

**BOARD FINANCE COMMITTEE MINUTES
FEBRUARY 4, 2008**

Members of the Board Finance Committee met on Monday, February 4, 2008, in the Dining Room of the Education Center, 1516 Sycamore Street, Bethlehem, PA. In the absence of Chairperson Koch, Mr. Amato called the meeting to order at 7:15 p.m. The following school board members were present: Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Dr. Craig Haytmanek, 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 Davidson, CPA, Abbott, Davidson, Weiss and Company, LLC; members of the press and other interested citizens.

FISCAL YEAR UPDATE – Mr. Majewski presented a projection of what he anticipated to be the various cabinet code categories to be as of year-end. During the January board meeting, there were quite a few approved budget transfers, which were reflected on the report. He noted that when they project out year-to-date, at that point, they would be very close to their approved budget, and it now appears to be within a hundred thousand dollars. The cost of health care has shown a significant jump in the last month and he said that he needed to keep a very close eye on that area. After looking at the first six months, they were right on track to meet the budget, but now they have seen a spike in those costs. Mr. Majewski stated he needed to monitor whether or not it was a one-time spike or it might indicate an ongoing trend for the remainder of the year. He asked if there were any questions regarding the fiscal projection.

Director Follweiler asked if this would be the discussed format that they would review and look to see how they are based against the budget.

Mr. Majewski replied that she was correct and added that they would look at the current year budget and the expenditures as of the end of one month. To provide some background, he explained that there is no single format used for his projections. He said he used different models depending on the type of expenditure, whether it be strictly trending or sometimes it can be more seasonal in nature so he must anticipate certain costs based upon information obtained. With the experience he has had over the years, he had a fairly good idea as to how each type of expenditure trends and reiterated that he does not have one model but a number of models in arriving at a forecast. He noted the prior year's information was for comparison using the same month and where they ended up year-to-date as of the end of last year.

Director Follweiler stated she had envisioned that they would be able to view the budget; the total amount spent year-to-date, and then how much remained in that particular budget category.

Mr. Majewski replied that with the exception of what was remaining in that category, they had the rest of the information. It was his view that with the present format, what was remaining in that budget, and what they were using it for, was probably unnecessary. He said they were trying to find where they would be at year-end and try to understand where they have some expenditure pressures and where they might have some remaining monies so this was the best chart to create that focus.

Director Follweiler gave an example of a particular budget item showing that they are halfway through the year and it revealed they were 70 percent through the budget but he was saying that where they would be at year-end, it would still be 100 percent because of the nature of that particular topic, they might spend the monies upfront versus at the end.

Mr. Majewski replied that she was correct.

She added that she was looking for more of a “slap in the face” format, showing they were halfway through the year and spent 70 percent of the money, questioning what were they going to do with only 30 percent left.

Mr. Majewski responded that using that type of formula for projections would be far easier than what they were doing at present. If they were looking to do something similar to that, and he noted that it might not be a complete one-to-one comparison, the format would involve where they were as of the end of December this year, where they were at the end of December last year, and then, where they ended. He said if they had a similar type of percentage, they might initially react that it looked like they were on track to be on a similar spending pattern as last year, so they might end up “here”, but actually he thought it might be a little simplistic. He emphasized that each category had a personality of its own in which he attempts to anticipate.

Chairperson Amato inquired about employee benefits and asked if there were some unusual cases during this particular time period, which threw the budget off track.

Mr. Majewski replied that a couple were brought to his attention. At the end of December when he took a look at where they were and did the projections from the prior years, they were on track to be just under budget, however, when he took a look at some of the information that came in during the month of January and applied that, it started raising a flag that he needed to see if there was a cost which involved a large case or two under review. He said they didn't always receive the individual detail involving the patient's cases. He must monitor what it does month to month because the pattern could continue causing them to be overspent in that account or at times it could be that it was just a one time occurrence and the money was spent, but its not to be viewed as a trend.

Chairperson Amato asked what was built into this year's budget as far as an increase relative to benefits.

Mr. Majewski said there was actually a rather huge increase in the budget and noted that they went from 15 million to 17 million. He said that last year the spending exceeded the budget and in taking a look at building in some of the trends, he was probably looking at a six to eight percent increase in normal costs for prescription drugs, which was higher around the eight to nine percent range, and that was factored in to come up with the 17 million they had and was looking good. He commented that it still may be good, but there is also reason for him to be cautious because of some recent expenditure spikes.

Director Amato questioned the prescription drug costs.

Mr. Majewski stated that their prescription drug costs have become much more moderate than what they used to be, because there are an increasing number of generic drugs replacing brand names.

At one point their prescription drug costs were escalating about 20 percent on a yearly basis, but by medical standards, they have come down to a more reasonable inflation rate.

President Leeson stated that it was still not what she expected to see as the way they were going to take a look at the budget information. She said she was looking for the budgeted amount and what they have spent to date, which they don't have now.

Mr. Majewski referred to column E and further clarified the remaining columns.

President Leeson inquired about Guidance, asking why it looked as if it might run into the red.

Mr. Majewski replied that he didn't believe it was a fairly large amount, noting the \$975 and said it was based on some of the trending. With the possibility that it could be over, he would rather reflect it as a possibility and continue to monitor it. The tail end of the school year may be impacted.

Dr. Lewis added that it might also be the prorated dollars spent on a counselor that came in at a higher rate.

Mr. Majewski said that at this point, if it was already overspent, he would have transferred the money to cover it. Normally, what they spend toward the end of the year in guidance was what he added to it. If they did not spend it, there would be less in that budget, but typically they have spent money so he needed to consider it.

President Leeson asked if the amended budget reflects the transfers to date. She asked if they could get the approved budget.

Director McKeon said that he thought she wanted a walk through from what was approved for July 1st and review what shifting has taken place as a separate column and then come up with the amended budget.

President Leeson said that as it looks right now, they are on target to be within their budget.

Mr. Majewski agreed.

Dr. Lewis added there was approximately \$100,000 "wobble room."

Mr. Majewski stated it was not a comfortable level but agreed.

Director Amato asked besides what had been discussed, were there any other columns that the board would like Mr. Majewski to add to the document.

Director McKeon replied that as of now he didn't see any others but something might come up after they review it.

Director Amato asked Mr. Majewski if it would be done on a monthly basis.

Mr. Majewski replied that he planned on doing it every month.

Dr. Lewis and Mr. Majewski reviewed the specific columns with the board.

President Leeson thanked Mr. Majewski and noted that she thought it would be very helpful for them to follow the budget. She said that she knew they were working to refine it and said it was nice to be able to review it.

Director McKeon stated that he saw that special education was projected to be over right now and asked if it was because of additional students or a combination of factors.

