

RED CLAY COMMUNITY FINANCIAL REVIEW COMMITTEE
REPORT TO THE BOARD OF EDUCATION



March 19, 2008
Red Clay Consolidated School District

Paul Lloyd
Committee Chair

INTRODUCTION

On Monday, March 3, 2008, the Red Clay Community Financial Review Committee switched venues, moving our meetings from the Linden Park Office to our new location in the Library at Skyline Middle School. The meeting's primary focus was to review the February FY 2008 Monthly Financial Report. Also, there were discussions on the proposed bylaws introduced by the Organizational Subcommittee, as well as on developing a policy for when an Intermediate Budget Unit (IBU) is over budget and needs to be flagged for closer scrutiny.

Absent from the meeting were committee members Gary Linarducci and John Allison. Seven members of the public were also in attendance.

SUBCOMMITTEE REPORTS

Time was allotted on the agenda for a discussion on the bylaws presented by the Chairperson of the Organizational Subcommittee. The committee reviewed their draft version and concerns were expressed about the following:

- Article III – Purpose: Concerns were expressed about what ramifications the changes to our original mission that have been proposed in the new bylaws would have on committee authority
- Article IV – Membership, Section 2 Membership: Language should be added pertaining to the length of terms for committee members
- Article V – Officers, Section 3 Term: At what point in the year should terms for officers begin and end

Changes to the document will be implemented and the bylaws circulated again for discussion before a final vote is taken for their approval.

The Report Subcommittee Chairperson was absent the night of the meeting and no report was available.

MONTHLY FINANCIAL REPORT REVIEW

Financial reports based on the IBU are prepared monthly by Finance Director Jill Floore for review by the committee. It details year-to-date revenue and expenditures for the District. A similar document from the same period in the prior fiscal year is also presented for comparison. A majority of the time spent in the committee meeting is dedicated to reviewing these documents in order to ensure the District stays on budget. Highlights from the February 2008 report include:

