

**MARPLE NEWTOWN SCHOOL DISTRICT  
BUDGET AND FINANCE COMMITTEE MEETING  
TUESDAY, NOVEMBER 14, 2006  
BOARD ROOM  
MINUTES**

**PRESENT:**            **Committee:** Chairperson Won Shin, Mr. Richard Carpenter and Mr. Richard Sokorai  
Absent: Mr. David McGinley

**Board:** Dr. Jeffrey Shapiro and Mr. Edward Partridge

**Administration:** Mrs. Merle Horowitz, Mr. Joseph Driscoll, Mrs. Karen McGinnis and  
Dr. William Duffy.

**Press:** 0

**Audience:** 2

Mr. Shin opened the meeting at 7:00pm, welcomed all in attendance and asked Mrs. Horowitz to lead in the Pledge of Allegiance.

**1. Call for Additions or Corrections to the Agenda**

No comments were made.

**2. Approval of October 10th, 2006 Meeting Minutes**

Mr. Carpenter made a motion and seconded by Mr. Sokorai to approve the October minutes.

**3. Business Office/Finance Reporting**

• **Bills for Payment**

MOTION: To take to the full Board for approval the General Fund and Food Service Bills for October 2006.

Mr. Driscoll stated that you will see in front of you the first round of bills that have been processed. On normal months this will be larger because we will have cut another check run when you approve it. This gives the Board the opportunity to go through the bills and ask questions. Please feel free to email questions or we will go through them tonight especially until you get comfortable with the repetitive bills/invoices that are on there.

Mr. Shin stated that this motion would be brought to the full Board this month.

• **Monthly Financial Reports – September 2006-2007 and Informational October 2006-2007**

Mr. Driscoll stated that typically our funds come in and leave on average about the same. We are experiencing good collection on our real estate taxes in terms of our normal percentage.

- **Treasurer's Report – September 2006**

Mr. Driscoll stated that the Treasurer's Report is our statement of cash position for the school district and how we reconcile every month. It gives the amounts by funds and gives detail of where we are at. It is required that we provide this on a monthly basis.

- **Budget Transfers – October 2006**

Mr. Driscoll stated that we have some Budget Transfers this month for reallocating appropriations in several areas.

#### **4. 2005 – 2006 Annual Audit Presentation (Draft) Major & Mastro, CPA's**

Mr. Driscoll stated that he has handed out the draft copy to the committee. Major & Mastro are here to present the report to you.

Ms. Majors stated that in the Independent Auditors Report, the third paragraph states, "In our opinion, the financial statements referred to above presents fairly and all material respects the respective financial position of the governmental activities, the business type activities, each major fund and aggregate remaining fund information of Marple Newtown School District." This is called a "clean opinion" that is the best opinion that you can receive from an auditor. Page 12 shows two sets of statements, The Government-wide statements and Fund Level Statements. Government-wide is on a different basis of accounting which is more like what you would see in a business activity. Revenues are shown when they are earned and expenditures are shown when they are actually incurred. The Fund Level is revenues that are collected within 60 days after the end of year and are picked up as revenues in the financial statements. You will see reconciliations that go between the Government-wide and the Fund Level statements within here. Some of the highlights of net assets are as follows: Cash and Investments were down from last year because of construction with the athletic field and you bought computers. Your non-current assets or capital assets are up by \$3 million this year. Your total assets are \$59,673,000.00. Liabilities were at \$49,387,000 for the year. You have invested in capital assets. Net of related debt is \$2,057,792. It is refreshing to see a positive number there compared to other schools. Your total net assets are \$10,285,000 for the year on the Government-wide statement. Page 13 shows statement of activities that shows your expenditures versus your program revenues and general revenues. You have expenditures in excess of program revenues of \$43,785,000 and what makes up the rest of it are your general revenues of \$47,403,000 which gave you a positive change in net assets of \$3,618,000. Investment earnings were up this year mainly because rates were up, you carried the Malin Road monies over for the year and you had the TRAN (tax revenue anticipation note) for the entire year. Your general fund fund balance is \$2,851,000 which is exactly 5% of your general fund expenditures. That is approximately 30 days cash that you have sitting there that you have to pay for your expenditures. You have a reserve fund balance of \$2,386,000. It is my understanding that \$2.2 million of that was reserved to pay down debt. I believe that you have since done that.

Mr. Driscoll replied yes. That was done at the end of September. We paid off the stadium.