Dr. Lewis replied that it could be from a number of things. Today another student need was discussed. He said that he and Mr. Majewski discussed more funding contributions from ACCESS with Mr. Agretto. He added that they were going to try to keep it in level, but the law is the law. Dr. Lewis stated that if the student attended a charter school and were classified as a special education student, the district was responsible for approximately \$12,000. He asked Mr. Majewski for confirmation on the figure.

Mr. Majewski stated it was now closer to \$13,500.

Director McKeon said he understood their concept and knew they were attempting to project the number of students in a particular category and because of the transiency with some of the population; it therefore may contribute to the overage.

Mr. Majewski said with the special education budget, one might not have an identified child at a given time, so he must attempt to anticipate. He noted a recent required one-to-one contract put into place, which had to be reflected in his projection.

Dr. Lewis stated that another piece, which they put a lasso around, was some of the occupational therapy. He thought they could handle some motor driven needs. The genesis is from the handwriting side and they felt that more infusion of a prescribed formal handwriting program like Zaner-Bloser® or a similar program may help gild some of that. He added that they had a very high incidence of occupational therapy this past year.

Director Follweiler said what was very good about the report, was that the bottom line was the budget would balance at this time and she thought it showed the ability to be able to shift around with budget transfers so that overall the district will still stay within the budget. She thought if the document were not as balanced as it happens to be at this moment in time, they would be able to catch it in advance.

Dr. Lewis noted the column showing the responsible office and said that cabinet reviewed it almost weekly with Mr. Majewski performing monthly updates to make sure if there were any exigencies, he would bring it to their attention. They look within their own division first and then Mr. Majewski makes his recommendations. He thought there was a much more acute look at it than previously.

Mr. Majewski said that he would work up some of the initial numbers but then the input gets reviewed by the cabinet person who works with it daily to ensure that the adjustments made are reasonable. He said he has received some very good input from those individuals.

Chairperson Amato asked if there were any questions related to the subject. Hearing none, Chairperson Amato moved on to the next agenda item.

COLONIAL INTERMEDIATE UNIT 20 – BOARD OF DIRECTORS ELECTION –

Mr. Majewski stated they would be receiving ballots from the IU-20 within the next month or two for the purpose of voting on certain positions. He noted Director Dexter's appointment would end on June 30th of 2008. He said the board would need to identify either Director Dexter or someone else to be placed on the ballot effective July 1st of 2008.

SOLICITOR SERVICE AGREEMENT (Agenda Item – February 25, 2008) – Mr. Majewski stated there was a copy of the solicitor's agreement in their packet. If there were any suggested changes, he said they would be glad to repose them.

Dr. Lewis said that he spoke at length with Attorney Spry and Mr. Majewski regarding a couple of areas and it was very fair. He was essentially an "at will" contractor and he has placed reasonable caps, which would help the district budget-wise when they measure potential litigation and legal costs.

POLLING PLACES (Agenda Item – February 25, 2008) – Mr. Majewski said that Northampton County has provided a listing of the polling places, which they would like to use for the elections scheduled for April 22, 2008 and November 4, 2008. The board will be asked to approve them this month. He was hoping for the opportunity to have one moved, however, as a result of the pending lawsuit with Easton Area School District, their solicitor had recommended that it not be changed at this time.

Director Follweiler asked about the identification of polling places in the district. She commented that they aren't always clearly marked and noted her personal polling place was at a church and it is not marked. She didn't know if it was anyone's responsibility but thought a sign should be placed to appropriately identify the building. She also asked if handicapped accessibility for entrances was the responsibility of the district.

Mr. Majewski replied that he was fairly comfortable that the handicapped accessibility was not an issue because it was something that had come up in past discussions and generally there are certain parking spots reserved near the door. He said the monitoring and controlling of the polling place is the responsibility of the county.

Dr. Lewis said there was one area of difficulty in an elementary school where they permitted handicapped access in a second door. He said the signage was the responsibility of the county but the building principals were on top of it.

Director Follweiler thought she might contact the county to alert them because during the last election when her personal polling place moved, she witnessed mass bedlam on the main street because people didn't know where to turn in order to get to the new location.

Mr. Majewski added that they have had a fairly successful line of communication. If there was a problem at the site itself, a representative from the county works with him to quickly resolve any issues.

Director McKeon asked for verification from Mr. Gilliland regarding the handicapped entrances at the schools.

Dr. Lewis agreed to have Mr. Gilliland address his concern.

Mr. Majewski stated there is an individual who visits all of the sites to ensure that all of the requirements are met and that there is accessibility.

President Leeson asked about student safety on Election Day. She asked if they were sure the polling area was separate from the rest of the school so that no one could inadvertently access a hallway of the schools.

Dr. Lewis replied that Mr. Majewski has essentially handled it with the only exception being the handicapped entrance at Governor Wolf to the best of his knowledge. He said they had asked for and received a constable in that location for that purpose.

Mr. Majewski added that it would be a non-uniformed individual because they are not allowed to wear uniforms there. He said the area has been secure and if there are any issues, the principals would contact him. They had worked out a lot of problems over the years, so that the people, who work at the sites, and the principals, as well as the county workers, really do allow it to go off very smoothly.

Dr. Lewis said there have been occasions where older people have asked to use the bathrooms and it was the principal's call where they may allow access. He emphasized that as a rule, the doors are secured, and in that regard, the principals are very responsible. Dr. Lewis commented that as sure as we sit here, somebody who wishes to violate the perimeter of the school could do so on a non-election day so he didn't want anyone to be lured into a false sense of security. He said they have taken every measure to sequester the area where the voting takes place.

BUDGETARY TRANSFERS (Agenda Item – February 25, 2008) – Mr. Majewski stated there would be budget transfers being placed on the agenda for approval in February. One is related to the cabinet budget and noted the raises were not reflected in that budget. He noted that there were some duplication of costs with Mr. Villani retiring and there were some residual payments there so he did not want to prematurely transfer money until he had a better feeling about what it would be by the end of the year.

He also directed the board to look at the tuition reimbursement account, which was under the Teachers Staffing Category. He anticipated that it would need some additional funding. He said he has looked at the electricity budget and based upon the present trending, with consideration of the weather in addition to measures taken in order to lower temperatures, there were some monies available for transfer. He noted that it seemed he was invading Mr. Gilliland's area, but in taking a look at the custodial budget, he was able to anticipate the remaining funds.

COURTESY OF THE FLOOR –

1. Mr. Stephen Antalics of 757 Ridge Street, Bethlehem said he had a scientific background so he was not really well versed with monetary issues. He questioned the \$83,000 amount in support services for administration under budget transfers and asked about an itemized list regarding the category.

