that the audit team had reviewed the contents of the Amper audit and, based on their testing of approximately 25% of the food service department transactions as required under the Single Audit reporting, no material findings were discovered. Motion to move this item forward for Board acceptance at the January 26, 2010 meeting as corrected by Mr. Miller. Second by Mrs. Lynch. Motion Carried 3-0.

Upper Southampton Tax Collector Audit Update

Ms. Baker reported that her staff has completed the initial review on the audit commissioned by the Board in October, 2009 for outgoing Upper Southampton Tax Collector William Kerins. Preliminary reporting indicates that all is in order for the period 7/1/09 through 12/31/09. The final report cannot be completed until all liens are filed and reviewed which should be occurring over the next several weeks. This report will be completed and forward to the District when this is accomplished.

2010-11 Proposed Budget

Capital Requests

Mr. Vail reported that the Capital Reserve Fund is a capital fund permitted under Section 1434 of the PA School Code and was created by the Board a number of years ago to provide a mechanism for funding ongoing capital maintenance projects and equipment purchases that are primarily one time expenses. Historically the Board has been willing to appropriate

surplus funds from the unreserved fund balance to fund the approved annual Capital Reserve requests as these are recognized as non-recurring expenses, and as such current revenues are not required to continue to fund them in subsequent years. The Capital Fund is primarily funded by the CSD General Fund on an annual basis, however for 2010-11 the recommendation is that the amounts needed to fund the requested capital items come from the amount already appropriated to the Capital Reserve Fund in past years since the Board authorized over a \$2.4 million transfer to that Fund in June, 2009 which has yet to be formally earmarked for any other use. This is deemed necessary as the very low Act 1 index level of 2.9% set for 2010-11 does not permit the luxury of budgeting an additional transfer to the Capital Reserve Fund in the proposed budget. He noted that a copy of the Capital Reserve project requests for the upcoming year is attached to this evening's agenda and that Mr. Lasher is in attendance to address any questions or concerns on the list. Mr. Reinboth questioned the expansion of the bus garage and asked if \$500,000 is a realistic estimate. Mr. Lasher indicated that the architect is still working out the design details and that a finalized estimate should be available by March. Mrs. Lynch expressed concern over the size of the bus garage site and our inability to expand its size. Dr. Pollock suggested that the Board might want to consider one of the abandoned elementary sites as a new bus garage location. Dr. Pollock also asked if the pole vault and high jump equipment is a health and safety issue. Mr. Lasher responded that it is. He noted that the District's liability is very high here. Mr. Lasher indicated that he will need to bring these items forward for Board action to approve the annual approval application to PDE. That recommendation will be made at the January 26, 2010 meeting.

Special Education/Pupil Services Budget Overview

Mrs. Klyman reported that this evening's agenda includes an estimate of costs associated with students placed out of district. The chart attached to this evening's agenda estimates the number of students, the cost per student and the total cost for each placement. She noted that students may be placed out of the district by:

- the school district as a result of a special education process
- the school district as a result of the disciplinary process
- the courts as a result of probation
- treatment care providers due to student hospitalizations

The chart is based on data for services that were provided in the 08/09 school year. This information was provided because actual 2009/2010 costs will not be known until the end of the current school year when we know how many students were actually placed in probation or in hospital settings. Mr. Miller questioned how much of these expenses are recoverable under ACCESS. Mr. Vail responded that \$350,000 had been incorporated into the 2010-11 budget for ACCESS reimbursement. Mr. Miller asked if there is contingency built in for unanticipated students. Mrs. Klyman indicated it is difficult to anticipate all situations and as a result the numbers are based on past patterns and history. Mrs. Lynch noted that Del Val High School has only 27 students on the chart and questioned why we are paying for 40 slots at that facility. Mrs. Klyman indicated that the maximum enrollment at Del Val has been 35-38 students but the District had contracted for 40 slots several years ago. Mrs. Lynch noted that this is a significant expense. Dr. Turnbaugh indicated that we are currently running about 21 ADM at this facility. We are not effectively utilizing the slots but it would be difficult if not impossible to break the contract which goes another 2 years. Mr. Miller indicated that if the number of slots were reduced Del Val would probably just increase the cost per slot to make up the difference. Dr. Turnbaugh indicated that he is getting mixed reviews on Del Val from parents of the students who attend that program. Dr. Turnbaugh indicated that BCIU is looking to establish an alternative education program for 2010-11 which will be a more attractive and lower cost option. However, the existing contract with Del Val is very restrictive and very binding and as such Centennial will not be in a position

to participate for two more years. Dr. Turnbaugh indicated that he would keep the Committee informed as things progress.