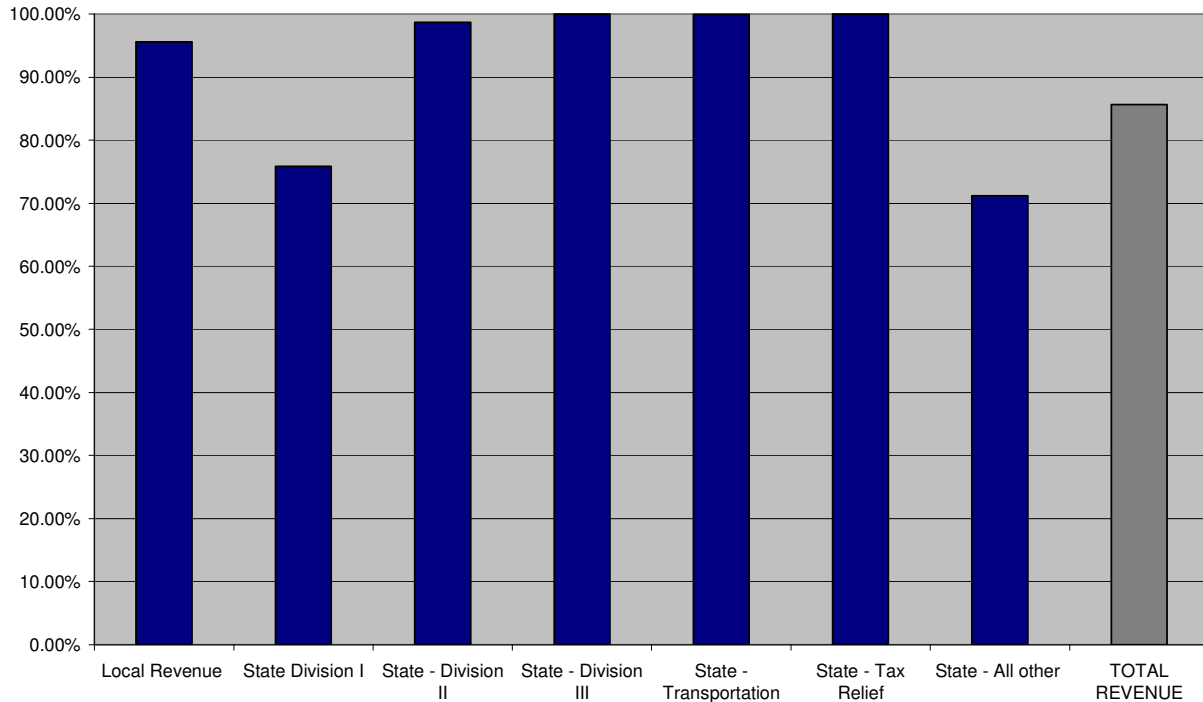
Division 32 Revenue –

- Division 32 includes all Departments and most schools in the District, except for Meadowood and the Intensive Learning Centers
- The State's share of revenues will be 100% by the end of the FY
- The largest outstanding local revenue item is an estimated \$2.2M for the Choice Program (payments from other districts for their students to attend Red Clay)
- FY 2008 local tax receipts are 97.8% of budget vs. 95.2% last year

	<u>BOARD APPROVED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	<u>% ACTUAL TO</u> <u>BUDGET</u>
DIV 32 TOTAL REVENUE	154,839,897.00	132,670,719.96	(22,169,177.04)	85.6%

This chart below shows the percentage of funds in different categories that have been collected YTD for State and Local Revenue (Federal funding sources not included). You can see that Red Clay has captured almost all of its projected revenue in most State and Local funding categories. The overall percentage of revenue collected to date is at 85.6% represented by the gray column on the right.

**Division 32 Revenue - % Actual to Budget
(as of February 29, 2008)**



Expenditures –

On the expenditure side for Division 32 the budget was set at \$154.5M, and expenses encumbered or spent to date total \$100.6M (The term encumbrance refers to money that has been reserved for payment when a purchase requisition has been processed, but the vendor has not yet been paid)

	<i>BOARD APPROVED BUDGET</i>	<i>ENCUMBRANCE</i>	<i>EXPENDITURE</i>	<i>TOTAL ENCUMBERED & EXPENDED</i>	<i>REMAINING BALANCE</i>	<i>% EXPENDED</i>	<i>% EXPENDED & ENCUMBERED</i>
DIV 32 TOTAL EXPENDITURES	154,579,414.00	4,563,058.01	96,021,690.52	100,602,748.53	53,976,665.47	62.1%	65.1%

For the Meadowood School (Division 54) they have a budget of \$8.3M with expenditures obligated to date of \$5.8M. The remaining balance for Meadowood School is \$2.5M.

	<i>BOARD APPROVED BUDGET</i>	<i>ENCUMBRANCE</i>	<i>EXPENDITURE</i>	<i>TOTAL ENCUMBERED & EXPENDED</i>	<i>REMAINING BALANCE</i>	<i>% EXPENDED</i>	<i>% EXPENDED & ENCUMBERED</i>
DIV 54 TOTAL EXPENDITURES	8,369,133.00	441,622.24	5,378,171.52	5,819,793.76	2,549,339.24	64.3%	69.5%

The Division 58 Intensive Learning Centers, which are the Central School and Richardson Park ILC, have an FY2008 budget of \$10.2M, encumbering and expending \$6.6M this year. The remaining balance for the Intensive Learning Centers is \$3.6M.

