

**BOARD FINANCE COMMITTEE MINUTES  
JANUARY 7, 2008**

Members of the Board Finance Committee met on Monday, January 7, 2008, in the Dining Room of the Education Center, 1516 Sycamore Street, Bethlehem, PA. Chairperson Koch called the meeting to order at 6:12 p.m. The following school board members were present: Mrs. Michele Cann, Mr. Joseph Craig, Mrs. Judith Dexter, Mrs. Irene Follweiler, Dr. Craig Haytmanek, Mrs. Charlene Koch, Mrs. Loretta Leeson and Mr. Eugene McKeon. Also in attendance were Dr. Joseph A. Lewis, Superintendent of Schools; Mr. Stanley J. Majewski Jr., Assistant to the Superintendent for Finance and Administration; Mr. Robert R. Gross III, Associate Superintendent; Mrs. Robin Lutcher, Director of Information Technologies; Mr. Robert Davidson, CPA, Abbott, Davidson, Weiss and Company, LLC; members of the press and other interested citizens.

**E-RATE** – Mrs. Lutcher referred to the information in the distributed packets and offered a summary or further explanation.

Director McKeon requested further explanation on the e-Rate Reimbursement.

Mrs. Lutcher stated the e-Rate process was initiated in 1996 along with the Telecommunications Act, thereby schools and libraries may be eligible for a discount on telecommunication services. This district is eligible and the discounts vary based on the socioeconomic status at each of the schools. There are e-Rate resolutions for Broughal Middle School and also those for the district. The district rate of discount is 47 percent and Broughal's rate of discount is 90 percent. She noted the first two resolutions specifically for Broughal Middle School are for cabling and internal connection. The Telecommunications Act primarily funds services such as telephone, cellular, and internet service. Internal connections are funded afterward to the level of money which is available. In most instances, the SLD (Schools and Libraries Division of the Telecommunications Act) has funded to around 80 percent. Northeast Middle School is an 80 percent school. She stated that unfortunately in the year that the school was to receive funding, the SLD only refunded to 81 percent, so it was missed by one percent at that time. It has always been 84 percent or above in all of the years from the Telecommunications Act so they feel very confident that Broughal Middle School would be funded at 90 percent. This means they will receive a 90 percent discount on the internal connections and the cable. She noted that not everything is covered but a majority of items are discounted.

Mrs. Lutcher described the way that the e-Rate works and stated that a 470 form is completed online where the funding for services and connections are requested. It then begins the online bid process where the bids need to be available for 28 days. After 28 days, the bids can be reviewed and awarded. Once a decision is made, the contract must be signed before submitting the 471 form online. The 471 form details the specific charges and costs for which reimbursement is being requested. It also identifies the specific service or purchase vendor who was awarded the bid. In prior years, the deadline had been in mid to end of February for the completion form 471, but this year it is on February 7<sup>th</sup> which is why they had to bring the information forth sooner. An agreement needs to be obtained from the board and contracts must be signed along with the preparation of the 471 documentation.

Chairperson Koch asked if there were any questions.

Director Follweiler asked if the dollar amounts found in the provided packets were before or after the discount.

Mrs. Lutcher replied that the figures represented are pre-discount.

Director Follweiler stated that they should then see a potential 90 percent discount off of the amount shown. She asked if the monies are actually incurred when the contract comes due and noted that some cases are as far away as July.

Mrs. Lutcher said that these resolutions are for the 2008–2009 school year so they cannot make a purchase or have any of the services in place. The contracts will go from July 1, 2008, through June 30, 2009, unless it is a multiple year contract. Some of the companies choose to apply the discount or reimbursement when they send the invoice while others want full payment resulting in another series of forms, which need to be completed for reimbursement.

Director Follweiler asked if it could be negotiated up front.

Mrs. Lutcher replied that some companies will not allow the discount to be applied to the invoice but most companies will and noted that there is an area on the form to check off your preference. She said that most companies will apply it and it can be one of the factors as far as making a decision on the company. The most heavily weighted factor must be the cost of the service.

President Leeson asked why they were holding a special board meeting if the approval was needed by February 7<sup>th</sup> and added that she was aware that contracts needed to be put together.

Mrs. Lutcher referred to the necessary and timely completion of online forms. She asked President Leeson to look at the resolutions for the internal connections and cabling and also noted separate resolutions for Nextel/Sprint, MetroCall, AT&T Mobility, and One Communication Inc. It is estimated that each form requires eight to twelve hours of online completion. She said there is a lot of work that needs to be done including sending the forms to the company for signatures and having them returned before the online process can begin.

Dr. Lewis stated that the deadline dates set by the companies do not coincide with the district meeting dates.

Mrs. Lutcher said that if she does not have everything submitted by 11:59 p.m. on February 7<sup>th</sup>, they would not receive any funding.

Dr. Lewis thought that Director Follweiler asked a very good question regarding the billing process. He said some companies bill the district and then wait because in some instances the federal government can be a full year behind. What they see regarding the budget is a classic example where e-Rate funds trailed.

Mrs. Lutcher said they are presently receiving e-Rate funds for the 2006–2007 school year and are still awaiting approval for the 2007–2008 school year. She said when they get the approval from the Schools and Libraries Division they must file multiple forms as a district, and the vendor also must file forms and they are then returned to the SLB. There are so many forms which need to be finalized so there is a big window.

Director McKeon asked Mr. Majewski if the Data and Telecommunications Wiring and Internal Connections would normally be incorporated as the bond construction costs as a classified asset.

Mr. Majewski replied that it is part of the construction costs for Broughal Middle School.

Chairperson Koch proceeded to move on to Item 2 – Agenda Items for the Regular Board Meeting.

Mr. Majewski stated that Mr. Gilliland is ill and could not attend the meeting so he was not familiar with the details of Item B – Card Access Control System for Lincoln Elementary School.

Dr. Lewis said that he spoke with Mr. Gilliland. He said it is a proprietary system, which is presently used at the Education Center, at Northeast Middle School, Liberty construction, and at Freedom. They are planning to install it at the elementary level as money avails itself so that eventually the entire district would be on the card system. He said that Lincoln Elementary was selected because of their unique situation relative to their recess entrances and exits. The system is proprietary which means that SimplexGrinnell electronics and interface system should be installed.

President Leeson stated that she supported the installation of the system and inquired about the associated costs and where the funding would be obtained within the budget.

Dr. Lewis stated he thought it was part of the maintenance budget.

Mr. Majewski added that it was part of the maintenance budget within the current operating budget.

Director Dexter asked what the system provided to the district as it is installed in the schools.

Dr. Lewis replied that the Smart Card records everyone who comes into the building including the time they enter and the access is controlled by an assigned time. For example, a teacher would be expected to be present in the building during the week, however, if they had a special need to be there on a Saturday, it could be programmed in on a short-term or long-term basis. He noted there are controls in place and it allows them to avoid putting a block of wood in a doorway so that recess participants can re-enter the building. Mr. Gross said it creates a more secure environment and he reiterated that it records who is accessing the building. If an employee leaves the district, one simply goes into the system and removes the access.

Director Dexter inquired about the timetable or projected schedule for having all of the schools on the system.

Dr. Lewis replied that Mr. Gilliland has that information sketched out but he could tell her that they are probably not going to be as timely with the installation across all 22 schools as they had previously hoped.

Director Dexter inquired about a more specific idea regarding the time frame.

Mr. Majewski stated at this point the discussion would take place with the board at a future date as they are assessing available funds. They do not have an understanding as to when that would be at the present time. There are any number of things that need to be done in order to address the budget and the issues and as they are going through the year and if monies become available then they would like to discuss and obtain the board's authorization to proceed once they know they can.

Director Dexter asked if there was urgency about this particular item.

Dr. Lewis replied that they felt the rear exit of the building onto the playground area was a problematic situation. He said Mr. Gilliland studied the other buildings and he was sure that the other elementary school principals could make similar arguments in some cases but this particular school was selected.

Director Follweiler asked if the \$13,000 was an approximate amount and would it be similar to any school of that size or is the figure related to the number of doors or number of access key cards.

Dr. Lewis replied that it was directly related to the number of doors and that it was a three-door system.

Director Follweiler asked if the teachers and staffing would be the cardholders, and if the students would have to be escorted.

Dr. Lewis said that was correct.

Director Follweiler asked what the status of the system would be at the high school level.

Dr. Lewis replied that it would be limited to staff. Once someone who does not carry a card is out of the building, they would have to "buzz" at the center entrance to gain entry.

Director Follweiler asked if the amount listed was for three doors at Lincoln Elementary School and questioned its life expectancy if the system is proprietary. She asked if it became obsolete five years from now, must they upgrade to another system. She also asked what the discount would be if they contracted for the entire school system even though that may spanned out over ten years.

Dr. Lewis replied that they did do that and also have received the most recent software as part of the agreement, even though they have had it installed for approximately two years.

Mr. Majewski added that SimplexGrinnell has updated their software and it appears they are willing to do so because they compete with other firms as well. He didn't anticipate that it would be obsolete anywhere in the near future.

Director Follweiler suggested that any upgrades to software over some period of time be included in the purchase price and have it actually written into the contract agreement.

Dr. Lewis replied that it is pretty much the standard language that is used.

President Leeson commented that she understood that this item would be on the January 22<sup>nd</sup> agenda so they may have the opportunity to get updated information prior to that meeting. She added that perhaps they could obtain a better picture of the total cost with regard to all of the buildings that are under consideration.

Chairperson Koch proceeded to move on to Item 2-C, the External Audit Review.

Mr. Majewski introduced Mr. Robert Davidson, a partner with the firm, Abbott, Davidson, Weiss and Company, LLC. He has been with the district for several years and is very thorough and conscientious. He has prepared financial statements based upon the information accumulated by the school district. The accuracy of the financial information and the school records are the responsibility of the Bethlehem Area School District. Mr. Majewski deferred to Mr. Davidson to explain the auditing process.

Mr. Davidson stated that his job as the outside auditor is to render an opinion whether it is unqualified, qualified, or adverse as far as the financial statements, the financial position as of June 30<sup>th</sup> and for the year then ended. He noted on page one of the audit report draft is the audit opinion for the fiscal year - June 30, 2007, and it is an unqualified opinion, meaning that they did not become aware of anything that is not in accordance with GAAP (Generally Accepted Accounting Principles) that they would have to render and say that it is qualified in any respect. The opinion covers dealing with the financial statements as of June 30, 2007, which could be found on pages 1 and 2. The financial statements of which they are rendering their opinion could be found beginning on page 9.