Mr. Majewski replied that it would have included the cabinet transfers that he had been talking about. There was no itemized list as to what they were transferring because he was looking at it in the aggregate.

Mr. Antalics asked if it would include any type of administrative travel.

Mr. Majewski replied, “No.” He said those would be the salaries of cabinet members as well as the direct support staff.

OPEN FORUM – President Leeson announced that an executive session was held for litigation and personnel purposes. She said a budget workshop was scheduled for February 13th and wondered if it could be an open process. The BEA asked if they could be part of the process at the beginning of the meeting rather than finding problems at the end. She said that she encouraged it along with anyone who has a stake in our district be part of the discussions. She thought the process had been broken down so they were only discussing specific things for each workshop. President Leeson thought they would be basically discussing the superintendent’s office and staffing for the first meeting and noted that the other dates had not been decided upon.

Dr. Lewis responded that he didn’t think they had a problem with anybody participating in the process. He wanted to point out that they found, as they were going through the exercise which they worked on again this morning, that a lot (of the categories) are intertwined, so if Mr. Gross was reporting a staff reduction in one part of the district, it was probably tied to programming under Mrs. Katona. He said the entire cabinet would be present so if there were questions, he didn’t see any problem with active participation if the board chooses to have those individuals weigh in or ask questions.

Mr. Gross said that with many of their accounts are based upon contracts and certain figures are in place, that aren’t really eligible for major reductions and certainly the discretionary areas. He stated in his particular area, he is locked in with contracts.

Mr. Majewski added that when they go through the presentations, many times there might be certain things that have overlap. He requested that the individual who was making a presentation for their given area be allowed to complete it and then engage in discussion afterward, therefore time would not be taken to discuss some things that would possibly be covered during the presentation.

President Leeson said she would be in favor of that but she thought there should be a time consideration. She said they wanted to thoroughly understand the presentation but still keep it within a reasonable timeframe.

Mr. Majewski replied that typically the administrative presentations were the shortest part of the discussion.

President Leeson asked how the board would feel about basically memorializing some of the proposed changes with regard to the new financial processes. For example, bringing the outline of the anticipated budget along with the budget in addition to reviewing it on a monthly basis. She said that most of it has been already agreed to but she thought it might be a good idea to put it into writing with a memorandum. She asked if other board members had any suggestions. President Leeson had the following recommendations:

- Monthly condition of the budget report.
- Immediate board notification of any budget area that was going over with consideration of a dollar amount or percentage.
- Board Audit Committee to be formed to meet with the auditor before the audit process begins and to discuss board concerns.
- Adhering closely to the board financial policies as outlined.

Director Follweiler asked if it would become board policy or how would it become a written document other than a memorandum amongst the board. She asked how it would become a standard practice.

Chairperson Amato added that he thought they could agree on something amongst themselves and if there were trust among them, they wouldn't need to put everything down etched in stone.

Director Follweiler stated that as a new member, the board policy is certainly very extensive but it does give a reference guide if there was something that she questioned. She said she didn't know if there was a type of document for this circumstance.

Chairperson Amato replied that there probably wasn't but he was sure they could create one.

President Leeson commented that they could attach it to the policies and if they would like, they could make it a policy.

Chairperson Amato asked, "Make what as a policy?"

President Leeson replied, "The different items that they would like to have included in their budget review."

Dr. Lewis suggested to Chairperson Amato that they could memorialize it in the minutes of the meeting and make it part of their practice. They don't have their agenda layouts in policy. He said they have the freedom to make the suggestion to move courtesy of the floor and he advised not to manage this to a point where they no longer have flexibility. Dr. Lewis stated that they have committed to give the board monthly budget updates and apprise them of extraordinary hits to the budget that Mr. Majewski would find and reveal. It was his opinion that they just limit themselves at times when they try to over detail a management piece, which is what this is. He commented that this is about as transparent as Mr. Majewski could make it.

President Leeson agreed and as she said she appreciated the discussion and information, which they were receiving and would like to continue to receive it and thought they would but as Director Follweiler stated, as boards and people change, they want to continue the practice. President Leeson noted that they got themselves into a little pickle here because they did not have some good practices.

Dr. Lewis took exception to her statement and said he thought she needed to be careful to characterize practices as the problem, that fiscal circumstances were the major contributors.

Chairperson Amato asked President Leeson if she wanted it in writing.

President Leeson replied, "Yes, please."

Chairperson Amato asked Director McKeon if he wanted what was discussed to be policy.

Director McKeon suggested not so much in policy but thought they needed to have a general understanding.

Director Cann said that for the board minutes was fine.

Director Follweiler agreed that if it was in writing and as long as it was fully documented in the minutes was fine.

President Leeson stated that she wanted it in writing.

Director Dexter wanted to add to the discussion and was not ready to vote. She said that President Leeson mentioned a number of things that were of concern to her and she wanted to add that they already have board financial policies in place that require the business administrator to report to the board on the current status of finances. They also have policy in place, which requires that the board be consulted when there were unbudgeted expenses and when they must make budget transfers. From what she could see, they didn't really adhere to all of the board policies, which were already in place. She believed they needed a memorandum from the board directing that they affirm those policies, which are already in place and that their expectations are that they will be complied with, because that did not happen in the 2006-2007 year from what she could see.

Chairperson Amato interjected, "Your opinion."

Director Dexter continued to say that in addition, she believed the October financial meeting was cancelled and she suggested that the board consider indicating that no committee meeting could be cancelled without the consensus of a board majority. The board as a whole attends the committee meetings, so she would not like to see that happen again, because that was a month that they did not receive a financial report at all. She did not recall the reasoning for the cancellation but she believed that they should not have that happen again. She thought they needed a memorandum and didn't think the minutes would quite do it because they already had the policies in place.

Director Haytmanek said the minutes were fine.

Chairperson Amato announced that it was the consensus of the board that the minutes would be fine.

Mr. Majewski stated, "Since it was indicated that I had violated board policy, I would like to have some ideas as to what specific policy and what section of the policy, so that I could better understand what was expected. I would like to have that identified for my own knowledge, please."

Chairperson Amato asked if he would like it by the end of the week.

Mr. Majewski added, "I would like to be able to have the section of the policy pointed out; the specific language." He said that since it came out that he violated something, he'd like to have the language pointed out what he violated.

Chairperson Amato asked if any board member felt that Mr. Majewski violated policy and asked them to give it to him in writing.

Director Dexter thought that he was asking for the same memorandum that President Leeson was suggesting.

Mr. Majewski said that there was a board policy and it was said that policy was violated. He said he would like to see the section or at least better understand what section of their current approved board policy that he violated.

Chairperson Amato asked if anyone could do that, Mr. Majewski would appreciate it.