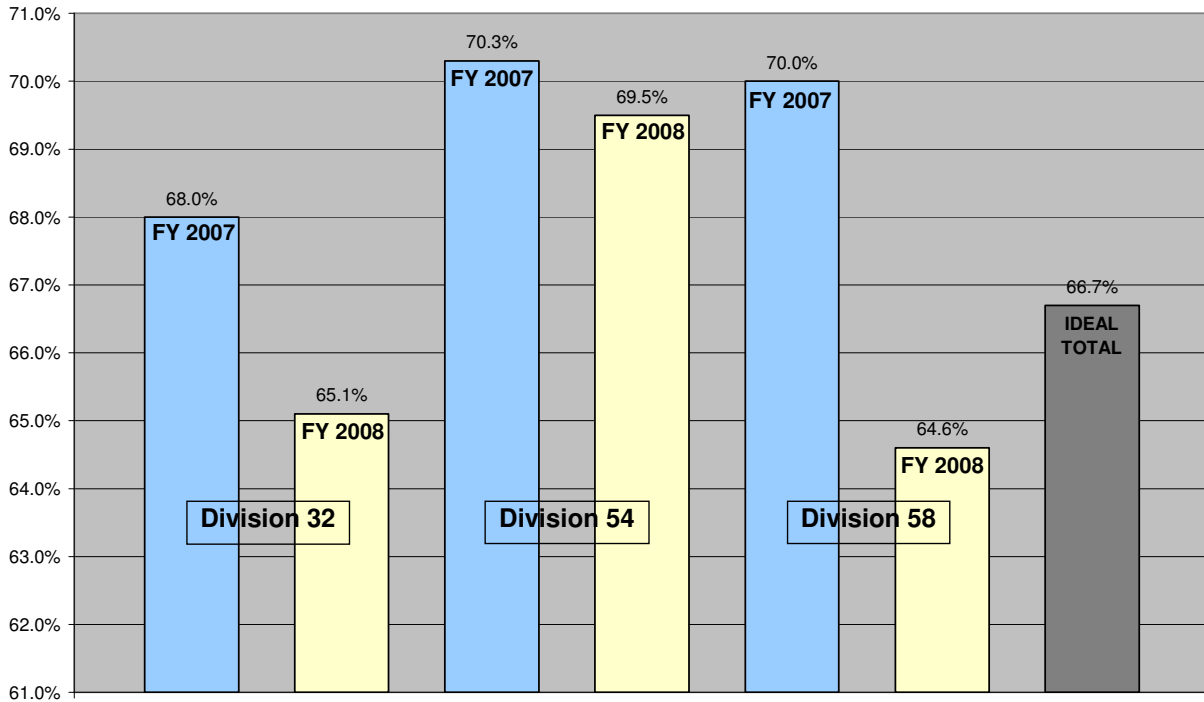
	BOARD		TOTAL			% EXPENDED	% EXPENDED & ENCUMBERED
	APPROVED BUDGET	ENCUMBRANCE	EXPENDITURE	ENCUMBERED & EXPENDED	REMAINING BALANCE		
DIV 58 TOTAL EXPENDITURES	10,220,540.00	468,061.38	6,135,492.34	6,603,553.72	3,616,986.28	60.0%	64.6%

Total expenditures broken out by Division for year-to-date as of February 29th, represented by the yellow columns in the chart below appear to be just below, or slightly above the ideal target. We are now eight months into the fiscal year, or 66.7% complete as depicted by the gray column on the right. A comparison of where expenditures stood at the same point in fiscal year 2007 is included (blue columns). As portrayed in the chart, expenditures in all Divisions (as a percentage) are down from last year.

As you can see:

- Division 32's expenditures are slightly less than the ideal and also below last year's percentage of budget spent
- Division 54 is slightly over the ideal level, but still less than last year
- Division 58 below the benchmark and well below the same period last year

**Expenditures - % Expended & Encumbered
(February 2007 vs. 2008)**



Watch List (Last Month) –

Last month there were items in the budget (see list below) that had committed costs exceeding 100% of budget when encumbrances and expenses were totaled. The reasons for this situation are detailed below:

In Division 32 -

- **IBU 04 Assistant Superintendent for School Services** - Expenses legitimately meant for IBU 21 and IBU 22 had been accidentally charged to IBU 04 causing the cost overrun.
- **IBU 13 Board of Education** - The reason for the cost overrun to this account was due to legal fees of \$14,141 that should have been coded to IBU 03 Deputy Superintendent.
- **IBU 19 Maintenance and Operations** - Many costs in this account needed to be recoded to IBU 59 (Minor Capital Improvement). The Business Office waited for additional state funding for Minor Cap, before shifting the costs.