Mr. Majewski injected that there would be two components of the presentation. One involved Mr. Davidson and the financial statements. After the review of the financial statements, he has detailed information prepared from last year in a familiar format regarding the activity, which took place in the general operating fund.

Mr. Davidson stated there were two sets of financial statements; the entity-wide financial statements found on pages 9-12 are in accordance with the GASB 34 (Government Accounting Standards Board), which came out in 2001. It required that school districts or governments report their financial statements on an accrual basis and traditionally it had been on a modified accrual, which is what they prepare their budget on. He noted the fund financial statements (a balance sheet and an income statement) were on pages 13-16. The fund statements are how they prepare the budget. They expense capital expenditures, bond payments and recognize bond proceeds as revenue in the fund statements. In the GASB 34 statements, they have to back out those transactions and put them on the balance sheet. When they purchase fixed assets, they are capitalized and if they borrow money it is a liability. As a result of the new sets of financial statements, there are two sets of reconciliations that are presented. One reconciles the current surplus or deficit, from fund accounting to the GASB 34 and the other statement takes the fund balance and converts it to net assets. Those are found on pages 17-20. They reconcile the government financial statements and the entity-wide back into the fund balance, which is what they prepare again for the budget.

Following the financial statements are the statement footnotes, beginning on page 32. They are required which the school district must include with the audited financial statements. There is some descriptive information contained in both the balance sheet and the income statement. Following the footnotes, there is the schedule of federal awards, which are the monies received directly or indirectly from the federal government. He noted there are a number of sources they could be passed through such as the state of Pennsylvania or received from the county. Some funding is received directly from the federal government, particularly the Impact Aid Program. The schedule of federal awards statement is required under the Single Audit Act of 1986 as amended in 1996. Their internal control and compliance opinions can be found on pages 57 and 59, which must be reported on the level of the financial statement as well as on the major program level. Mr. Davidson stated there was one exception this year with a student activity fund (invoice). He said it had appeared in the past with a number of incidents last year with three or four between the five schools, which were tested. He noted that it was the only reportable condition. As far as the federal programs that were tested, in particular Title 1, there were no questioned costs or compliance issues. He said that most of the federal programs are salary driven with approximately 80-85 percent of the grant applicable to salaries and benefits. Mr. Davidson stated that Mr. Majewski must respond back to the reportable condition, which he has in the past, by providing a corrective action plan. He concluded that the present case in the financial statements he reiterated that their opinion is an unqualified opinion. There was nothing that came to their attention, which they felt was in need of correction, or was not in accordance with GAAP.

Mr. Davidson asked if there were any questions regarding the opinion.

Director Follweiler inquired about page 57, where it referenced the internal controls. She thought it was the wording but there is the one observation and that would relate to page 61 where there is a checklist noting a "reportable condition identified that are not considered to be material weaknesses." She said if she understood correctly, out of all of the schools tested, there was one observation or exception and Mr. Majewski will do a corrective action.

Mr. Davidson agreed and further stated that they looked at four schools and do not test all of the schools. They review the prepared quarterly reports. Every year they do a sample by selecting schools, always looking at the high schools and over the year they select different schools to sample. He reviewed all the items required under the GAO (General Accounting Office) Single Audit Act and noted it was a standard form. Any entity, which received federal money in excess of \$500,000, would file similar reports.

Director Follweiler stated that his report essentially states that the district complied with all the regulations.

Mr. Davidson agreed and stated in addition there is a data collection form, which is submitted. It is a federal form, which takes the schedule of federal awards and summarizes it by the total expenditures for each program and does not go into details. It must be filed within thirty days of issuing the report.

President Leeson brought attention to pages 8 through 10 and asked if it stated that the district owes more than it is worth.

Mr. Davidson replied that yes, it states they have a deficit in net assets. These are the entity wide financial statements. The capital expenditures are moved to the balance sheet and are depreciated. The bonds that are payable are shown in debt. The way a deficit comes about is by the bonds being paid over a period longer than the fixed assets. There are certain fixed assets that are being written off over 20 or 25 years depending on what type they are with some being 40 years.

Mr. Majewski stated the financials reflect historical costs as opposed to market value. It reflects what they paid for the asset at the time. If one purchased a home for \$50,000 and one waits ten years later, it may be worth \$200,000. Their records reflect that \$50,000 less the depreciation so it is not an accurate reflection of their actual property value, but it reflects the historical cost. He doesn't want the two confused because it may give the impression that they have "negative" assets. These are not the insurable values and not based on market values but the figures are based on historical cost.

Director McKeon stated they are classified using GASB (Government Accounting Standards Board) and FASB (Financial Accounting Standards Board) and therefore why they appear this way.

Mr. Majewski replied that GASB pertains to depreciation. It is probably closer to what FASB has been doing and it was something that had been brought into governmental accounting several years ago.

Director Leeson asked about the general long-term debt referencing pages 45 and 46. She noted the discussion of risks on some of the debts. She requested more detail regarding the risks because it is something she didn't quite understand, in particular, the swap options.

Mr. Davidson replied that it is a required disclosure under FASB. The people who have handled the bonds provided the information regarding the risks to him. He received the report from Ferris, Baker Watts Incorporated. They did the analysis. They request the information from this third party because they deal with it every day. They discuss the risks that may come to be if something is done differently with the bonds. In other words, if the bonds were sold or exercised in some respect then the risks could exist. He said there is risk with all debt but, with the swaps, the disclosures are required. Mr. Davidson stated that from an investment standpoint he is not a financial person to be able to explain each one of the individual percentages. He is auditing financial statements and financial position and at times he is required to obtain expert information from a third party. He stated the same people provide the report every year.

Mr. Majewski said the actual calculation is not done by Ferris, Baker Watts but by Dexia. They are a third party who provides Ferris, Baker Watts with determination values as shown. They will compile a narrative and provide that information to the auditors at the end of the year. The outside party will create the market value. It is considered a termination value. If the contract were terminated as of June 30<sup>th</sup>, this would be the market-to-market value with a result of either a net surplus or a net deficit for each of the different transactions. That is only relevant if they were interested in terminating the transactions. If it is an ongoing basis, then there is no risk. He said that what it is saying is that as of this date if one decided to terminate a contract, it spells out what would have occurred.

Director McKeon said as he looked at the termination risk for the various swaps, he noted a swap as of 2006 and asked if it should be 2007.

Mr. Davidson replied that it should be 2007. He apologized and said there was a correction to the one financial statement on page 14 and the update of the risk begins on page 45.

Director Follweiler stated the questions she had were on the actual numbers so she would hold them until Mr. Majewski's follow-up.

President Leeson asked Mr. Davidson about his opinion about the health of their financial status as their auditor.

Mr. Davidson responded that as far as the financial statements, there was nothing out of the ordinary, which is not explained. He said when they presented the budget for 2006–2007, they used their fund balance to balance the budget. In other words, last year for 2006–2007, \$3,500,000 of the fund balance was used from the prior year in the budget for 2006–2007. The revenues came in over \$3,000,000 higher and the expenses came in over \$5,000,000 in excess of what was budgeted. They had a \$2,000,000 plus additional deficit, which was not budgeted. In his mind it was principally in instruction and special programs. Within those areas, there were programs, which were in excess of what was originally budgeted. He said they looked at those and he is sure that maybe what some of the questions are in going forward. Mr. Davidson stated the same applies to the revenue, when going in; they look at information that may be different than what was budgeted. The local revenue was almost \$2,000,000 higher, which was principally real estate taxes with most of it being interim real estate taxes, which could be somewhat of a "guesstimate" because there is uncertainty when the houses will be on the tax rolls and when they are going to be billed and so forth. As a result they had approximately \$1,500,000 of interim taxes in excess of what was budgeted. With regard to the expenditures, he said he is somewhat of a historian, looking at something six months ago and noted some areas where monies were spent and not budgeted. In particular, there were programs that came to be that had expenditures and which there wasn't money initially budgeted.

Mr. Majewski added that the detail is based upon the financial status, which would tie into the financials he will present after Mr. Davidson's presentation.

President Leeson stated that she wanted to follow-up with questions after Mr. Majewski's presentation.

Chairperson Koch asked if there were any more questions specifically for Mr. Davidson.

Director Dexter stated that she read the preamble to his audit and understood that he looks at things on a test basis; in other words, he doesn't look at every single financial transaction. It was her view that they had a major event this year where a bill was paid without board approval for \$60,000. She asked if that was the type of incident that his firm would look at and did he look at that particular incident?

Mr. Davidson stated it was for legal fees and it was on pre-approval. He said when the invoices are reviewed, they look to see if there had been approval with initialing and it had gone through the process. He is not 100 percent sure where the problem was with it not being approved by the board.

Director Dexter replied that the particular bill that she is referencing was not a reoccurring legal bill. It was not for a retainer or for services, which were ongoing on a regular basis, but it was for a particular investigation that they had directed. She said the board had authorized \$20,000 to \$30,000 and the bill came in about double to that. It was paid without board authorization but it did have authorization from administrators.

Mr. Davidson inquired about the meaning of “not board approval.”

Mr. Majewski interjected that he is probably more familiar and asked Mr. Davidson for correction if he went awry on the subject. He said that Mr. Davidson has two primary responsibilities for the audited statements. One is to certify the accuracy of the numbers and the other he believed is a broad component under the SAS (Statement on Auditing Standards).

Mr. Davidson replied that he agreed and cited SAS 99.

Mr. Majewski added that typically that type of evaluation about board approval and paying is not part of the external audit function. It might come under the state auditor’s review.

Director Dexter asked to hear a statement from Mr. Davidson. She wanted to hear what his purpose was and what he reviewed and didn’t review.

Mr. Davidson replied that there are a set of internal controls and in doing the audit they review the controls and it requires a set of approvals and signatures. In the board book they look for authorization. When they select a random transaction they obtain a sample, request invoices and cancelled checks and trace the information through the system to make sure it is posted in the proper account. They look at the initialing for approval and then refer to the meeting minutes to look for the list of the paid bills. There are some bills which are being paid on an ongoing basis; some paid weekly, however, the board meets monthly. There is the pre-approved list of bills. When they go through the transactions, they would follow it for those selected items.