Director Dexter asked if the board should be copied with the information.

Director Follweiler stated there was an article in last week's Bloomberg News and subsequently Saturday's Morning Call and believed that it was mentioned in the paper that Mr. Majewski would address it with regard to our district. She said that she would certainly appreciate any additional information he had regarding the report in the Bloomberg News.

Chairperson Amato asked if he had a timeline as to when he could get the information to them.

Mr. Majewski stated he could provide them with some information this evening, however, it was fairly complex and said a lot of it is market driven and he needed to consult with their financial advisor, Ferris, Baker Watts in order to be able to gather the information. He said they understood the urgency and they put something together which he reviewed and made some changes with some being informative. To get a better understanding of the specifics, he asked Mr. Bear if he would be willing to meet with the board and he agreed, however, he did caution that his general counsel indicated that there was potential litigation involved with that article, and therefore would only be able to meet with them in executive session along with their general counsel present. Mr. Majewski said that if they were interested in having further discussion, he would be glad to arrange a meeting but again if could only be in an executive session per their general counsel.

Chairperson Amato asked if the information he was putting together would be complete and placed in their packet for this week.

Mr. Majewski replied, "It absolutely will."

Chairperson Amato said that as far as meeting with them at an executive session, the next session they could have would be before the meeting on February 25th.

Dr. Lewis replied that he just mentioned to Attorney Spry that he should make a determination on that executive session.

Chairperson Amato concluded that Mr. Majewski would provide the data in their packets for the next meeting and it would be determined by Attorney Spry whether an executive session was appropriate and if so they could meet at their next main meeting on February 25th.

Director Dexter asked if the data provided by Mr. Majewski regarding the transaction date considered confidential or open.

Mr. Majewski replied that it was his opinion that if it were provided to them, then it would become public information.

Director McKeon thought the transactions to be public. He thought the concern to be the advisory firm being concerned about their potential litigation issues. If the board does not agree to go into executive session then they are just not going to meet.

Attorney Spry was not sure if they could agree to go into executive session.

Mr. Majewski said he mentioned that because he was hoping that he could provide some opportunity for that type of dialogue at this time unless an executive session becomes available.

Director Follweiler added that her question was very specific to monies paid and/or gained by Bethlehem Area School District, and for example, what fees were incurred.

Mr. Majewski said he would have that information without any type of discussion. He said it would be in black and white in columnar form and hopefully clearly understood with the interest rates and different transactions and fees listed. It should be fairly informative.

Dr. Lewis said that the other piece that he asked Mr. Majewski to prepare was to show what traditional financing would have looked like under the same scenario.

Director McKeon added that he knew on the balance sheet of the financial statements through the drafted audit, there was recognition of the potential liability of the swaps, which was a requirement of FASB. He noted that he had some fear when he looked at the Erie Board of Education where they received "x" dollars and without knowing their particulars, he asked what caused them to terminate the swap which then generated the huge termination fee.

Dr. Lewis replied that it was a question for which they didn't have an answer. He said that Mr. Majewski conferred with the press and Dr. Lewis thanked them for hearing their side of the issue. He said they worked on how they could structure it, and compared it to borrowing a mortgage for a home with an awareness of the crisis with ARMs and noted they were bad bets.

Dr. Lewis was not criticizing any firm or bond counsel. His statement was that the state has been using this for over a decade and a classic example is the turnpike commission with the blessing of the governor's office and obviously with legislative approval. They have been very successful in their financing of that highway network using the swap. He said that Director McKeon's point was well taken and stated there is always an inherent risk with any financing that is done with traditional or otherwise. He asked Mr. Majewski to show the whole piece as transparent as possible.

Dr. Lewis agreed that the fees were high, but they were high across the board. He said to take a look at what the turnpike commission paid and also look at the back-end loaded fees. That wasn't looked at in their neighbor's analysis. The district fees were front-end loaded. He said they needed to look at the whole story and that was what he asked Mr. Majewski to put together for them.

Mr. Majewski added that in all honesty he would show their information but he didn't want it to turn into a "We did this better than they did," but he thought the point they were trying to make was that they shared all of the information but only a portion of it was printed and that was part of the reason why there was some other litigation which may be considered because of the way the article was constructed.

Director McKeon said as he understood it; they have an instrument that they are required to pay "x" amount of percent on and somebody is offering to give them an instrument that maybe lower or higher and in this case he assumed to be lower. In the meantime they are out there hedging and it is a contest. They are all in it to make money and are not doing it for charity purposes. He said that somebody is going out and buying these derivatives to act as a hedge against this contract. His concern was that they don't want to end up like Erie did. He understood the recognition on the balance sheet and the financial statement that potentially, this is what it is at this snapshot in time. He said that at any point in time, even if they were "fluffed" with cash, they couldn't afford to take that over two million hit that Erie took.

Mr. Majewski added that it is fairly complicated and noted that a lot of it is within the structure. They do not attempt to structure their financing to maximize risk and return. It is intended as financing so they try to create those hedges. He noted that every financial instrument has risk, even traditional bonds. If one holds a bond with a specific interest rate and the market goes up or down and it is sold at the wrong time, it will either show a gain or a loss. It is no different with any type of financial instrument. It always carries some type of risk. The structure, which is set up is not one in which to gamble and their structure is not in that form. Mr. Majewski said there are hedges set up so that there may be a floating rate in place, but it is offset by a hedge so that a synthetic fixed rate is created, which all parties understood. The rates in which they have locked in are very enviable.

Chairperson Amato asked if the discussion was completed.

President Leeson replied, "No."

Chairperson Amato responded, "Are we going to sit here all night and discuss the same thing?"

President Leeson told Mr. Majewski that she gave him a list of questions that Martin Braun posed to the district on January 7th and asked him to please include the answers to those questions.

Mr. Majewski replied that he would not have them ready. The article is already out and he had until February 13th to gather the answers. A lot of their efforts have switched from trying to develop those answers to obtaining this type of information. He said he would provide the answer but he didn't anticipate that it would be ready for Wednesday.

President Leeson said that she thought most of the questions were pretty much ones that he probably would answer for the board such as what were the total fees paid in dollars and what was the spread for the swaps. They were pretty simple questions and weren't particularly complex. What were the net payments and receipts?

Mr. Majewski stated that Mr. Braun would get a response and he will do so as expeditiously as possible.

President Leeson asked Mr. Majewski if the board could have the questions answered.

Mr. Majewski replied, "They will."

President Leeson said, "These are the questions that I think you want answered."

Mr. Majewski replied that it is important information but it was probably not as important as what he was working on at the present time. He said he would attempt to quickly obtain the information but he implored them to allow him to do his job based on priorities. He noted that responding to Bloomberg would not have an impact on anything with the running of the school district.