Ms. Majors stated that on page 16, there is an operating transfer of \$3 million from the Malin Road property that went to the capital reserve fund for the year. You had \$55,272,000 in revenue in the general fund and expenditures of \$53,038,446 for an excess of expenditures over revenues \$765,000.

Ms. Mastro stated that page 17 provides the reconciliation between the Fund Level statements which is on a different level of accounting to the Government-wide statements. In the current year your capital outlays exceeded the depreciation by \$1,544,000. The repayment of bond principal is \$2,590,000. That is an expenditure on the Fund Level on the year you pay it back but on the Government-wide it is recorded as a

liability so it pays down that liability, it doesn't give an expenditure. Those are the biggest pieces of the difference between the Fund Level and the Government-wide statements.

Ms. Majors stated that page 38 is the budgetary comparison schedule. Each year you adopt a budget for the general fund and there are budgetary transfers throughout the course of the year because everything changes during the course of the year. You had a positive variance for revenues of \$2,119,978. A good piece of that was due to the fact that private school tuition was up this year. You had interest earnings because you did have extra cash in the bank that you hadn't had in the previous year. Under expenditures, there is a short-fall in special education. Special education enrollment can't be foreseen. There was a negative variance of \$194,000 due from legal bills regarding construction. There was also a short-fall in transportation which was predominately salaries and fuel costs that were very much up this year. Overall, you had an excess of revenues and other financial sources over expenditures of \$765,625. I am happy to note that we had no findings.

Mr. Carpenter asked about page 38. Am I correct in that the actual revenue as compared to the budget is over by \$2,119,000?

Ms. Majors replied that there is a negative variance of \$2,885,000 for expenditures.

Mr. Carpenter asked if the expenditures were up or down.

Ms. Majors replied that it was a negative variance that was caused by the transfer of \$3 million to the capital reserve fund but actually, it was down. The actual expenditures were higher than what were budgeted by \$2,885,000 because of the \$3 million transfer that was not budgeted for from the Malin Road property.

Mr. Shin thanked Majors & Mastro. We look forward in receiving the final draft in our package.

## **5. 2005 – 2006 Annual Financial Report (AFR)**

Mr. Driscoll stated that there is some movement to get the state to eliminate the requirement to do the AFR. The AFR is our biggest report to the state. The front section is the audited financial statements and then the next 100 pages are details of our expenses. It is what the state uses to collect data. We are required to do it. It is done and had to be done by the end of October. It has been submitted to PDE. I will post it on the website. I do not give a copy to the Board because of all the paper and a lot of it will duplicate what is in the audit report. If any Board member does want a copy, I would be more than happy to send you one.

## **6. Moody's Report & 2001 SBA - Refunding**

Mr. Driscoll stated that we went out to the market and refinanced the bonds last week and the net savings was about \$774,000 for the debt service in the 2007-08 budget. Moody's issues a report on our bond and gives us our rating. We were hoping for an increased rating based on our financial documents. They were very positive with us. We had a one-hour conference call with them. They were impressed with the turnaround in the finances from 2003 in terms of fund balance but they were not ready to up our rating but kept it the same. This is good because it helps our interest rates in the market. Our rating is an A-1. We have to remember that the money that we save is a one-time savings so there is discussion that needs to happen as to how that surplus gets handled. If we reduce that from the budget it will have to be something that we add back to the budget the next year. Otherwise, there are options to transfer it to the capital reserve for items that we may need there, reserve it in fund balance for retirement of debt service or whatever. That is something that I want the Board to be aware of that it is something that we should address because it will show up as a surplus if we keep that level of budgeting.

Mr. Sokorai asked what the problem was back in 2003.

Mr. Driscoll replied that Moody's looks carefully at your fund balance. It was the difference between spending and revenue. In 2000, we were up high at \$6 million and the district decided to do some things with the excess fund balance and then it was used for Operations. Now we are back in the up swing.

Mr. Sokorai asked if there are legal limits as to what the fund balance can be.

Mr. Driscoll replied yes. School districts are now legally limited and our limit is 8% and we are at 5%.

## **7. Budget Expansion**

Mr. Driscoll stated that every year we are required to put in for our federal programs (dollar in/dollar out programs). We balance that in the budget but usually the allocations come out different or there is carry over issues that we need to spend the money in the next fiscal year. That doesn't sort out until September of every year because those projects remain open until the end of September. We are doing clean up work. We expand the budget to show that additional revenue coming in and the corresponding expenses that will be done this fiscal year. I don't believe we will have as many budget expansions this year unless we get more forestry grants or other grants.