Director Dexter said the bill, which she is referencing, was not on a pre-approved list but it was ratification, a bill, which was approved for payment and in fact, was paid. The board did meet after the bill came in but the bill wasn’t presented to the board. The board met again and learned that the bill had already been paid. Director Dexter stated that apparently this incident was not one of the test reviews that he did.

Mr. Davidson replied that they do a random selection and he was not aware of any. He asked her if it was for legal fees.

Director Dexter repeated that it was for legal fees and said that since he didn’t review it, she asked if it was something he could review. She noticed that the present report says “draft.”

Mr. Davidson responded that it was not a final report and it is a draft. The financial statements are theirs but what he does is to render an opinion so the information in the report is really their information. He said he helped put it together as far as the final document is concerned but it is their financial statements. Mr. Davidson said it has not yet been accepted.

He was here to present the draft for discussion and if there were questions on a number or if there was something which needed to be looked at, that is the purpose of the draft. He reiterated that it was not a final document and he has not finalized the audit.

Director Dexter said she would be interested in his opinion about that particular matter and would be glad to provide the details to him later.

Mr. Davidson replied that it would be fine.

Director McKeon commented to Director Dexter that he thought there might be a timing issue because Mr. Davidson is dealing with the date of 6/30/07 and Mr. Majewski might have accrued whatever figure to cover it. The invoice itself was paid after 2007 so it might be reflected as a 2007 – 2008 audit issue. He was speaking from a timing perspective of spanning budget years.

Director Dexter said the bill was received before 6/30/07.

Director McKeon replied if he is using disbursement as a condition, it might not show up.

Director Dexter stated that disbursement occurred in July.

Mr. Davidson added they do it based on the disbursement so it would have been in Accounts Payable at June 30<sup>th</sup>.

Mr. Majewski said, "It was."

Director Follweiler stated she agreed with Director Dexter to look at the specific incident. She questioned Mr. Davidson about his audit practice to find the invoice and then look for approval as per their policy. She asked if the date of the signatures is part of the cycle.

Mr. Davidson asked for more specifics regarding the signatures.

Director Follweiler gave an example: "Let's just say our policy says that anything over 'x' amount of dollars needs to be approved by the board and then what you said what you do is look at the invoice to see if it has the signatory approval on it that is required by policy and then you also go and look at the board minutes to find the invoice to match it up. Are the dates when all that occurred part of your typical review, because I think that is in what Director Dexter's example is, where you are going to potentially find an issue. So if that is part of the normal audit process, if this is a weakness within the system, generally you should find it within your audit."

Mr. Davidson stated that he would think that it would have to be reported as part of the internal control on the financial statement. If there would be a reportable condition and they went in and found out that things weren't approved, it would be something that would have to be put in the report as a reportable condition. He said what they do is based on the check number. They request the invoice which must have a date on it, the required approval or approvals and then they look at the board book to see if it was on the list of bills to be paid. He said if something went out before it showed up on the list, he might not know that because everything is there. There is no indication of when it was mailed so he would not necessarily know the dates.

Director Follweiler replied that is why she asked about the dates as part of the auditing process.

Mr. Davidson agreed that there are dates on the invoice for approvals but he goes back to review the school board minutes to check for approval. He said he could look at that transaction.

Director Follweiler asked him to clarify that this audit is based on the AP accrual date, to the date it hits the AP file.

Mr. Davidson replied that the accrual would have been picked up and in there as an accounts payable on June 30<sup>th</sup> of 2007.

Director Follweiler asked for clarification that any invoice date within this audit would be June 30<sup>th</sup> or prior. She specified that the invoice date versus when they paid it was irrelevant.

Mr. Davidson said that is correct.

Mr. Majewski did not want to get into this type of detail but remarked that it is not even so much the invoice date as the obligation or transaction date. If somebody provided services on June 29<sup>th</sup> and they didn't bill the district with an invoice until July 15<sup>th</sup>, they would require to accrue it back because the obligation had already incurred.

Mr. Majewski asked the board members if it was their request that if this was not an item which was evaluated for an internal control compliance or breach, then to have Mr. Davidson review this one specifically for the internal control, to determine whether it met all the internal control standards.

An affirmative response was heard from a few board members.

Director Craig said he thought the situation was dealt with months ago. He asked the board about the end result as to what they were trying to find. He also stated that they have a report today and do they want to find more wrong because that is what he is hearing. He said he knew there were people who were not happy that the bill was paid and the fact that it was twice as much commenting that he was not thrilled either but he didn't understand why they were attempting to find something else wrong to make the district look bad.

Director Dexter responded to him as to her motivation. She said something happened in the district with a financial transaction that should not have happened. Her perception was that as board members they have an obligation to oversee the public funds and to make sure that when something happens that should not happen, the appropriate and corrective action is taken to make sure it does not happen again. Her understanding of Mr. Davidson's job as auditor is that it is his job to review the financial transactions that took place in the district; not each and every one of them because he couldn't possibly do that and they couldn't afford for him to do that. This was a major event; something that wasn't just a few dollars and she didn't know if this was the only event that happened. She said she relied on the auditor to tell them if their procedures are being followed. It was her understanding of what happened in July and August was that it was unusual and would like and hope to believe that.

She stated she also needed to know that their auditor is on task and looking for those kinds of things himself so that if they have problems, then they are informed and corrective action could be taken to ensure they don't happen again. She doesn't anticipate the event to happen again and certainly hoped they wouldn't need another investigation of anything in the forthcoming year, but the same errors that took place or the same decision making that took place, could be repeated in another kind of bill and she didn't want that to happen.

Director Craig agreed with everything Director Dexter said and was under the impression that when it happened there was certainly enough angst, anger and searching which was done on the part of the board and he thought they made it very clear to administration that it should not have happened and they don't want it to happen again. He thought they gave them some instances of how they would prevent it from happening again so he didn't see it as accomplishing much. He felt it was dredging up something that is not necessary. He didn't doubt Director Dexter's reasoning with regard to her concern but felt there are many other items that have been paid this past year that could also be looked into which would take time. He stated that he was under the impression that many questions had been answered and things had been put into place to ensure they don't happen again.

Dr. Lewis responded to Director Craig and stated obviously the whole thing was directed at his decision to approve an invoice. He apologized to Mr. Davidson for putting him on the spot and questioned him if he had come upon policies within an organization that permit the timely payment of an invoice with approval by boards in trust of those invoices at the next available date.

Mr. Davidson replied there were a number of things that must be taken into consideration such as available discounts with timely payment. Also, the fact that the board meets once a month to approve bills, with certain government bills which are ongoing that wind up being pre-approved or being on a list that have to be paid, whether it be to take discounts or so forth. They are provided with the information and the occurrence with the payment being made and not being timely approved by the board was unfortunate. There are instances where there are disbursements that are made for utilities and things of that nature such as his own contract. He said that when enters into a contract, he doesn't think that he is paid once a month when the board meets but they have approved his auditing services which have a limit.

Director Dexter replied that if there is a limit on his services and he submitted a bill for double that limit, then she thought it good practice to submit the request for double the payment to the board that authorized the limit.

Dr. Lewis added that he thought administration has learned from this experience and if that is the case then in the future they have put controls in place to avoid bringing that forward for payment regardless of whether or not there is interest to be accrued for late payment or discounts to be paid or deducted for prepayment.

President Leeson thought it was very difficult to put Mr. Davidson on the spot without having a full review of the situation. She said they have asked him for a review and maybe that would be the opportunity to have this type of discussion when he has perhaps more of the facts than he has at this point. She thought it to be conjecture at this stage.

Director McKeon referred to his own continuing education credits and asked Mr. Davidson to describe how he arrives at what he wants to test.

Mr. Davidson replied that he looks at materiality in a district with a budget of \$150,000,000 it could be as high as \$100,000. One would go in and go through and determine those items to look at, looking at the larger items first. They confirm from revenues, receipts, and expenditures and also go through the minutes of the meetings to look at contracts and bid approvals based on the invoice. In addition to that they do the accounts payable test where they take a selection of invoices. They may look at 150 to 200 invoices. It just depends what the sample has to be to give them what they feel is the coverage. There is always the potential of something going through that they did not pick up in the test. He said it can happen and he doesn't know how else to say it.

Director McKeon replied that he didn't think he missed it but it just didn't get hit. There was no strike to go pull the information.

Chairperson Koch asked if they determined in the beginning if the actual payment of the invoice was out of the date range or scope of Mr. Davidson's contract with them.

Mr. Davidson replied that the payment itself happened in July so it would not have been picked up in the test of the check disbursements. They look at the accounts payable invoices at the end to make sure they are in the proper period but again that is a sample. They also look in July, August and through September because they are still bringing in the invoices. If they have a dollar amount, one gets to a point if it is less than a certain amount of money, it will not be accrued. They are looking for unrecorded liabilities and that is not the case here. The liability was there and the question here is when that payment was made. Mr. Davidson said if it wasn't selected as part of the accounts payable test, it would not have been looked at. There is a chance that next year when they do the check test, which would, in fact be a check that would be picked up and looked at from that standpoint.

Chairperson Koch addressed the board and stated the reason she questioned him is for those who are asking about going back to look at it again. If it falls outside the scope of their contract, would they be willing to go to the additional expense to have him look at it.

Director Dexter said it was her understanding that he could pick it up either as an invoice or as a payment made. It could be an additional expense and yes, she would be willing to pay for it because her concern is did they correct the situation in a justified way that caused that problem to happen. She asked Mr. Davidson's opinion if the new procedures in place were adequate and if he didn't think that it was in the scope of what he did as auditor, then she wanted to know whose job it would be.

Mr. Davidson replied that it would be, but the transaction itself from an internal control standpoint didn't happen until 2007-2008. It is in the current fiscal year and as far as looking at that invoice and going through, it was not something that was a concern. It would have been helpful to have looked at it initially instead of being presented with the question now. He stated that he was engaged by them to audit the financial statements and if there were a question on certain matters, it would have been helpful to know about these things up front.

Director Dexter stated she realized that nobody had asked him to review it. She questioned if it was put in the scope. She stated that although this is her second year for an audit, she had nothing last year for him to review and because she sees that this report says "draft" she asked if it was possible or appropriate to review that particular transaction for this year's audit, then she would request it. If it is better to review it for next year's audit, then she would ask that he take a look at it at that time. By requesting his professional opinion, she wanted to know if they had adequately addressed the problems which had caused the situation and is not looking for anything other than that.