Chairperson Amato attempted to adjourn the meeting.

President Leeson interjected, "What about the auditor?"

Mr. Majewski replied that there was nothing on the agenda for the auditor. He asked him to be present if there were questions.

President Leeson told Chairperson Amato that she thought there were some questions for the auditor so they could conclude.

Chairperson Amato replied, "You can ask all the questions that you want. The meeting is adjourned. We had open forum. We had courtesy of the floor. I don't know where else to go."

Director Dexter commented to Chairperson Amato that they had asked for the auditor to come if they had additional questions for him.

Director Dexter asked if the auditor would like to come up to the front of the room.

Dr. Lewis said, "If the chair has adjourned the meeting...Mr. Amato before you leave please."

Chairperson Amato said, "The meeting has been adjourned."

President Leeson stated that Director Amato was the temporary chair so maybe Director McKeon would like to take over as temporary chair if Director Amato needed to leave.

Dr. Lewis said that he needed to ask the question regarding the temporary chairperson and questioned if Director Koch was apprised that there was going to be an agenda change? He stated, "Here we go again; we talked about trust last Monday. We just can't arbitrarily add things to the agenda. We found out late this afternoon from Mr. Majewski that Mr. Davidson might be coming to the meeting. That is hardly the notice that we're expected to give the board relative to changes in the agenda. We've gone now to a Wednesday mailing. I want to be fair to all parties here. This administration is not prepared to deal with questions and if you want to schedule Mr. Davidson on the agenda..."

President Leeson interjected, "Dr. Lewis, maybe you don't recall, but this was brought up at the regular board meeting and the decision was to table it and to put the auditor on the agenda of the finance meeting."

Director Amato said, "It wasn't on the agenda. I followed the agenda to a "T."

President Leeson stated, "There was plenty of notification that we were going to and..."

Mr. Majewski said, "I believe the action which would reflect on this was the motion was to table acceptance of the audit."

President Leeson completed Mr. Majewski's statement, "To get additional information."

Mr. Majewski agreed but said, "I don't believe the action included language to place this on a finance committee agenda. I don't recall that as being part of the motion."

President Leeson replied, "I believe there was a discussion that we would continue the discussion at the following finance meeting so that we could conclude the audit report in a timely manner."

Director Dexter stated, "The auditor is here. This was communicated to Mr. Majewski on Friday, that we would like to have the auditor here and it makes all sense to conduct this inquiry tonight rather than adjourn and have it done a month from now. Now, Mr. Majewski, I did phone you to ask you what is your timetable; when do we need to approve the audit if we are going to? My understanding is that you said, 'As soon as possible' and I said, 'We need additional information; could we see if the auditor could attend the meeting?' and you said that you would find out. Now, he is here tonight and we were not aware that Mr. Amato was about to adjourn the meeting quite abruptly. There were no more questions on Martin Braun or the Bloomberg article but there is more for open forum and I have additional questions.

Director Amato replied, "I said, 'if there is no further for open forum, this meeting is adjourned,' and I adjourned it! Mrs. Dexter, if you want to re-open the meeting, and take over the chair, please re-open it, but I am not!"

Director Dexter stated, "I move that we re-open the meeting and ask Mr. McKeon, who is a member of the Finance Committee to chair so that we don't have to ask the auditor to come back and inconvenience himself at another time."

Director McKeon stated, "I have a Robert's Rule question for Attorney Spry. Does a committee require a motion to adjourn out of a committee or just out of the...?"

Attorney Spry replied, "I just asked the question of the superintendent and I don't know what your policy says."

Dr. Lewis stated, "Your practice has been to adjourn, a second and done. You have not voted on the----. You have all agreed to operate it by that and that has been your practice."

President Leeson said, "You are saying adjourned and a second?"

Director McKeon added, "The motion to adjourn and a second, and there was neither."

Mr. Majewski commented that everyone shows it was a committee of the whole, but does it require the committee members to vote on it or all in attendance?

Attorney Spry advised that the parliamentary rules are not necessarily what they follow. The parliamentary rule requires a motion, a second and a majority of those in session voting, but if the policy is that the chair and a second can adjourn the meeting, then that is what it is. He said he wasn't sure if that was their policy.

President Leeson stated that she thought they all generally agreed to the adjournment so she didn't think that it particularly has been an issue until right now. She suggested they ask the board if they wished to continue the meeting and addressed Director McKeon if he would like to continue the meeting to have discussion with the auditor.

Director McKeon stated that he would be willing to talk to the auditor while he was here as opposed to bringing him back with a possible delay.

President Leeson asked Director Cann if she preferred to continue the meeting.

Director Cann replied that it was fine with her but she actually thought that the audit completion was an administrative concern and that it was up to them if they wanted to get it done tonight.

President Leeson asked Director Cann if she wanted to ask the auditor some questions.

Director Cann agreed.

Director Follweiler said she was perfectly willing to have the auditor speak or answer questions while he was present.

Director Haytmanek stated he had no further questions for the auditor.

Director Dexter moved to re-open the meeting and was seconded by Director McKeon.

Director Amato stated that he had an adjournment with a second by Director Haytmanek.

Director Haytmanek announced that he did second the motion to adjourn.

President Leeson moved to re-open the meeting as well.

Director Amato stated that he did not have any questions for the auditor.

President Leeson stated that Director Dexter moved and she seconded it.

Dr. Lewis said he would like to go on record as saying that they would like more notice than late Friday to Mr. Majewski and subsequently his notification today, of that possibility. He said the board has asked them to be courteous of their time with planning and preparation and they'd appreciate the same extension of courtesy.

President Leeson stated to Dr. Lewis that if he would please review the minutes of the meeting, he would find that it was mentioned at that time and not a little while ago.

President Leeson asked Director McKeon if he would chair the meeting.

Director McKeon stated that he knew in the managerial letter, the deficit was discussed, but out of curiosity he asked if it should have appeared in the notes similar to the student activity accounts.

Mr. Davidson replied that what they had there was a deficiency necessarily in internal controls. It was his understanding that they had a deficit but the School Code states that as long as there and at the end of the year there was a fund balance of almost \$1,800,000. If they had a deficit fund balance, it would have been an issue.

Director McKeon said as a follow-up question then, if he understood his explanation, they wouldn't necessarily have a requirement to go back through the board minutes to look for approval of the funds exceeding the approved budget.