JANUARY 2008

DIVISION 32 (General Operating Budget)

DESCRIPTION	BOARD APPROVED BUDGET	ENCUMBRANCE	EXPENDITURE	TOTAL ENCUMBERED & EXPENDED	REMAINING BALANCE	% EXPENDED	% EXPENDED & ENCUMBERED
IBU04 - ASST SUPERINTENDENT FOR SCHOOL SERVICES	34,990.00	3,126.85	33,613.97	36,740.82	(1,750.82)	96.1%	105.0%
IBU13 - BOARD OF EDUCATION	29,155.00		39,587.12	39,587.12	(10,432.12)	135.8%	135.8%
IBU19 - MAINTENANCE & OPERATIONS	680,000.00	80,026.24	737,910.90	817,937.14	(137,937.14)	108.5%	120.3%
DIV 32 TOTAL	744,145.00	83,153.09	811,111.99	894,265.08	(150,120.08)	109.0%	120.2%

After corrective measures, which mostly entailed recoding expenditures to their correct accounts was implemented by the Finance Department in February, two out of three Intermediate Budget Units have seen major improvement in the Percentage Expended and Encumbered column.

FEBRUARY 2008

DIVISION 32 (General Operating Budget)

DESCRIPTION	BOARD APPROVED BUDGET	ENCUMBRANCE	EXPENDITURE	TOTAL ENCUMBERED & EXPENDED	REMAINING BALANCE	% EXPENDED	% EXPENDED & ENCUMBERED
IBU04 - ASST SUPERINTENDENT FOR SCHOOL SERVICES	34,990.00	1,080.18	34,967.21	36,047.39	(1,057.39)	99.9%	103.0%
IBU13 - BOARD OF EDUCATION	29,155.00		25,770.64	25,770.64	3,384.36	88.4%	88.4%
IBU19 - MAINTENANCE & OPERATIONS	680,000.00	85,037.60	486,729.01	571,766.61	108,233.39	71.6%	84.1%
DIV 32 TOTAL	744,145.00	86,117.78	547,466.86	633,584.64	110,560.36	73.6%	85.1%

In Division 58 (The Intensive Learning Centers) –

- **IBU 51 Related Services** - Primarily covers the costs for therapists working at the Intensive Learning Centers and the person responsible for managing this Intermediate Budget Unit has estimated this expenditure and encumbered those costs for the remainder of the fiscal year.
- **IBU 55 Vocational Education** - This problem was caused by a substantial reduction in the dollar amount allocated in the final FY08 budget.

JANUARY 2008		DIVISION 58 (The Intensive Learning Centers)					
<i>DESCRIPTION</i>	<i>BOARD APPROVED BUDGET</i>	<i>ENCUMBRANCE</i>	<i>EXPENDITURE</i>	<i>TOTAL ENCUMBERED & EXPENDED</i>	<i>REMAINING BALANCE</i>	<i>% EXPENDED</i>	<i>% EXPENDED & ENCUMBERED</i>
IBU51 - RELATED SERVICES	577,000.00	311,089.99	305,747.00	616,836.99	(39,836.99)	53.0%	106.9%
IBU55 - VOCATIONAL EDUCATION	9,300.00	16,395.00	11,101.72	27,496.72	(18,196.72)	119.4%	295.7%
DIV 58 TOTAL	586,300.00	327,484.99	316,848.72	644,333.71	(58,033.71)	54.0%	109.9%

For IBU 51 Related Services in Division 58, the situation has basically remained unchanged, but the Finance Department was able to take some corrective action and back some encumbrances and expenditures out of IBU 55 Vocational Education in the month of February.