Mr. Davidson replied that technically the internal controls which they would be auditing for the 2007–2008 have changed so the procedures that he would have to go through for review should be different. They have put into place additional steps to circumvent this from happening. Those would now be the new controls that they would be testing as part of the 2007–2008 and weren't in place in 2006–2007. The rules have changed for 2007–2008 as far as what was standard as far as the approval of an invoice. He would have to update his audit testing to change the controls considering there may be another step in approval or two additional steps or maybe another required signature. With regard to the internal control, if everything has to have a blue tic on it, then he looks for a blue tic mark and if it is a red tic mark then they have an exception. If those exceptions keep occurring, then they have a problem.

Mr. Majewski asked Mr. Davidson if he had received information on contingent liabilities and pending litigation, which impact his footnotes.

Mr. Davidson replied that he had not received a legal letter to confirm that.

Mr. Majewski asked if there was a date that they need to have the audit approved without creating a concern about requiring him to redo some of that information once he received it.

Mr. Davidson said the legal letter really dictates the final date of his report. He said that technically they don't accept the report until January 22<sup>nd</sup>. It is something that he must resolve. He stated there are new auditing standards which have come out in the last six to eight months that require them when they are dating the report. Previously, when they were finished with fieldwork, they went out and obtained the attorney's letter and a letter of representation from the district disclosing all of the information and it was signed by Dr. Lewis and Mr. Majewski. That is contingent on obtaining the legal letter. The legal letter is very important because the solicitor will respond on any litigation as to whether there is a financial responsibility, beyond insurance, to the district. He had not received that letter as a commitment as of today. The only information as far as litigation may have been what was discussed internally or what was mentioned in the meeting minutes. The legal letter is the final piece that he needs and when he receives it, his audit report must be very close to the date of receiving the letter. He said that previously he had some time with regard to the report date but because of the unfortunate problems with Enron and WorldCom and so forth, an extra burden was created with issuing reports. They must be very careful because if things aren't done properly, he is subjected to peer review, and if he doesn't dot all of his i's and cross his t's, he cannot perform the audits. It has come down to something as simple as the dating of report can affect his license or his business to practice in government auditing. He said that the date when he receives the legal letter is very important to him. If he were to do something in addition to the 2007 audit that they couldn't issue the final report, and he received the legal letter and it then becomes stale dated, he then might have to request a second opinion from the solicitor.

Mr. Davidson stated that the solicitor now has the letter and is aware of the dates that he is dealing with so when he receives the report at this time, as far as the 2007–2008 and what they have done, the audit is finished other than the presentation and if there were any questions. If something further must be done for any reason, it would hold up his issuing of the report because he must conclude on whatever it may be. The financial statements are theirs and he is present to render an opinion. If there are questions or concerns on something, he said that of course he has a vested interest to make sure the information is correct. He noted that it doesn't affect the financial numbers of what he is rendering his opinion on, but it has something to do with regard to the single audit and the compliance or internal controls.

Director McKeon asked Director Dexter if they could possibly defer it until the next audit year and then review it before the auditor comes in.

Director Dexter replied that she thought she said that and thought it would be appropriate because it would give them a longer test time to see if the new procedures had been implemented properly and people had been trained to do the necessary project. She wanted to know if the auditor looked at that incident and apparently he didn't so she would ask him to make note of it and she would provide him with further information at a later date.

Director Leeson mentioned there were a number of people who came to speak at Courtesy of the Floor who have a time issue. He asked if the board or Chairperson Koch would approve of allowing them to speak.

Chairperson Koch asked if anyone wished to speak at Courtesy of the Floor.

### **COURTESY OF THE FLOOR –**

1. Mrs. Esther Lee of 627 Cherokee Street, Bethlehem stated she had watched with dismay, the position that the administration proposes in balancing the budget. Up to this point, she has watched, but now she must speak. She recently read with interest, the suggestions of the district to bring balance to the budget. She disagreed with what the board and administration had come to if what she read is correct. She noted that the goal was to make over a 5 million reduction in the budget. She said she didn't know if anybody had strategically thought about it but in business when things are tight, what she had learned that they should start at the top to ask for reductions. She didn't know if administration had thought about asking for a reduction of perhaps ten percent in salaries for the cabinet to help bring about a balanced budget. If not, on behalf of the citizens and taxpayers of Bethlehem, she so moves. The second thought she had was regarding transportation. They have an awful lot of busing and when she was on the school board in the 70's they had the same problem. They didn't deal with it then and those costs have certainly risen. She would ask that if they cannot do something about eliminating transportation, which is a non-educational piece, she asked that they attempt to look at and reduce as much of the transportation costs as possible. She is aware that they are mandated to provide transportation but they need to look at what the Department of Education allows them to do and review it. In the past she noted that Dr. Lewis was aware that she had spoken out against the Career Academy, but from what she has read, she believed that their young people and students are more important to us than to present them for outsourcing. She believed they are talking about an outside third party educating their children and stated they were not a commodity.

If they had to halt whatever current facility building and construction in order to keep their education intact, then she believed they needed to do that. The Career Academy students have a discipline problem and they are not throw-aways. She stressed not to outsource them. When discipline is already a problem, why would they want to increase class size? She said concentration already appears to be an existing problem. She asked about the excess teaching positions. She said she never heard of an excess teaching position. A teacher was obviously in place because she is necessary. When she reads about first graders being restructured who are having trouble with Reading. She asked the superintendent to look at what they are doing because what is being proposed is coming out to the board. She stated that she has been there and it is the board of directors who makes the final decision. Mrs. Lee asked the board members not to throw their young people away. They have the 4<sup>th</sup> and 5<sup>th</sup> grade academy on the Southside and the discipline academy. Although she is a little old but she was not asleep and said that education is key. She said people talk about the jails getting full and they don't want to send and accommodate our prison facilities by sending their students unlearned into the community. Mrs. Lee said as president of their local Bethlehem branch of the NAACP, she had been following education in the district for quite awhile and said it is difficult for African American and other minority students for many reasons that she wouldn't go into here. She said she received a letter about attending the workshops which she planned to do, just as they have learned tonight, they need more time to do that. She said she needed time to discuss with them why they need to keep the district intact. She repeated that education is key for everything they do and their students are not a commodity. Reading is important along with first grade and she noted that if they don't make it from first through third, they would fail. They cannot allow their students to go out into the community unprepared. She reiterated to Dr. Lewis that if part of the reduction could come from staff taking salary reductions, and knew it was not popular, but she had to say it along with looking at transportation reductions. They are under corrective action in the district and is aware of the raises given and stated that nobody is giving them a raise. There are many residents who have moved into the district from New York and New Jersey which have influenced taxes but there are those who live in the city of Bethlehem whose median income is not what they are making in New York. She suggested that they have a better attitude with regard to the young people and students in the district.

2. Mr. Stephen Antalics of 737 Ridge Street, Bethlehem stated that Gabriel Dominguez enrolled last year in the Career Academy, the Bethlehem Area School District's new alternative high school which was experimented with low student/teacher ratios to reduce dropouts. In regular school he often felt lost in a maze of anger and isolation and developed hatred for education. At Career Academy his grades improved and so did his behavior and said he realized that it was his only chance. He said he was doing better now and getting A's.

Emily Colon, age 18, is trying to complete her junior and senior requirements this year in order to graduate. Mr. Antalics quoted Colon as saying, "The Career Academy has apparently given us a chance to finish high school and we feel that we have a future. If they take this away from us, they would be taking away our future."

Mr. Antalics stated that what these children said deeply disturbed him and he spent a long time thinking about it. He asked what was the cost to save a child from dropping out, falling into crime and becoming a detriment to society and asked what was the price of that?

Broadly defined, education encompasses teaching and learning specific skills and also something less tangible but more profound, imparting knowledge, positive judgment and well developed character. He stated that it is apparently what this special school was doing and that is fulfilling the very profound requirements of education.

Mr. Antalics said that education has been done in open fields, in World War II Quonset Huts, and in ultra-electronic, state of the art buildings. They are getting those buildings at Bethlehem School District.

He said he attended most school board meetings and had been impressed with the quality of the building programs in the district but he rarely saw a slide show presentation as to what is happening in the career schools and other issues. He said he had no choice but to come to the conclusion that the legacy of the administration is to build shiny new buildings versus shiny new minds. He said he is troubled by the fact that it might be the former. Mr. Antalics asked the board to carefully look at expenditures, the buildings, which really don't have much to do with education. As in the Career Academy, he found it was the teachers who made the difference because the children responded to them. He strongly urged them to look at the building programs in the district and cut out the fineries which could very well pay for the expenses of the career schools and other reading programs which is education of the children. He asked them to "cut out the fat" and asked why the school district needed a public relations officer. The best public relations for a school district is to have successful children who graduate and that is all they need to hear from administration. They don't need "spin doctors." He said that all they need was qualified teachers in a smaller class to educate their children and to keep them in school and off of the streets.

3. Mr. Gabriel Dominguez of 940 East 4<sup>th</sup> Street, Bethlehem stated that Mr. Antalics previously referred to him as a student from the Career Academy. He said while the meeting was going on, he heard about money being spent on the security cards but he didn't hear about money being thrown toward the students. He said that they put a plan together for the school and compared it to buying a house. He said that you wouldn't buy a house and then think you might not have enough money to pay for it. He said that when they created the school, they knew what they were getting into and they knew how much money would need to be budgeted. He didn't want to offend anyone but he found it to be somewhat irresponsible because they should have known what to expect from the beginning. He said the first year was a bit disorganized but not everything goes right at first but now in the second year it is a lot better and the teachers have a bond with the students. He trusts his teachers and stated that is why he is learning. Now it looks like a third party is going to come in and they won't know the students. The teachers there now choose to come and have a passion to teach them and it is not about the paychecks. He also suggested salary reductions as Mrs. Lee had, so more money would be available in the budget. It is not always about what people want but the fact about what they have to do. If some of the students go back to the regular schools, they can't really adjust to that environment and they quit. The Career Academy teachers won't let them quit. He said he could go to school now and know it is going to be a good day because he knows the teachers. Gabriel said that their school has been focused on as the bad school but the problem is that nobody focuses on the good.

Director Dexter asked Gabriel to show them the good ending. She asked him to come back to the board, when he is about to graduate and remind them that he told them how important the academy was for his education.