Mr. Davidson replied that he was not aware of such a requirement that he would have to specifically or necessarily go back. The expenditures were part of the whole approval process in the course of the year. He said that he is coming in at the end of the year and is rendering an opinion that the financial statements are presented fairly in all material respects and they had a deficit. In fact, they used some of the fund balance in balancing the budget this past year so there was anticipation of there being a deficit, but it was just larger than what had been anticipated from the original budget. His responsibility was that the financial statement is to fairly present their financial position, and it is; with nothing in what they went through to indicate that they had understated expenditures, overstated revenues, or anything along those lines.

Director Dexter told Mr. Davidson that she didn't have the audit engagement letter with her when he was here last time but after that she asked Mr. Majewski for a copy which he gave to her. She said that she read that it included in the objective statement that his firm would be attempting during the audit to determine whether they had complied with governmental rules, statutes, regulations, etc. Normally, in the course of a governmental operation, it includes policies. She asked Mr. Davidson if he agreed with that.

Mr. Davidson replied that you are dealing here with laws and regulations; the policies themselves are policies of the board to follow. He was not sure if it is not necessarily a regulation per say. He said that again, he was not an attorney.

Director Dexter addressed Mr. Davidson, "In the course of your work as an auditor, this is the nuts and bolts of what I am asking, it looks to me and correct me if I am wrong; we had some expenses that weren't authorized or that we spent much more than we authorized. The board budget comes to one mind. I think we had over around \$500,000 and we had only authorized \$296,000 or \$297,000; something like that. Even the audit, wouldn't you routinely look at lines that are overexpended or lines that were actually not even budgeted, to determine if there was, at some point in time, authorization for a budget transfer or authorization from the board to overexpend that amount?"

Mr. Davidson replied that you look at the expenditures for approval. He stated that there were instances where things are going to exceed the budgeted amount and that is why you have even talked about maintaining a certain percentage of your fund balance for unexpected and unbudgeted expenditures. He said he was not sure how these things fall outside of that category.

Director Dexter said that policy calls for them to have a fund balance of at least 3.5 percent of their budgeted expenses. She asked him if he checked to see if they whether they were in compliance with that.

Mr. Davidson explained that the budget that was adopted, even at a \$3,500,000 deficit, had their budget been intact and they spent exactly what they anticipated, expenses would exceed revenues and wound up with a deficit of \$3,500,000; that would have put their yearly fund balance somewhere around \$3,500,000 to \$4,000,000, which was actually less than the 3.5 percent of their budget, which was approximately \$160,000,000. It could be argued that when they adopted the budget, it fell below that percentage.

Director Dexter agreed with Mr. Davidson. She said that she guessed what she was really trying to get at the nuts and bolts of his operation as independent auditor and that he didn't really go back to see if policies were followed in their district.

Mr. Davidson replied that it was not necessarily true. He said that when he came in to do the audit, he is looking at the financial information. He is engaged to render an opinion on their financial statements. They are your financial statements. They are your numbers. He is rendering an opinion that they are fairly presented, and that is your fund balance. This is what you've expended. This is what you've received. He said he had an obligation to look within the SAS (Statement on Auditing Standards), as far as fraud and things of that nature where there may be fraudulent reporting or misappropriation of assets.

Mr. Davidson stated they look if it had been an approved transaction and he was really coming in after the fact, when it had already taken place. He said he was sure there might be instances of policy exceptions that he might not be aware of, looking at this aspect. He looks at the finance part of it, that they are obligated to present a budget and have certain requirements either locally within the policy or things that are part of the state code and that is what we follow and there are other restrictions with certain types of grants—what you can and cannot spend—depending whether it is federal or state money and so forth. The fact that the money has been expended and presented fairly, as a reflection of the school district's financial position. He said there was a responsibility with the compliance in the internal controls and what they deal with. The concern is the misstatement of the financial statements. Are they misstated?

Director Dexter inquired that in other words, as long as they have the funds to cover the expense, it was not a matter that was of his concern.

Mr. Davidson replied that the school code indicates that as long as there are funds available, they have a responsibility not to over budget what they have in funds. If they had done a budget and that budget reflected a \$10,000,000 deficit for the current operation and they only had a fund balance of \$8,000,000, well then there would be an issue.

Director Dexter asked Mr. Davidson if our school district bought a marble statue of a white horse for the parking lot that cost \$150,000 that would not be of concern to you, as long as we represented the number of what we spent?

Mr. Davidson replied that there would still be an approval process. Those invoices are all part of the process of approving the transactions. These transactions have taken place after he has come in. As long as the specific transaction meets all of the requirements of their internal controls and if it had to be bid, that it was bid, and went through the whole process of various approvals, then there would be no reason for him to necessarily question the expenditure.

Director Dexter said that if part of their internal controls required the administration to inform the board of a specific marble statue of a white horse and that wasn't done, would that be of concern to you?

Mr. Davidson replied that he thought it would be a breakdown in the internal controls.

Director Dexter asked him if it would then be a notable event?

Mr. Davidson responded that if it has a significant effect on the financial statements.

Director Dexter added that if it gets to the materiality?

Mr. Davidson continued that if it gets to the materiality and the fact is again are they misrepresenting the bottom line?

Director Dexter asked about materiality with regard to a budget of their size.

Mr. Davidson stated that with a \$175,000,000 budget, he guessed it would be \$60,000 to \$70,000. You have what is considered tolerable misstatement, which is a percentage of that. There are checklists they go through for determination where they look at the total budget and there are certain transactions that are taken out such as interfund transfers and things of that nature.

Director Dexter asked to speak with Mr. Davidson on another issue. She spoke with Director Koch, the chairperson of the finance committee, and they discussed the possibility of him coming to the meeting. She said Director Koch could not be in attendance this evening but she asked Director Dexter to inquire about the laptop incident, which was her concern as well as some other members. She said they had the disappearance of quite a number of them and she didn't know the exact number. She knew that it was reported that 51 were stolen and it may be more. She didn't know accumulatively whether they had additional reports. Director Dexter said that at some point the question was whether 80 or 90 were missing and some were accounted for with a question on whether data was accurately entered or altered, etc. She asked Mr. Davidson if he was aware of the disappearance of the laptop computers from the district before he completed his audit.

Mr. Davidson replied that he was aware of approximately 22 of them being missing, those that were reported as part of the police report. Those items again were dealing with materiality. The computers had an approximate cost of a little over a thousand dollars and they were principally bought back in 2004-2005 and 2005-2006. Their current book value as of 2006-2007 would be approximately \$400. He said that 22 computers would be roughly \$8,000 and it did not have an affect from a materiality standpoint. Mr. Davidson stated that when one reads the SAS on risk assessment or on fraud, they always come back to having a material effect on the misstatement of the financials. He noted that \$8,000 would not have a significant effect. Since there have been other numbers tossed around and he had been provided with some additional information, it was not that much greater than the 22 with the number that he heard as roughly 51. With any type of theft or misappropriation of assets, this was basically stealing, but it is not committing fraud in the aspect of financial reporting, what got Enron and other people in trouble. They are looking at the materiality so as far as the governmental funds are specifically concerned; these are expenditures under those items. The effect on the financial statement may be that they are overstating their fixed assets under the GASB 34 so in essence if there were 100 computers missing at a value of \$400, they would roughly have a \$40,000 overstatement in the fixed assets.