Technology Reserve Fund

Mr. Vail reported that similar to the Education Initiative Fund, the Technology Reserve Fund is a sub-fund of the CSD General Fund and was created by the Board a number of years ago to provide a mechanism for separately tracking the expenses associated with annual technology supply, equipment, and maintenance costs recommended by Administration in keeping with a revolving replacement of computers and technology within the district. The Technology Reserve Fund is fully funded by the CSD General Fund on an annual basis, and the total amount requested for this fund is shown as a fund transfer in the expense portion of the 2009-10 Proposed Preliminary General Fund Budget in the amount of \$1,033,869. Attached to this evening's agenda is a memo from Mr. Bob Reed providing an explanation of the major funding items requested for 2010-11 as well as a copy of the Technology Reserve Budget by account. Mr. Miller indicated that this budget appears to include both network and technology requests. Mr. Reed indicated that that PC life cycle in the District is about 7 years and as such 496 PC's purchased in 2003 are scheduled to be replaced. This includes the original mobile computer labs in Longstreth and Stackpole elementary schools. Network switches are also being replaced as many of these are 6 years or older. Budgetary constraints will enable the replacement of only one third of the switches in 2010-11 with the remainder to be updated in the 2011-12 and 2012-13 budgets. Discussion focused on the wisdom of this approach given that these switches are the cornerstone to keeping our network operating. Mrs. Mueller also noted that the purchase of storage units discussed earlier by the Operations Committee is not in this budget either. Mr. Reed indicated that the storage unit had already been purchased with excess 09-10 funds and therefore is not necessary to be budgeted for in 10-11. Dr. Turnbaugh indicated that the phased replacement of all network switches is a function of the limits being imposed by Act 1 on this budget. All programs have been effected by the reality of these limits – not just technology. A discussion on the status of an email backup system also occurred. Mr. Reed reported that as presently designed email never leaves the system unless deleted by the end user. In the event of a system failure we are limited by the fact the centralized backup of email is kept for only 30 days. This centralized backup is not a substitute for an archive system. Mr. Reed indicated that he is not convinced that the storage equipment just purchased will have sufficient storage capacity for the unlimited retention of email files, but that unless and until the needed software is purchased to maintain the system and Board policy is established on the issue it will be difficult to know. Legal issues associated with the storage and retention of email has been of concern for quite some time and has been discussed at several different committee meetings. Dr. Turnbaugh indicated this is a very complex issue. Based on the above discussion Mr. Lasher and his department were directed to secure pricing for the archive software.

New Staffing Requests

Dr. Turnbaugh reviewed the itemized listing of recommended new and eliminated positions that have been incorporated into the proposed 2010-11 budget. The list is subject to change. He noted that the new staffing requests are primarily limited to establishing a new autistic class at WTHS. This will enable the District to take back the classes currently staffed by BCIU personnel at a much reduced cost. He added that philosophically it is better if we do this in-house rather than contract out the service. Mrs. Klyman added that this will give the District a K-12 autistic in-house program once accomplished. She noted that it would cost the District \$34,000 per student to contract this service out to BCIU in the coming year. Dr. Pollock noted that this action will save the District a minimum of \$50,000 per year. Dr. Turnbaugh also noted that staffing cuts in the areas of developmental kindergarten, the middle school remedial math program and the District's reading program have also been

incorporated into the budget. The details of these cuts will be worked out and presented at an upcoming Education Committee meeting.

Additional Debt Service Requirements-Elementary Project

Mr. Vail reported that per the parameters discussed with our financial advisors and investment team last week, Janney Montgomery Scott and RBC have worked out the details of the structure of the debt for the elementary project. There are two scenarios attached to this evening's agenda attached as follows:

Scenario 1

- Bonds are issued in the summer of 2010 based on available remaining principal under the 2006 Bond Indebtedness Resolution.
- Total millage impact of Scenario # 1 is 8.71 mills with 4.71 mills needed in FY 2010-2011 and the remaining 3.95 mills needed in FY 2011-2012.
- The positive of this scenario is that it requires no additional cash contribution from the District's undesignated/unreserved fund balance. The negative is that the millage impact must be assessed over a two rather than a three year period.
- Total millage impact under Scenario #1 in the pending 2010-2011 budget is the 4.71 mills listed above plus the .32 mills still needed for the final phase of the 2009 GO bonds issued for the WTHS project. Total mills needed for debt service payments in FY 2010-2011 - 5.03 mills. With the millage increase of 2.98 mills permitted under the Act 1 index of 2.9% and the millage required to address the increase in the PSERS employers rate of 1.82 mills, the total millage increase required to balance the 2010-2011 budget would be 9.83 mills.