Gabriel agreed to do so.

4. Ms. Juanita Rivera from 721 Laufer Street, Bethlehem stated that her daughter attends Career Academy and said that the school is very important to kids. She said her daughter never made the honor roll in her life and she has done it twice in a row while attending the school. She personally knew how important the academy is because she was there when it was opened and it is basically the same thing if not better. Everybody says they are putting budget money toward things that don't even matter. For these kids and to most of the parents, the school matters a lot and commented that it is like a family environment for the students where they feel comfortable. Her daughter actually wants to get up in the morning to go to school. Ms. Rivera stated she has three daughters; one never graduated and she doesn't honestly think the other one will graduate so she would like to see the last one of them graduate. She said that if it isn't from the Career Academy, she doesn't think her daughter will graduate because many students can't handle big environments like Freedom High School and her daughter is one of those students. She said that many students she knows have graduated and still can't read because they are pushed through the system. She has friends who can't read or write and are on welfare because they can't get a job. She'd like to see her daughter get a good job and said she would like to become a nurse. Ms. Rivera concluded that if the Career Academy isn't there, then she doesn't think it will happen.
5. Ms. Tina Garcia of 1324 Montrose Avenue, Bethlehem introduced her son, Edward Gomez, a student who presently attends Career Academy. She said her oldest son dropped out of school. She said she is a professional and a hard working single parent. She stated that sometimes when she can't be there, the teachers at the academy are there for her son. There is one teacher in particular who pages her son every morning to make sure that he wakes up even though she awakens him, this teacher does that for him. She said her son shines at the school. Ms. Garcia said she never thought that she would hear the word "college" out of her son's mouth and now he talks about it all of the time. She said the teachers did it. They have exposed him to places that she never even thought he would go to. She said she went to a Latino conference through her job many years ago and there were kids there from school and she thought it would be awesome to see one of her kids there. He has been there a couple of times because they have taken the time to take them. They raise money and do everything possible to get the kids ahead. The day the newspaper article came out stating that the school was going to be closed his son came to her and asked her if she thought her employer could give money to his school. She asked him what he meant and he told her that they were trying to close them down and that they needed money. She said since the 5<sup>th</sup> grade, she had nothing but daily calls from teachers telling her about his behavior. He didn't care about doing his homework and the teachers just focused on what he did wrong. Ms. Garcia said that the teachers at the Career Academy look at everything that is right with the students and bring out the positive in them. She said her oldest son was a high school dropout and thanks to Career Academy this son is not. She stated that she was attending the meeting because her son requested that she come and talk. For him to come to her and ask her to attend the meeting is progress and she doesn't want that taken away from him or any other child. Ms. Garcia strongly suggested for the board and administration to visit and see what the students do at the school and to see their potential.

6. Mr. Edward Gomez of 1324 Montrose Avenue, Bethlehem added that he would be graduating this year so it won't be his problem if they close down the academy. He said that he wanted other students to get what he received. The teachers don't get paid extra for the time they give. He stayed at the school today until 5 p.m. participating in a Dale Carnegie Course and stated he never did anything like that at Liberty High School. Eddie stated that a teacher calls him every morning to awaken him and she doesn't get paid extra. The teachers at the Career Academy chose to come to his school to teach and get the students to do whatever they have to do and he wants other students to have the opportunity.
7. Ms. Ashley Havlik of 3635 Margate Road, Bethlehem stated that she attends the Career Academy. She said that normally she wouldn't be able to stand up to speak this evening but she stayed after school for a Dale Carnegie Course today and learned about confidence in public speaking. She said she wouldn't have done that at East Hills Middle School. Ashley said that last year she was expelled from two schools and the Career Academy is her last chance. If they close the school she doesn't know where she would go. She said she knows all of her teachers by heart and doesn't want the school to close. Ashley said she stays after school on certain days until 8 p.m. to participate in LOTS (Leaders of Tomorrow). Her mother comes into her school at least once a week and communicates with her teachers. She is on the field hockey team for Freedom High School and is about to join the soccer team. Ashley acknowledged that she has anger management problems but the school works with her and stated that she even has her teachers' telephone numbers in her cell phone. She knew money was tight but said they should put it into the students' education and not into the buildings. If they brought in other people from Lehigh University, the students are going to act worse because they don't know them. She said they like their teachers, learn from them and get along with them. Ashley concluded that the students are at times bad but they need to look at the good.
8. Ms. Taesha Torres of 721 Laufer Street stated that as her mother said earlier, her two older sisters were in sixth grade along with her and she passed when they failed. She said she never failed and planned on graduating this year and moving forward with her life so she could look back at her sisters and help them out. Taesha said the teachers help the students and are not like an ordinary teacher often offering the students one-on-one time. They can also talk with them about their personal life and they will give them answers to their problems. She said she was a straight F student at Freedom High School and is now on the honor roll at the Career Academy. She concluded by saying they should not close down the school.

Director Koch thanked everyone who participated in the discussion, especially the young people who had the courage to come up front to speak, which she said was not an easy thing to do. She proceeded to introduce Mr. Majewski to the floor in order to give him the opportunity to give his presentation and conclude the External Audit Review.

**EXTERNAL AUDIT REVIEW** – (continued) – Mr. Majewski referred to page 16 in the draft of the audit report. He said it was important to understand some of the categories and numbers because they would be seeing and hearing about them. He chose to view the Governmental Funds because it is more simplified. Under entity-wide one will see the transfers in and out and it is much more aligned to the type of financial operation they talk about every day.

Mr. Majewski stated he wanted to review the information before he moved on to the general fund detail because they need to understand the different sources and pockets of money. Under the category "General" it states the end of year fund balance of \$1,790,719. Under that category are two areas: the ACCESS Funds, which are those funds generated from Medicare through billings of \$121,984. The remainder, \$1,668,000 is the general operating fund on reserved balance. Mr. Majewski stated that they would see the notation "designated" at some point; unrestricted but designated which would mean that in the current year they had budgeted use of those funds. He referred to the column labeled Capital Reserve 1432 and noted that it referred to a specific designation for different types of capital reserve funds. These funds were designated several years ago. The fund was started by the board of school directors in order to accumulate money for the purpose of capital improvements, the purchase of busses and those types of items. He said because the board had transferred money into that account, they are not true restrictions, however, as long as they are maintained in that fund, they need to comply with all of the requirements of the fund and only spend them on capital items. Those are the funds that if they so desire, can be moved back to the general fund when there are monies available. He referred to the category, Capital Projects on page 16. Those are the funds generated by bond financing (\$32,249,692) and are the monies used to pay for the construction projects and can only be used for those purposes. The one next to it, Debt Service, doesn't have much with accrued interest received from one of the refinancing which was to be used with the payment in September of 2007. The last category, Non-Major Governmental Funds has three components. The school district maintains a revolving fund of \$100,000 to provide computer loans to qualified staff. He further stated that revolving meant that as payments are being made, it generates more funds and maintains \$100,000 whether it be a cash balance or outstanding loans. He noted that \$57,972 of that fund is part of the reserve for the athletic fund. \$8,356 are concession fund balances. Mr. Majewski said he wanted to give them an overview of the categorical fund meanings and to define their availability.

Mr. Majewski generated a report which was in a similar format to what they had seen previously. He thought it was the best approach to address the issues of last year with regard to revenue and expenditures. He made note that when they receive the report they will see that last year was not a revenue problem. He referred to the second page of the revenues in the report he distributed. He said at the very bottom they will see District Revenues, District Expenditures, Surplus, ACCESS Funds Net Surplus and one can see where the amount will tie into the financial statements and that would be proof that everything is accounted for. Mr. Majewski referred to his statement that there was not a revenue problem last year and said to focus on Total Revenue located above where it states Unreserved Fund Balance. He noted the budget for revenues was \$153,000,000 and they had received \$156,000,000, which means they have approximately \$156,000,000 worth of revenue, which came in without use of the \$3,500,000 of fund balance that they anticipated they would need in order to balance the budget. He said instead of focusing on both revenues and expenditures, he needed to point it out so they could proceed to the expenditure category, which had generated the activity that caused the deficit.

Mr. Majewski continued to the next page which was titled 2006–2007 Expenditures By Program and said it is the format of a report that they will receive every month and when they review the budgets. The categories should be somewhat familiar to them. He said they also maintain budgets by these areas. He said he needed to review several categories where he needed to point out where they had significant deficit spending. He began with the Board category and stated the deficit in that budget was created by the amount of necessary spending for legal expenses.

He referred to the provided spreadsheet and said they had quite a few of different types of expenses such as residual expenses from the Freemansburg lawsuit which went on for some time. There were also the normal expenses which were paid to Sweet, Stevens, Katz and Williams, LLC for the retainer and beyond for expulsions as well as two primary areas in special education. Mr. Majewski added there were other expenditures for legal service payments which came under the deductible of their insurances. In the end a deficit was created in that account.

The Superintendent's Office shows an accumulation of areas that had been discussed over the last year which are unrelated to the operation of the office but still charged under that code. He said with regard to future years, they have re-categorized many of the expenditures. He detailed that two secretaries were being charged to the superintendent's account that had defined responsibilities for the Community Service Program, when the program was initially implemented. They had nothing to do with that office but were historically charged to that department. He said that there are areas which have been moved, and they are budgeting for them properly, but as far as 2006–2007 was concerned, they were there and were not properly categorized. Mr. Majewski stated that all of the travel in the district is charged under the superintendent's category. If there was an excess amount of inter-district travel it showed a deficit in that area. All conferences and professional dues which included board dues were all categorized under the superintendent's account. It was an aggregation of many items, which just didn't make sense. To correct the problem in the future they separated and redirected the items to areas where the appropriate individuals will monitor and maintain those properly budgeted items and not have a reoccurrence of over-expenditure.

In the Building Staff category, the area where there are the principals and/or staff supporting buildings. The expenditures exceeded about \$125,000. Last year there were some issues between a half-time position being made full-time at Fountain Hill and with the Career Academy position. There were a number of vacancies which were filled. They anticipated a figure in the budget; however, some individuals came with more experience and therefore contributed to the budget to be expended in excess of what was originally budgeted. With regard to looking forward, the question was asked if it was a problem which needed to be attended to, and the answer was yes. They are attempting to accurately budget the principal salaries in the current year budget and have definitely looked at future budgets.