Director Dexter stated that he just told her that he was looking into it.

Mr. Davidson replied that there were some things that have come up since he made his presentation. It is an ongoing thing and could affect the current year audit. When you are dealing with internal control and compliance issues with fraud, there are steps that one must go through. First one must feel comfortable that the financial statement numbers are correct and he didn't see from a materiality standpoint that it was the case. There were things that were tested as part of the original audit as far as fixed assets were concerned and there was nothing that came to his attention to have him continue there further. He was aware of the 22 and they followed what their controls are in that they were reported to the police. There has to be a follow-up of those and any additional information going forward. He said it was something that still could be considered a finding within the 2007-2008 year. There was nothing that came to his attention on the financial statements as they were looked at and tested and he didn't believe that this was going to affect them in any additional way.

Director Dexter commented that she thought he was telling them that he is looking at it for an ongoing audit in 2007-2008 and asked if that audit process had begun.

Mr. Davidson answered no, but it hasn't necessarily been resolved. He was not aware of any report back from the police so there are things that still have to be concluded. When things are reported to whomever, then there has to be some disposition of that in some manner with either follow-up through questions of the board such as if it had been resolved and follow-up on the police reports as to their conclusions.

Director Dexter stated that she believed that 51 were actually reported stolen to the police. She believed that it happened in August of 2007 or actually, some of them before that.

Mr. Davidson stated he was aware of the two groups of 11 that had been reported back in the very beginning of 2007. He said he was not aware of the additional ones and that is what he was looking at now.

Director Dexter asked Mr. Davidson if he was thinking about changing his 2006-2007 audit to reflect whatever it was he was looking into or was he really finished with that audit.

Mr. Davidson replied that regarding materiality, even if it was 51 (laptops), it was still far below. He believed there was close to 4,500 to 5,000 computers and he honestly didn't look for every single one and he wasn't sure if that was even an option. He said that sometimes it gets to be cost ineffective where finding or determining far exceeds what they are looking at.

Director McKeon asked to interject, stating his question was for both Mr. Davison and Mr. Majewski. He asked if the leased equipment would necessarily show up as a fixed asset.

Mr. Majewski replied that with the dollar buy-out, it needed to be booked as an asset.

Director McKeon said that they would normally look at the invoice from the vendor. He was sure that it doesn't necessarily assume that they are going to ask the question and he assumed the invoice was broken down by serial number. He said he was not finding fault, but they are not asking the question that they have every serial number that is on the invoice. He said it gets into the materiality of the lease payment. He understood the remaining book value concept that was explained and no matter what number it is, it isn't going to hit that trip figure that he was necessarily looking for and on the other side, the lease invoice that they have to pay as a school district lists all of the items that come under it and it could be multiple lease invoices. He said he didn't know if the audit would necessarily say to pull that invoice and now demonstrate all of the serial numbers on it.

Mr. Davidson stated that if a transaction was selected on an invoice, the whole internal control process is followed through. They ask if the goods were received because there has to be an initialing on there whether it be pencils, textbooks or paper and that in fact they were received. There is a receiving report and they look at that. It is done based on a selection process. One must plan the audit to take in the largest percentage of transactions to satisfy that they are fairly presented. They are coming back to the fact of the financial statements and are they properly presenting the current financial position as of June 30, 2007, and therefore not understated or overstated it for whatever reasons there might be, whether it be misappropriation of assets, financial reporting aspects where they might bring revenue in from a subsequent year.

In this case they look at the proper cut-off because it was year where there was a deficit. The indication is that maybe they could pay it off later but accelerate revenue so they look at cut-offs with the review of transactions in the subsequent period of July and August and make sure they are in the proper accounting period so that they are fairly presented.

President Leeson asked Mr. Davidson about looking at the financial statement and understood that he said that they had the money to cover the deficit, but shouldn't that have been brought to their attention by either a verbal or written communication?

Mr. Davidson replied that he wasn't aware that it was necessarily the case. As far as the current year's operations were concerned, they even budgeted at a deficit, in that the expenditures would exceed their revenues and they were then using their unreserved fund balance. He said that when he made the presentation, they talked about the fact that there was a deficit. He was not sure if she was looking for specific wording stating that they had a deficit this year.

President Leeson said that she wanted him to understand that it was the first that they really had a clear picture of how large it was, and were told a little bit before that, such as \$1,800,000 in November.

Mr. Davidson added that he knew there was a significant audit adjustment at the end of the year because of the June refinancing. There was a payment of approximately \$700,000 towards the bond that was called in September of 2007. He said it was originally recorded as a prepaid expense, because it wouldn't be expensed until September of 2007 so it didn't affect the current fiscal year, but governmental accounting requires that the money be transferred into a debt service fund. As a result of transferring it to the debt service fund, it showed up as transfer out and therefore an expenditure in the general fund so that was approximately \$700,000 alone which contributed to the deficit. It was to properly record the transfer because debt service funds are used to accumulate monies that are going to be spent within one year.

President Leeson said she would appreciate just going through the financial statement so that they could better follow everything. She said somewhat understood what he was talking about as far as the laptops but asked if reviewing inventory controls was also a major part of what he did.

Mr. Davidson replied that he looks but inventory in the school district itself is not a material balance sheet in the financial position. He said it was principally school supplies. Food service is principally where they physically look at the inventory and counting certain pieces. They also request price lists so that it was properly extended. When they get to the inventory of the general fund, it is only \$14,000 at the end of the year because the things that are inventoried are consumables, such as paper, pencils and so forth. There could be some additional inventory out there beyond that but there is a purchase method of recording inventory and a consumption method. Their inventory at the end of the year as a balance sheet is only \$14,000.

President Leeson stated that her questions were simplistic but as an example, she asked how they account for items such as desks.

Mr. Davidson replied that they are considered expense, and they may not meet the capitalization threshold so they may not even be inventoried.

Director McKeon added that it was a different definition.

Director Follweiler asked if a desk was considered a fixed asset or physical asset versus inventory?

Mr. Majewski replied, "Dollar value."

Mr. Davidson stated it was based on dollar value and the capitalization policy here is \$750. There are some governmental entities that have it as high as \$5,000.

Director McKeon used a table as an example and stated if it would come through at \$751, but was expensed at \$500, it would be capitalized and become a fixed asset.