## **8. 2007-2008 Budget Review**

Mrs. Horowitz stated that Act 1 has presented significant challenges and changes for the budget process for all 501 school district for the 2007-08 school year. Normally at this time, we would just be getting started with our administration in terms of giving them some amounts to work within for the future year's budget. We had to begin a good six weeks ago giving our administration budget amounts just as they were getting started with the new school year. I am proud to compliment Joe Driscoll and Karen McGinnis for the way they had to shift and change the way they normally do the budget process to come up with a first draft this evening of the preliminary budget. The assessments of our needs for the next fiscal year have been very difficult and challenging for us this early in the year. Course selection normally does not begin until after the new year. Staffing for the entire district doesn't begin this early. Program changes based upon instructional and assessment needs of children and revenues are usually not this early. The approach that we had to take was to stay on course so that we could determine what resources our current programs will need and build from these a final budget that will balance the needs of our children with the resources that are available. Major cost drivers for the 2007-08 budget will be salaries, benefits, bus buy-back program, special education, the new vans that we need to purchase for our transportation fleet and debt service. Once this is shared with you this evening, we will begin an administrative review process with our administration and attempt to analyze any potential Act 1 exceptions that we are permitted to go after.

Mr. Driscoll stated that he will give a detailed review of the first draft of the preliminary budget. We need to have the preliminary budget available for public inspection at the end of December and for Board adoption at the end of January. From that point forward, we will work to refine it.

Mr. Driscoll gave a slide presentation of the first draft of the preliminary budget.

Mr. Shin stated that these cost drivers are totaling \$3.25 million.

Mr. Driscoll replied yes. They are the major cost drivers that make up the \$3.25 million increase in expenses.

Mr. Driscoll stated that he and the Superintendent will really start to sit down and go over and understand what is driving it and see if there are any efficiencies that exist. Now is also the time for Board input. I would like to have the preliminary budget ready in December for public inspection. I would like the Board to be able to adopt the preliminary budget by January 25<sup>th</sup>. Regarding referendum exceptions, I did some preliminary

calculations based on some seminars that I went to. I calculated special education and retirement exceptions. Even though the index is 3.4%, if the Board adopted this budget today at 3.6%, we have enough exceptions that we would not have to go to referendum. With those two exceptions alone, we could raise taxes by 5.5% without going to referendum. Those exceptions will run out eventually, some of them.

Mr. Partridge thanked Mr. Driscoll and Mrs. McGinnis on a job well done with the budget review.

Mrs. Horowitz stated that in discussion with superintendents we are all in agreement that it is advisable to apply for the exceptions whether or not you are going to use them.

Mr. Carpenter stated that he thinks the projections for revenue is understated by several million dollars. If we were to end up this year with \$2.5 million in unanticipated revenue like we have been experiencing for the last three or four years and we didn't add anything to the proposed expenditure budget, we wouldn't need to raise taxes at all.

Mr. Partridge stated that suppose \$1 million of that \$2 million of excess revenue is interest and the other \$1 million is subsidies from special education. Today there is no way to predict that.

Mr. Carpenter replied that he understands that. There has been no way to predict what the excess revenue has come from in the last four or five years. We've identified it after the fact. There has to be a category we can put it in. The reason why 2003 and 2004 were below was because the actual fund balanced was used as though it was actual revenue. They used up our surplus. I'm not talking about that. If we get another \$2-\$3 million it is going to increase the fund balance by \$2-\$3 million.

Mr. Driscoll stated that it is a tricky walk and it is a gamble. You have to remember that in this time of index where it is based on millage, any mill that you don't raise when you can you never get back.

Mr. Shin stated that we are early in this process. Understanding that the preliminary budget has to be approved by the Board earlier, it doesn't mean that our actual budget has to be approved any earlier. We still have until June 30<sup>th</sup> to approve the final budget. We have plenty of time to discuss this issue and to further look at what our actual revenues are going to be for 2006-07 and make further adjustments if necessary to our projected revenues in 2007-08. Our purpose at this point is to see if we can get a preliminary budget out for public inspection and then discuss that further.

## **9. Act 1 Update**

Mr. Shin stated that there is a Local Tax Study Commission meeting tomorrow night at 7:30pm.

## **10. New or Additional Business**

No comments were made.

## **11. Adjournment**

Mr. Shin adjourned the meeting at 8:37pm.

**Respectfully submitted by Heather Welsh, Secretary to the Board.**