Mr. Majewski brought attention to \$243,264 deficit in the Career Academy/RASA/Alternative Education Program Code D4. The Career Academy had just been initiated and needed supplies, equipment and furniture. The initial requirements of the program exceeded what they had anticipated and budgeted. In addition to that, the vast majority of the over-expenditure was associated with the utilities for the lease of the Saint Cyril and Methodius property. Those were budgeted under a Maintenance category but they were charged here because they were capturing the total cost of the lease. This year they changed the way they budgeted and reviewed it and moved the monies which were in the Maintenance account to the lease so it is properly aligned. Mr. Majewski said when he reviews the Maintenance budget later, there is a positive amount of over \$300,000 which will offset a good portion of the lease deficit.

Summer school revealed a \$133,439 budget deficit. Mr. Majewski stated they typically had a middle and high school summer school program but now also have an elementary summer school program which was never budgeted.

Dr. Lewis injected that the high school summer programs were to be essentially self-sustaining and paid for through tuition paid by the parents. He said the elementary programs should have been likewise, of course, not withstanding those children who are in free and reduced lunch. Nonetheless, the \$56,000 which was budgeted, would have been anticipated to be for those kids who were in the free and reduced lunch program. The elementary summer school apparently was not budgeted and had grown to include 16 elementary schools.

Mr. Majewski said when one looks at only the middle and high school summer school programs, they were fairly revenue and expenditure neutral. He viewed the problem to solely be the program, which was put into place at the elementary school level.

The School Resource Officer program had a \$127,206 deficit. The problem they incurred last year was regarding a billing for the resource officers at Liberty High School, which they contested the previous year because it was thought it was to be specifically paid out of a grant from the City of Bethlehem. It went on for several months and finally a meeting with the mayor as well as the commissioner was held in an attempt to resolve the issue. The final outcome was that the district was required to pay for the costs in addition to last year's payment which resulted in double payments for the Liberty High School Resource Officer and thus the over-expenditure. With the current 2007–2008 budget, that issue was resolved because they are aware of cost and have properly budgeted for that expenditure.

Mr. Majewski moved onto the category of Debt Service and noted a \$925,064 deficit. He initially interpreted \$786,000 of that amount to be prepaid interest, therefore it didn't show as an expenditure, however after discussions with Mr. Davidson, it was clear that the interest payment that wasn't due until September 2007 was placed in a debt service sinking fund and there was no opportunity to get it back. Therefore it was an obligation so they needed to expend the money last year. He said the positive is that he budgeted for that payment this year and the money was charged to last year so that account should be under budgeted at least by that amount for this year. In total between the two years, it will be a net zero, however, for timing purposes it showed up here. Mr. Majewski stated that a few months ago he spoke about a potential \$5,000,000 deficit and now it is appearing to be a 5.6 or almost 5.7 million dollar difference and this is the reason why it is different. Initially, this expense was not included with his projections. They were required to expend it, so it grew the projections by the aforementioned amount of money.

Mr. Majewski stated the majority of the Employee Benefits deficit was a result of the self-insured health benefits account coming in far greater in excess of a million dollars than what they had budgeted. In the previous years we had a fairly flat trend but last year was dreadful. He said with an increase from 15 million to 17 million and after taking a look at the trending in the past six months, they are on budget. Mr. Majewski said that the issue needed to re-evaluated and he noted the extraordinary increase was the result of several large claims. He said they are back on the previously anticipated trending and he felt they are on track to not exceed the current year budget. FICA and retirement for the year were smaller in scale, but as some of the discussed salaries enter the budget, they must pay for social security and retirement payments, which caused some minor increases. Mr. Majewski concluded that the vast majority of the problem was the health benefits account.

With regard to the Special Education Program, there was \$347,688 in excess of budget. He noted that the district makes payments to students who are getting work experiences in their schools. It costs approximately \$60,000 a year to pay these special education students for their work experience. As they were going through the budget, there was no existing budget to pay for these expenditures. He said that problem is now corrected. In addition to that, throughout the year, the vast majority of overspending was a result of special need students that required one-to-one agreements with the Intermediate Unit. Those who were put in place were not known at the beginning of the year because often the students are evaluated after the programs begin and by law the services must be provided. The costs had increases which were well beyond what they had budgeted. He said they have been in contact with the Intermediate Unit and are working more closely at identifying costs in different ways in order to keep them down. He said the Special Education 2006–2007 budget was a disaster.

Mr. Majewski addressed the Intersystem Payment category, which had \$1,656,625 in excess of the budget. He reiterated what had occurred and said that approximately \$500,000 of that was associated with Charter Schools and spending in excess of what was budgeted for the schools. The growth and enrollment was primarily the Lehigh Valley Regional Academy. When they were adding classrooms, they weren't receiving the communication and in addition it wasn't budgeted. The enrollment required payment and as a result there was excess spending. In addition to that, they looked at payments to the Intermediate Unit. There was a partial hospitalization program, which had increased approximately 30 percent. He stated that after reviewing the costs, a good portion could have been offset if there were closer monitoring of student absences and attendance. Mr. Majewski said that discussion took place with the Intermediate Unit because if the students are eligible for services, they would get reimbursed and it offsets their costs.

The largest component of the Intermediate Unit problem was associated with the Colonial Academy. When the academy was put in place, they hoped it would be cost neutral with offsets coming from programs where students would be transferred into the academy, which was a lower costing program, however the demands placed on the school district for the special needs students not only had them going to the other programs but also to the Colonial Academy. In addition to that, the number of seats, which were identified for the Bethlehem Area School District, was increased from 65 to 87. They added seats and therefore added costs, which were well beyond what was anticipated for the budget. Mr. Majewski said that because the Intermediate Unit costs come in so late in the year, they don't always know if there is a problem until the bill is received. He stated they don't have an adequate budget for this year's costs and are working to minimize it. He expected a deficit and said they will work at a reduction but was confident that they would not be able to keep it under the costs. With the proposed 2008–2009 budget, considerations have been put into place and it should not be a reoccurring problem but he said he didn't see the problem going away in 2007–2008.

Mr. Majewski moved on to Contracted Services – Maintenance Department showing \$156,550 in excess of that budget. They had a similar location problem between budget and charges for Holy Child as with the issue with St. Cyril and Methodius, in which they pay for the utilities and have a contracted custodian working there along with utilities for Holy Ghost. He said it was a problem lining up last year, not that they spent more than they had budgeted, but he thought they needed to do a better job of lining up the expenditures in the budget so they can see exactly where they are at when they do a review. Mr. Majewski concluded that the problem has been resolved this year.

With regard to Technical Services, Mr. Majewski brought attention to e-Rate and its timing. He said that just over \$130,000 of the problem was for telecommunication payments being made but the E-Rate receipts not coming in last year. He said they should appear this year, which will keep this budget even lower than anticipated but last year the \$130,000 was a result of delays in receiving the monies from the federal government. There was approximately \$70,000, which was paid to Apple Computer for various services and parts and \$50,000 to Micro Technology Groupe. Mr. Majewski inquired with Mrs. Lutchter for more details regarding the services which were provided.

Mrs. Lutchter explained that the Apple fees were for repairs and was budgeted as well as the Micro Technology. She said the actual reason that it was over budget was because they initially planned to convert seven schools to the new phone system and then received a proposal from Strategic and Alcatel regarding considerable overall cost savings. The increase from seven buildings to the entire district minus two buildings resulted in the cost difference.

Mr. Majewski stated the last item for discussion was the Information and Communications Technology Department. The vast majority of costs were associated with the Apple lease payments. There was an amount of money that they hoped would come from a grant, which they did not realize, so it was charged to the general fund.

Mr. Majewski said when they take a look at last year, they spent \$5,300,000 more than budgeted and he said that is a problem. It wasn't the revenue but it was because they spent in excess of what they had budgeted. Some of the various reasons he provided are not recurring but some are and the majority of those have been corrected for the current year. With respect to the Intermediate Unit, he didn't believe there was adequate budget this year with regard to payments for the Colonial Academy as well as other special education services. It may be ongoing but they are looking to make the correction in 2008–2009. He stated that when they are addressing the budget problems, they have heard him say that it won't be a one-year issue. Parts of what they are seeing are historical costs over a seven-year period. They have probably increased their costs per ADM (average daily membership-number of students) over a seven-year period prior to the last four. He commented that they put together many good student programs but they have added to the budget. In the last four years they have increased their budget per ADM at a probable rate of 5.75%. Alternatively, over the last few years, the historical millage rate increases have gone up about 5.9% with average increases of 2.87% in the last four years. He noted Act 1, in addition to giving attention to the concern of the taxpayer, which is exactly what they should be doing. Mr. Majewski expressed his concern with the direction in trying to fix the problem. There are some issues with last year but it is not the only thing they need to isolate in looking forward. If they are going to continue with the type of millage increases that they've had then there is no way it would support their spending. They need to significantly reduce their spending in order to be able to maintain some type of financial solvency of the Bethlehem Area School District. There are some decisions to make considering the trend not being in their favor. Four years ago they had \$10,000,000 and then it went down to \$8,500,000 and then to \$7,500,000 and now it is going down further. They had been balancing the budget by using the fund balance and that can no longer happen and need to find a way to be able to put the two of them together. The revenues and expenditures need to balance one another and they can do it but it would require larger than average tax increases or some reductions in expenditures or a combination of both.

President Leeson stated that they budgeted \$156,959,000 and when she went back into the budget she noted that it did include the \$3,500,000 from the reserve account. No matter what the revenue side, they budgeted \$156,000,000 in expenditures and spent \$162,000,000 in expenditures so they spent \$5,349,000 more than what they approved in the budget. She asked how it happened that somehow they spent more than what was approved in the budget without the board knowing that they were going over the budget. She noted the areas where they exceeded and asked if there were controls in place to pass a balanced budget and to stay within the budget.

Mr. Majewski replied that yes, they do have controls. What he attempted to do when going through the individual categories is to give an explanation of some of the things which occurred to give an understanding of whether or not they could be controlled. For example, they are self-insured and he cannot control who is going to the hospital and their claims. He said they try to budget based on the trending and have good years and bad years with last year being a dreadful year. This year it appears to be an average year. They cannot control that type of item.

President Leeson responded that she understood what he was saying but when it happens in one category, she asked if they go to another for fund transfers. She said they do fund transfers almost every month. She understands that in every budget there is an increase in something they don't expect and must figure out how to pay the unexpected expense.