Mr. Davidson added that there was a process of inventorying those items within the business office.

President Leeson asked Mr. Davidson about the deficit spending; specifically the dollar amount.

Mr. Davidson replied that it was \$5,622,867.

President Leeson further inquired, "And of that money, we had intended...?"

Mr. Davidson responded, "\$3,500,000."

President Leeson continued, "To spend that in our original budget. So we overspent our budget..."

Mr. Davidson replied that it was their original and final with budget transfers. He noted that the total was reallocated. It was still \$3,500,000 budgeted, whether the final budget reflects a \$3,500,000 deficit as the current year spending deficit, as does the final budget. It could be found on page 18 and 19 of the report.

President Leeson stated that when she looked at what they budgeted and then what they spent, it did appear to be about \$5,500,000 over and asked Mr. Davidson if that was correct. They budgeted with the \$3,500,000.

Mr. Davidson replied that the expenditures exceeded the budget by \$4,546,454. In addition to that there was another \$829,000 in "other financing uses", on top of the \$4,500,000. The interfund transfer was principally debt service (\$786,000), which was the bond and could be found on page 19 of the audited financial statements.

Director Follweiler asked Mr. Davidson how school districts fall under the Sarbanes-Oxley Act?

Mr. Davidson stated that they haven't but he thought that it was not too far down the line.

Director Follweiler added that when he discussed the receipt and noted that Sarbanes-Oxley states that the person who is doing the purchase cannot do the receipt or the invoice.

Mr. Davidson commented that there is always segregation of duties and they look at that as part of the internal controls and it exists within the district because they have the personnel. He said that unfortunately in a lot of the small governmental entities there might be an issue. They rely on the fact that there are controls in place and various checks have to be done before things are issued. There is a concern about the habitual problems that may come up and there can always be an instance.

Mr. Davidson said they look to see that they are being followed and not being circumvented. He said that one must always be careful of collusion where there may be more than one person involved. As far as Sarbanes-Oxley, he said that it presently affects the public entities but it is starting to drift into the non-profit sector. He said there are things that are being looked at and was sure that it is not too long down the line where it will affect all boards of directors whether they be government or private. This audit was performed under the old risk assessment SAS and there has been nine new SAS issued which come into effect for the current fiscal year. They are effective for the years beginning after December 15, 2006. There are nine new risk assessments for 2007-2008 and they are dealing with some of the things that they are presently discussing. These things are constantly being evaluated within the accounting business as well as government regulations. He noted that when they are auditing at Air Products, they are dealing with general accepted auditing standards but when they are doing a school, they have the government auditing standards, which is called the yellow book. When there is a single audit where over \$500,000 is spent, they deal with the OMB's (Office of Management and Budget) requirements. He said there were three sets of auditing standards addressed and there is overlap but some areas are unique. They are ultimately their financial statements and are responsible for them but it is his responsibility to indicate whether they are presented fairly in all material respects. There is always a possibility of fraud or misappropriations, short of looking at every single transaction, but they try to design it as to eliminate it to a very immaterial or inconsequential amount.

Mr. Majewski commented on the Sarbanes-Oxley questions. He said that it would be highly unlikely for a school district to come under the act because they are considered to be a political subdivision of the Commonwealth and the federal government cannot tell the state government how to run their business but they can control the federal monies. He noted that it probably wouldn't trickle down to school districts.

Director Dexter stated that in the report there was the one reportable condition, which was something to do with the student activity fund. In that event, it was her understanding that the reason it was a reportable condition was because it was one of the test items and there was an error. The error amount didn't really come into play when they decided that it was a reportable condition. The materiality wasn't really a factor, but it was because they didn't comply with their procedures. She asked if she was correct in that they didn't look at the amount of the student activity account transaction.

Mr. Davidson replied that it was probably material to that fund. He said that with every fund they must reset the materiality aspects at every level. He noted that the materiality for the general fund would not be the same as it was for other funds.

Director Dexter asked Mr. Davidson if he did any testing to see if they still had the laptops that they said they had. She further inquired if there was any system of testing for him to go through and say, "Stan, let me see that serial number..."

Mr. Davidson stated that within the fixed asset list, they look at certain items for existence of stuff.

Director Dexter inquired if he checked the laptops at all.

Mr. Davidson responded that there had been laptops that had been checked.

Director Dexter asked if he did so this year.

Mr. Davidson stated that there were computers but he didn't know if they were specifically laptops. It is almost inevitable that there are certain things they wind up looking at because of the nature of the transactions. There are a lot of tech things that are bought within a school district today.

Director Dexter said to Mr. Davidson that if our district owned 4500 laptops, and if he was asked to test our laptop inventory controls, how would he go about determining how many of those would be the test number.

Mr. Davidson replied that there are sampling equations to determine the expectation that would give him a comfort level. The size of the population and so forth would determine what sample they might look at, so out of 5000, they might look at 100. If they found no exceptions, it is fine, but if they find an exception, then they must make a decision and normally they would then test another group of laptops to see if they in fact exist and then follow it through. He said there had been instances in the past where there had been some difficulty in tracking down the laptops because they had been in for repair. Sometimes they just get transferred to a different school; short of having them all in house, where they could be seen to look at the serial numbers.

Director Dexter addressed Mr. Davidson and asked him, "Knowing what you know now about the laptop situation, would you do anything differently with the next year's inventory?"

Mr. Davidson responded that he thought he had an obligation. It may not fall within the materiality but there has been a lot of concern about them and under the new standards he might also be obligated. What was done yesterday may not be what they would do today because of the standards and the bottom line from his standpoint is that they are fairly presented. He said it was unfortunate that there are dishonest people and things disappear. He said that they try to look at as much as they possibly can in determining a comfort level that they are fairly presented. It would be a monumental project to look for 5000 laptops.

Director Dexter asked Mr. Davidson if he prepared a final audit and noted that they saw the draft.

Mr. Davidson replied that he did and this was the final prepared audit report.

Director McKeon asked if their questions had been satisfied in order to make a recommendation to have the audit go to the February board meeting for approval or rejection.

Director McKeon concluded that there was a general consensus to place the audit on the February regular board meeting for acceptance.

Director Dexter commented on the minutes from the previous finance committee meeting and noted they were transcribed from tape. She had discussion with President Leeson and expressed their preference to have the meeting documented in that manner rather than have a memorandum with a summary of what was discussed simply by topic area.

Mr. Majewski replied that the format had been used for the last several months and said they would continue to do so, noting the positive being a more detailed report, but the downside is the turn-around time because of the editing process during transcription.

Director McKeon closed the meeting at 9:10 p.m.

Minutes prepared by Donna Wenz