Scenario 2

- Bonds are issued in the summer of 2010 based on available remaining principal under the 2006 Bond Indebtedness Resolution.
- Total millage impact of Scenario # 2 is 8.70 mills with 3.2 mills needed in FY 2010-2011; 3.52 mills needed in FY 2011-2012 and the remaining 1.98 mills needed in FY 2012-2013.
- The positive in Scenario # 2 is that the millage impact is assessed over a three rather than a two year period. The negative of this scenario is that it requires an additional cash contribution from the District's undesignated/unreserved fund balance of \$1,815,000.
- Total millage impact under Scenario #2 in the pending 2010-2011 budget is the 3.2 mills listed above plus the .32 mills still needed for the final phase of the 2009 GO bonds issued for the WTHS project. Total mills needed for debt service payments in FY 2010-2011 - 3.62 mills. With the millage increase of 2.98 mills permitted under the Act 1 index of 2.9% and the millage required to address the increase in the PSERS employers rate of 1.82 mills, the total millage increase required to balance the 2010-2011 budget would be 8.32 mills.

Administration recommends Scenario # 2 based on the fact that with no firm pricing yet in place for the project at this time and as such the cash contribution necessary from the undesignated/unreserved fund balance could be greatly reduced if bids come in lower than architect estimates as occurred with the WTHS project. Scenario #2 also phases the millage impact over a three year period rather than the two years in Scenario # 1.

Dr. Turnbaugh indicated that the District's financial team had expressed concern about interest rates on bonds going up. The consensus of opinion was that the longer we wait the more expensive it will be. The concern of Administration and the finance team was upon borrowing this money when the Board has not yet committed to the project at this point in time. Mr. Miller indicated that it makes sense to issue the bonds on a parallel path with the approval of the project. Mr. Lasher added that we need to bid both new buildings at the same

time as it will be more expensive to bid them separately. Discussion followed on the need to make a decision on the locations of the both the Region 1 and 2 buildings. Mrs. Lynch indicated that as a fiscal conservative she does not want to borrow money when we don't know what it is for. That is not good business. Dr. Pollock indicated that he is in favor of Scenario # 2 as it phases the impact of the debt on the taxpayer over a longer period of time. All committee members agreed. Mr. Miller expressed concern that this information had just been received by Committee member this evening and felt uncomfortable with recommending it before a thorough review is made. Mr. Vail indicated that the Board does not need to take action on this until the February 9 meeting, and the action taken will be in conjunction with the adoption of the proposed preliminary budget which must be amended to include these additional dollars for debt in order to put the District in a position to apply to PDE for the Act 1 Grandfathered Debt Exception. Motion by Mr. Miller to amend the 2010-2011 Proposed Preliminary Budget to incorporate Scenario #2 and move this forward for Board approval at the February 9, 2010 meeting. Second by Mr. Reinboth. Motion Carried 2-0-1 with Mrs. Lynch abstaining.

2010-2011 Budget Adoption Timeline

Mr. Vail indicated that, due to questions asked at the last Board meeting, he had provided another copy of the 2010-2011 Budget Adoption Schedule as approved by the Board in August, 2009.

2010-11 Information on Equipment, Memberships and Conferences

Mr. Vail reported that Administration is working on summaries of equipment, memberships and conferences for presentation at a future Finance Committee meeting. The goal is to provide all of these items in summary form so that the Committee can see at a glance the specifics of what is budgeted within these categories. Equipment requests will be ranked in order of importance so that if cuts are necessary the lowest priority items are cut first. Mr. Miller asked if the conference list will include Board member requests. Dr. Turnbaugh indicated that it will.

Broker of Record RFP

Mr. Vail reported that per discussion at the September, 2009 Finance Committee meeting, Administration had solicited proposals from a number of full service insurance brokers currently providing the PSBA insurance package to public school districts within the Commonwealth of Pennsylvania. The RFP that was sent out to these brokers focused upon the following:

- Review and critique the current insurance program coverage limits and structure
- List agency staff who will be assigned to the Centennial account to include education and profession experience of each, and the types of services that will be provided as needed to the District.
- Describe the use of any proprietary system(s) and/or model(s) related to risk management strategies that would be available for Centennial support.
- Describe and identify anticipated annual commission earnings for each policy identified.
- Provide a minimum of 3 current client references that we may contact, some or all of which must be public school districts.

Mr. Vail reported that Administration had sent out the RFP to four brokers (including our incumbent broker firm - Willis of PA). Attached to this evening's agenda is a summary spreadsheet of the three firms who responded to the RFP. Mr. Vail reminded the Committee that the Board had taken separate action to grant Bruce Beacon Company authorization to pursue a separate quote from Ohio Casualty Company. Mr. Beaton is in the process of securing this quote which should be available this spring. Mr. Vail indicated that Administration's review indicates that the brokers responding have a variety of public school clients. Given that all are

comparable in terms of experience and commission rates and the fact that overall we are satisfied with the services we have received from Willis of PA, Administration recommends that they be retained as Broker of Record.