Mr. Majewski replied that yes, they do budget transfers almost every month. Last year they didn't have sufficient unused budget in the account to transfer. He said sometimes there is a bad year for certain items and it can be covered but last year they had a host of them. Some items clearly require their attention and are getting the attention in order to have better control over some of the spending. He mentioned the summer school program which is exactly the type of program the board wants, but they need to be able to realign it so that it can be supported by the budget in a way that it won't cause a problem. The academic interventions, which provided tutoring services, exceeded the budget. They receive monthly reports so it is monitored and have had internal discussions with the responsible parties conveying that they need to do a better job of monitoring. Mr. Majewski said there were certain things they could have done better but they know that and as a cabinet are looking to identify those areas which had inadequate controls. Those created some of the issue but when one looks at the scope of the amount of money, it didn't create a \$5,000,000 problem, but the areas of health insurance and intersystem payments made an impact. They don't control what students use charter schools but they pay for them. There is a requirement under the Public Law 92-142 to provide appropriate services to children with disabilities. If they have a number of those which creep in during one year, it becomes a problem during that year. There was a combination of things that happened and the majority was things that they may not have been able to control but there are worse things that they can and are trying to do a better job with those areas.

President Leeson replied that they continued to spend throughout the cycle as well and thought if there was one thing that was very characteristic of the board, particularly at that time, was that it was a board which followed the recommendations of the administration fairly closely. When discussing the millage rates not keeping pace with their spending, she felt the board really followed the recommendations of the administration on those issues and on using the fund balance. In recent years she didn't recall the board increasing the amount of fund balance being used. She thought they basically followed and recalled asking if they were comfortable with the amount of fund balance they were currently using and thought they were always answered with yes.

Mr. Majewski recalled the question and agreed with her that at that time he was comfortable with the levels and never anticipated this type of year and now he can't be comfortable with that level because this was a dreadful year. It was uncharacteristic of the type of years that they've had.

Dr. Lewis stated that the genesis of the issued fund balance was the board. He specifically recalled last year's request on the part of the board to use more fund balance to keep the millage rate down. He thought Mr. Majewski's assessment was right on the mark. He said it was his honest assessment that the fund balance could tolerate it and would be rebuilt as it had been historically for five years running. Dr. Lewis said it is not an excuse, but he pointed to five major contributors or drivers such as Debt Service, Employee Benefits, Intersystem Payments, and Special Education, which in a large part is a mandate. He said there were \$3,500,000 to \$4,000,000 of expenses in those categories alone. They have put a monthly check in place on every single listed account with a responsible cabinet member monitoring and trending to see if they are within their spending patterns. He reiterated that the use of the fund balance was basically the genesis of the board and he distinctly recalled that they wanted the millage rate to be a mil or under. It was insisted upon to keep the millage rate with respect to the taxpayer. Dr. Lewis stated that if indeed choices were made, they are party to that and need to do a better job. As Mr. Majewski stated earlier, they had a perfect storm with it all of them coming in one year.

Mr. Majewski added that when looking at what we are doing differently, he is attempting to get confirmation of the numbers from cabinet in order to compile a projection for the current year so that they could communicate their position, area by area, to the board. The initial draft is in place and he stated it was a terrific idea to be able to communicate to them as to where they are at a given time. He said he hoped to have it to them within the next few weeks as the structure is presently being reviewed for accuracy. Mr. Majewski stated that he was not comfortable with providing a projection on the revenue side, considering the different cycle regarding that area. If one looks at the mercantile and local services tax, the budget probably has received zero because they are spring generated. The earned income tax tends to work on a similar trend so he is not very comfortable yet to say where they are with the revenue. Expenditures are more predictable and he thought they could get that information to the board.

President Leeson replied that the revenues have always come in above or at what they expected and historically that had not been a major issue. She referred back to the historical expenditure data and during 2004–2005 they had revenue of \$159,020,000 and expenses of \$152,951,000. During 2005–2006 there was revenue of \$158,828,000 and expenses of \$159,867,000. She said she saw deficit spending in both of those years as well. When he said that it was an unusual year, in 2004–2005 and 2005–2006, they also had this trend, but not as significant. She didn't think it was brought to their attention in 2004–2005 or 2005–2006.

Mr. Majewski responded that at the minimum, it would have been brought to their attention when they did the annual financial report. When they had to review the year, they did it with the entire financial statements.

Director McKeon stated that as he attended board minutes and was contemplating running for director, what concerned him more than anything was that he never heard a "head's up" to the board members with regard to potential issues. If it was done during a private meeting, then that is a different issue.

Director McKeon said this just didn't happen in the last quarter or the last month of the fiscal year but it was building through the year and the lack of communication bothered him. He didn't want to use the word, but he absolutely demanded that the board be provided with the information so they know that the issue or the catastrophic illness in all probability didn't happen in the fourth quarter.

Mr. Majewski replied that Director McKeon was absolutely correct and that when they were building the budget for this year, the reason why they significantly increased it was because he was signaling to the board probably six months before the end of the year about the trends which weren't positive. He was waiting in hope to see if they would tail off, but they didn't.

Director McKeon added that when going forward, as long as they get the "heads up" when a particular line item in the budget becomes a problem and they might have to ask him or Dr. Lewis to readjust the budget. They may have to cut some expenditures midstream to help compensate.

Mr. Majewski replied that is why they are working on a separate report with year-end reflections and he thought that it would hopefully satisfy that requirement and create better communication. There are reports to come in and they are very difficult to read and are not always clearly understood. He said that what he is hearing is that he needed to do a better job of putting together a report along with them having dialogue.

Director McKeon said that the budget expenditures and balance is shown in the monthly package. He said if a one-sheet summary was provided, listing items of current concern, then the board members are informed. If there were a series of concerns, then discussion might take place to make some on the fly adjustments to handle the budget. He was of the opinion that they never should have spent over the budget. They approve a balanced budget whether it is being balanced with refunds or increased taxes. A few years ago the budgeted revenue increased by \$15,000,000 from one budget year to the next and the decrease in expenditures was \$15,000,000, which is either increase the millage or go into the reserve to get the money. He was looking at budgeted receipts from one year versus the spending expenditure level of the next year, which would indicate that the revenue sources had increased. He said it made sense because there was a backlog of homes sitting in the county, which is starting to clear.

Mr. Majewski said it was a one-year bump, which was completed, and they are right on where they need to be right now.

Director Dexter said she agreed with Director McKeon and thought they discussed it in November when they did the 5-year planning. They need plain talk but they don't need every check reviewed monthly but need to know if there are "those rocks that came through the window" in a particular month. She thought that it might influence other spending. There are times when they are asked to approve an expense and the impact is questioned and they say well, we will transfer funds or the funds will become available but obviously they need more specifics. She asked for comment regarding the summer school expense, where he said that they traditionally had a high school and middle program but there was no budget for the elementary school, yet they ran a program anyway. She also inquired about the intersystem payments and that the charter schools were adding classes and didn't tell the district. She asked if they contact the charter schools and inquire about their plans for the next year when preparing the budget. If they were going to double the size, it would have an impact because they know the charter schools have waiting lists.

Mr. Majewski replied that when they are adding classrooms, it has not always been communicated to him. He has monthly communication with some of them but the decision does not always get communicated to him. He said what has changed was that they are right on budget this year. If he can't get the communication, he will observe the trends. If he sees the enrollments on the monthly reports, it may cause him to inquire if they are expanding. He didn't know how long it would take for them to obtain leases and the budget could be in place so it isn't always easy to align them. He reiterated that he monitored the charter schools monthly and if there was any trend that is going upward, he picks up on it and projects it out for the year.

Director Dexter replied that she knew the charter school plan, in particular the Lehigh Valley Academy, was made several years ago, to add a grade in the high school level every year. It was publicly communicated and she was aware that several board members went to an open house last year. She said those were the things that they need to be more aware of in the future when they budget so that they wouldn't get into that situation.

Director Dexter also asked about running the Summer School Program without having a budget.

Mr. Majewski responded that he can only report what he saw but he believed that communication didn't come from that office to anybody. It was put into place and they just didn't know.

Director Dexter inquired about the office that would put a summer school program into place in central administration.

Dr. Lewis replied that summer school is under the purview of the Curriculum and Instruction Department.

Director Dexter commented, "He developed a summer school program and then surprised us?"

Dr. Lewis said that it grew over time and it was absorbable in the early year into the total summer school budget and he didn't think that it was budgeted. If he recalled correctly, he believed at one point they went from a centralized format to three or four different sites and then it went to almost every building.

President Leeson inquired about the location of the police substation in the budget. She didn't believe it was the budget, which they are discussing at present.

Mr. Majewski stated that the police substation is in the 2007–2008 budget. It was not in place in the 2006–2007 budget.

President Leeson said that it came in after the budget approval and asked where did it go in and when was it communicated to the board.

Mr. Majewski replied that he believed those monies were put in during May prior to the budget approval. There was a list given with updates regarding funds being added or subtracted. He knew they had the discussion in the past and that it wasn't something that came in after the budget was approved. The monies were put into the budget prior to its adoption.

President Leeson said she had the 2007–2008 budget with her and inquired what category would it be under.

Mr. Majewski replied that it was separated into its own category, which was School Resource Officers.

President Leeson commented about the written explanation titled School District Financial Condition Factors dated December 21, 2007. She said Mr. Majewski described a number of problems and that she didn't think he had every little one. She had \$3,850,000 worth of problems from the listed descriptors. It also stated that they budgeted a deficit budget and said she had a problem with the terminology because they had to budget a balanced budget. They used \$3,500,000 of reserve fund to balance it but they can't approve a deficit budget.

Mr. Majewski replied that a balanced budget could be a deficit budget. If a balanced budget is using fund balance, it is still balanced, but it is being balanced with a deficit. They are budgeting to have a reduction of the fund balance with that approval, so they could have a balanced budget and still be deficit spending.

President Leeson said the actual \$5,349,000 or \$5,376,000 was actually overspending expenditures and it does not take into account the \$3,500,000 at all. It was over-expenditures.

Mr. Majewski added that it was what he said in the beginning that this was not a revenue problem but a spending problem.

President Leeson stated to Mr. Davidson that he is supposed to be the person who helps them with their controls and processes. It was her opinion that they obviously had a lack of control and a lack of processes in place for the 2006–2007 budget year. She wondered if he would make comment and had he looked at their current controls and asked if they were putting better things into place considering that he had been with the district for a number of years. She didn't recall having these problems in other years.

Mr. Davidson replied that expenditures come up that aren't planned. Over the course of the years that he has been doing audits, there have been deficits for specific reasons. In this case there has been and he thought they had been thoroughly explained. He said he is technically coming in as an auditor and coming in after the fact as a historian, testing to the financial statements. The controls that he looked at and tested are related to the processing of transactions and so forth. When they put the budget together, they look at various sources and it is their best guess-estimate. The budget is there to help them to identify problems as they go along in the fiscal year. If they over or underexpended, they should see those things based on how the budget is put together. Certain expenditures are done evenly through the year with some happening at the beginning of the year or at the end of the year. Those things have to be tracked on a line-by-line basis, which, what was thought to be the cause, was presented. He was not sure what budget controls they could put in other than looking at every single transaction every day and he wasn't sure what other budget controls would be needed to necessarily circumvent the items.

Mr. Davidson said they don't have a crystal ball to see ahead and noted that the budget is used as a control and if they go over or under budget by a significant percentage, there had to be an explanation.

The control that should be used, which he thought they were doing, was to review the budget on an ongoing basis. He was not sure how they could go out and identify some of the problems that necessarily came up, such as the example of the elementary summer school budget, unless they had a list of every program.

President Leeson stated that they are supposed to have that list.

Mr. Davidson continued that the budget is their control because they are to follow and track it. In building the budget process, they look at revenues or expenditures. There is something to determine the original budget amount but unfortunately things happen during the course of the year which affect that. There have been years where there have been surpluses. They overexpended their budget but they have had the excess monies in revenues. Sometimes it is an offsetting with an increase in revenue because of a program but it is what they call revenue neutral where if they get an extra million dollars in grants but they have an additional one million in expenditures. The budgeting process is important as they are finding out, and all of that information which is used to compile the budget is accurate and complete. He was not sure how one would go about in determining if something like that is missed. He said that it is easy to say that they shouldn't miss it and they could all be "Monday Morning Quarterbacks" in that respect but the process and the control is the budget. He was not sure how they could go out and identify those pieces that were necessarily missed in doing the budget. He said what they were doing now is using that process by asking questions of himself, Mr. Majewski and administration to explain why they have the problems so they would have a more informed budget going forward.

Mr. Majewski added that as they know, he had been doing the budget for a long time and he noted one thing that has happened since he had been here is that they went from a long list of audit findings and lack of controls in the district to a very well managed budget. He said they had a bad year and there were some issues which needed attention. It was not flawless. The one thing that they will do is when they find a problem, they will correct the problem and that was what they have already done in many cases and they will do it. He doesn't believe the issue is a global lack of control but he thought that better communication, as to where they are, was needed, and he said he would do that. Regarding the discussion about improved controls, he said they have had improved controls and they are all in place with state audits, local audits and anybody who has ever looked at their books believed, and it has been proven, that there are adequate controls. He noted that they had some areas, which needed improvement, and they have improved them. He said they would continue to focus on their controls and said they don't have a control issue. He reiterated that he needed to do a better job of communicating by having dialogue regarding what and when, with sufficient time to get an idea as to if they were having a bad year and to inform them when they are having a good year, so they could make decisions.

Director McKeon stated that they picked up approximately \$3,200,000 in additional tax receipts and with regard to their expenditures, he asked where the \$5,700,000 would come from for the deficit.

Mr. Majewski said that they would need to talk about that.

Director McKeon said that was last year's budget dollars and in theory the shortage could be covered by using the reserve account.

Mr. Majewski replied that they did, but the problem is balancing the budget with reserves, and they don't have those reserves. They now need to take a look at restructuring their spending.

Director McKeon stated that they actually tapped their reserve by greater than the \$3,500,000.

Mr. Majewski agreed.

Chairperson Koch asked if they could move considering that they are running late. She said some discussion could be continued during the Budget Meeting.

Director Craig inquired about the Budget Meeting and said that a number of individuals won't be able to attend on the 15<sup>th</sup> and thought it would be wise to reschedule the meeting.

President Leeson made the suggestion that they discuss the matter as a board, not privately, but at the end of the meeting during Open Forum.

Mr. Majewski added that he needed to advertise it if they were to cancel the meeting.

Chairperson Koch thanked Mr. Davidson for his patience with the board and said the next item on the agenda was the Repository Sale.

Mr. Davidson said that it is why he comes to the meetings with the draft for discussion. He said they engage him to perform an audit and they have questions and concerns and this is where they have the opportunity for discussion. If they had any further questions, he would be available to hopefully answer them.

**REPOSITORY SALE** – Mr. Majewski stated that for those who may not be familiar with the term, Repository Sale, there are properties that may be turned over to the counties for delinquent taxes. If they continue to be unpaid, they go up for judicial sale and if they are not sold at that time, they go into the county's repository. They may sit there for any number of years. For whatever reason, someone may put a bid on the property. If they put a bid on the property, it would come to us and the bid is accepted or rejected. He gave the example of the listed properties involving judicial sales. The county had received bids for the properties that have been sitting there off of the tax rolls for quite a number of years. He suggested and recommended to consider accepting the bids, which are being proposed, in order to get the properties back on the tax rolls. Once the property is transferred and is a taxable property, it can be billed at the assessed value of that property. Mr. Majewski said one property was a water retention pond. There is a possibility that a neighbor might purchase the property to insure that nobody builds on it. He asked if it could be placed on the January 22<sup>nd</sup> agenda for action.

Director McKeon asked if these items were classified as Sheriff's Sale.

Mr. Majewski replied that the properties had already been put up for Sheriff's Sale and had not been bid on.

Director McKeon asked if the taxes were still in arrears for the current owner. He inquired what would happen with the back taxes and were they part of the agreement or were they wiped clean?

Mr. Majewski replied that whatever money being bid in, would be pennies on the dollar, and noted that more importantly; the property would be back on the tax rolls.

Chairperson Koch asked if anyone objected to the Repository Sale being placed on the agenda and asked for and received a general consensus.

**PROPOSED GENERAL OPERATING BUDGET FOR THE COLONIAL INTERMEDIATE UNIT 20 FOR THE 2008–2009 SCHOOL YEAR** - Mr. Majewski stated that the individual items were for information and if the board had any questions or concerns. He said the board received a copy of the proposed budget, which they have heard about during a previous meeting. He asked to place them on the agenda in January for action.

**PROPOSED NORTHAMPTON COMMUNITY COLLEGE BUDGET FOR THE 2008–2009 SCHOOL YEAR** – Mr. Majewski stated that the individual items were for information and if the board had any questions or concerns. He said the board received a copy of the proposed budget, which they have heard about during a previous meeting. He asked to place them on the agenda in January for action.

Chairperson Koch asked if there were any questions. She asked for a general consensus to place both of the aforementioned operating budgets on the January agenda. A general consensus was received from the board members present.

**AUTHORIZATION TO EXECUTE PPL POWER SERVICE RELOCATION RIGHT-OF-WAY AGREEMENT FOR THE NEW BROUGHAL MIDDLE SCHOOL** – Mr. Majewski stated this item came to their attention at the last minute and they were attempting to prevent a slow-down to the Broughal construction project. He said that PPL needs a right-of-way agreement with regard to lines running underneath and across Brodhead with the school district. He asked for their approval to sign-off on the right-of-way. The reason why it is important at this time and why he didn't want to wait until January 22<sup>nd</sup>, is that if the weather continued to be moderate, they could continue to work. If the weather turns bad, it slows everything down and they will stop the process. He asked for a general consensus for the authorization.

Chairperson Koch received full support regarding the question.

Chairperson Koch also stated she had a question regarding the computers which were lost in the past year. She asked if they had paid for them to be replaced or did insurance cover the loss?

Mr. Majewski replied that the insurance company would not pay for the loss of the computers. He said the deductible of the individual item was under the deductible so for the most part they would not receive any type of reimbursement. It would have to be in a large group.

Chairperson Koch asked if that would therefore increase the technology budget for the following year and if not there, she asked where would it be seen in the budget.

Mr. Majewski replied that he didn't believe they would be seeing it anywhere.

Chairperson Koch further stated that she can't see that they just disappeared and that nobody cares.

Mrs. Lutcher said they do have a claim filed with the insurance company because we put everything in a lump sum and so she has had correspondence from the insurance company asking for more information and she was in the process of giving that to them.

Mr. Majewski replied that he had not seen that correspondence and that she was further along with that than I am with that information.

Chairperson Koch reviewed that they are looking and hoping for insurance money but they haven't received any at this time.

Chairperson Koch also brought attention to Community Service and that it is in the budget in many different places. She said it has always been a problem that they "hide it" and asked if there was a way to put those expenses into one lump sum with one page showing how much the program is actually costing the district.

Mr. Majewski said they could identify that cost by using a separate cabinet code for Community Services.

Chairperson Koch said that they have office workers who do a part of it and the guidance counselors doing another portion and it is spread out all over the place. She thought that it would be good for the purposes of program discussion to know how much it is really costing the district.

Mr. Majewski replied that they would put together a report as to the cost of the Community Service Program.

Chairperson Koch asked if there was there any subject matter for open forum.

Director Craig requested to change the Budget Meeting from January 15<sup>th</sup> to another date because of multiple conflicts in scheduling.

Director Follweiler asked if the date was predetermined with regard to the possibility of going to referendum.

Director Craig along with others affirmed that it was reserved for that reason.

Director Follweiler said she had a conflict on any Tuesday and it would be two Tuesdays in a row because of the Martin Luther King holiday.

Director Craig stated that he would not be present along with Director McKeon and also doubted that Director Amato would be in attendance.

Director Craig inquired about the Strategic Planning Steering Committee.

Dr. Lewis replied that President Leeson met with them and put together a proposal which they were going to present tonight. He said they have the cabinet and the board meeting and it would be timely to keep it there rather than to move it to a later date. He said they wanted to dovetail both sessions on January 28<sup>th</sup>.

After some discussion, it was determined that the next Budget Workshop would be held at 6:00 p.m. on February 13<sup>th</sup> at the Education Center.

Chairperson Koch closed the meeting at 9:22 p.m.

Minutes prepared by Donna Wenz