Mr. Miller indicated that he does not feel the summary spreadsheet provides enough information on the scope of the proposals received. He further indicated that all of the brokers contacted indicated they were not in a position to provide a critique of our existing coverage given the information provided with the RFP by administration. He stated he would support letting all brokers contacted do site visits in order to provide the information needed to critique our current policy configuration and that all brokers be given opportunity to secure quotes on the District's behalf based on a strategy to be worked out. Dr. Turnbaugh indicated that it is not possible to get 3 different quotes from PSBA or any other insurance underwriter. They will provide only one quote per client. He also indicated that generally the issue of Broker of Record is determined by the Business Office with the Board taking no role in the process. Dr. Turnbaugh indicated that, although he understood Mr. Vail's recommendation to allow Bruce Beaton Company to secure a separate quote from Ohio Casualty, overall he disagrees with that direction as the District should be dealing through one broker only. Mrs. Mueller indicated that her primary concern is that the incumbent broker of record seems to be limiting their quotes to only one underwriter in each category. In the long run we could be paying more for insurance than we need to be by allowing that to continue. Mr. Beaton addressed the committee indicating that his company had not received an RFP despite ongoing correspondence and contact with the district's business office. Mr. Vail indicated that he had been very up front in informing Mr. Beaton that given the earlier Board action honoring his request to secure a quote only from Ohio Casualty he had special status and would not be involved in the RFP process for Broker of Record. Mr. Beaton indicated that at this point in time he had all the information he needed to secure the quote from Ohio Casualty and was looking forward to presenting this option to the District in the spring. He indicated that, all things being equal, the District should not switch coverage for the sake of a few percentage points of savings. The change should be made only if the percentage of savings proves to be significant. Mr. Vail indicated that if Willis is retained as Broker of Record they will be instructed to secure quotes from a number of underwriters. Those quotes, coupled with the quote that Mr. Beaton is securing from Ohio Casualty should provide the Board with sufficient assurance that the coverage is being awarded in the most cost effective manner possible. Mrs. Lynch agreed, stating that getting several brokers involved in this would create a great deal of confusion and result in a mess. Any effort to go beyond the two brokers involved at this point is going too far. Mr. Reinboth agreed stating that it would be a can of worms to go beyond where we are at this point. Mr. Reinboth thanked Mr. Beaton for his input and efforts on behalf of the district. Committee members agreed that no action to change or add brokers would be taken at this time.

Real Estate Assessment Appeals Update

Mr. Vail reported that per discussion at the December Finance Committee meeting on the above topic, concerns were raised about the costs associated with lowering the appeals threshold from the current \$100,000 to \$50,000 and whether Begley Carlin and Mandio would consider charging a lump sum amount for these services rather than the current hourly fee. Attached to this evening's agenda is Mr. Garton's response. Mr. Vail indicated that request was also made to obtain information from the Bucks County Board of Assessment on the specifics of what arguments were made by residential property owners who successfully had their assessments reduced in 2009. He reported that the Assessment Office would provide him no specifics on these cases but indicated that generally the successful applicants were able to document that the market value of homes of comparable construction in and around their neighborhoods were lower than the current assessment ratios based on recent sales data. After discussion committee

indicated that the best course of action would be to wait and see how many and what types of appeals are filed in 2010 and decide from there how to proceed.

School Physician Contract

Mr. Vail reported that the current 3 year agreement with Dr. Harris Cohen, school physician expires at the end of the 2009-10 school year. Dr. Cohen has agreed to continue in his service to the District for a new three year term at the current rate of \$75.00 per hour for 2010-2011 with an increase to \$77.25 per hour for the 2011-2012 and 2012-2013 school years. Total amount spent on physician services last year was \$145. A copy of the new agreement, certificate of insurance and evaluation from Pat McBride, Nursing Supervisor is attached to this evening's agenda. Mr. Miller indicated that all appears to be in order on this issue and made the motion to forward this item on to the full Board for approval as submitted. Second by Mrs. Lynch. Motion Carried 3-0.

Real Estate Assessment Appeal

Mr. Vail reported that this evening's agenda includes a letter from District Solicitor Jeff Garton requesting authorization to execute a stipulation agreement on Warminster Township tax parcels 49-9-28-4 and 49-9-32 which will result in increased assessments on the parcels by \$1 million over the reduction approved by the Bucks County Board of Assessment Appeals in August, 2008. Mr. Miller indicated that all appears to be in order on this issue and made the motion to forward this item on to the full Board for approval as submitted. Second by Mrs. Lynch. Motion Carried 3-0.

Adjournment

Meeting was adjourned at 10:51 p.m.

Respectfully submitted,

Timothy E. Vail