FEBRUARY 2008		DIVISION 58 (The Intensive Learning Centers)					
<i>DESCRIPTION</i>	<i>BOARD APPROVED BUDGET</i>	<i>ENCUMBRANCE</i>	<i>EXPENDITURE</i>	<i>TOTAL ENCUMBERED & EXPENDED</i>	<i>REMAINING BALANCE</i>	<i>% EXPENDED</i>	<i>% EXPENDED & ENCUMBERED</i>
IBU51 - RELATED SERVICES	577,000.00	273,136.99	343,700.00	616,836.99	(39,836.99)	59.0%	106.9%
IBU55 - VOCATIONAL EDUCATION	9,300.00	12,061.08	523.33	12,584.41	(3,284.41)	5.6%	135.3%
DIV 58 TOTAL	586,300.00	285,198.07	344,223.33	629,421.40	(43,121.40)	58.7%	107.4%

Watch List (This Month) –

During the March 3rd Community Financial Review Committee meeting the Finance Director discussed concerns with the following Intermediate Budget Units in Division 32, and they have been added to the Watch List:

- **IBU 14 Printing and Graphics** – The department had equipment costs that have been encumbered.
- **IBU Utilities** – Energy costs have been encumbered out through the end of the fiscal year. If no additional unexpected costs are incurred, this IBU should end up on budget. Note: there are contingency monies available in case of a shortfall.
- **IBU 84 Conrad** – The costs are related to new textbooks, the expansion, etc. as the school implements new programs.

FEBRUARY 2008

DIVISION 32 (General Operating Budget)

DESCRIPTION	BOARD APPROVED	ENCUMBRANCE	EXPENDITURE	TOTAL	REMAINING BALANCE	%	% EXPENDED &
	BUDGET			ENCUMBERED & EXPENDED			EXPENDED
IBU14 – PRINTING AND GRAPHICS	302,046.00	39,181.63	235,730.34	274,911.97	27,134.03	78.0%	91.0%
IBU38 - UTILITIES	4,639,000.00	1,489,852.72	3,118,223.01	4,608,048.73	30,951.27	67.2%	99.3%
IBU84 - CONRAD	74,200.00	4,115.48	63,103.48	67,218.96	6,981.04	85.0%	90.6%
DIV 32 TOTAL	5,015,246.00	1,533,122.83	3,417,056.83	4,950,179.66	65,066.34	68.1%	98.7%

BUDGET REVIEW POLICY (PROPOSED)

The Community Financial Review Committee, as well as members of the School Board have talked about the need for a formal policy to be put into place that would flag budget items before they became a serious problem. Two components are needed in order to establish an effective policy:

1. Determining the trigger point for an action to take place
2. Deciding on what steps should be taken in order to solve or mitigate the problem.

The proposed example below shows a floating trigger format in which the first column displays the months of the fiscal year. The second column attempts to establish an ideal target range, or benchmark by taking a very simplistic approach and divides how far you are into the fiscal year by 12 (e.g. current month/12). The third column tries to establish trigger points that would lead to increased scrutiny based on an IBU’s expended and encumbered percentage, and how far over budget that item is in relationship to the benchmark.

FY Month	Ideal Budget Targets	Review Point % Expended & Encumbered		
		20%	40%	60%
July	8.3%	10.0%	11.7%	13.3%
August	16.7%	20.0%	23.3%	26.7%
September	25.0%	30.0%	35.0%	40.0%
October	33.3%	40.0%	46.7%	53.3%
November	41.7%	50.0%	58.3%	66.7%
December	50.0%	60.0%	70.0%	80.0%
January	58.3%	70.0%	81.7%	93.3%
February	66.7%	80.0%	93.3%	106.7%
March	75.0%	90.0%	105.0%	120.0%
April	83.3%	100.0%	116.7%	133.3%
May	91.7%	110.0%	128.3%	146.7%
June	100.0%	120.0%	140.0%	160.0%

Potential Actions include:

- =>20% - the Committee flags the item for closer scrutiny
- =>40% - the Finance Director provides explanation for overrun
- =>60% - the Finance Director provides a detailed list of expenditures related to the overrun and an explanation of corrective measures

to be undertaken

- =>100% - the Committee conducts a Post Mortem (in order to understand what happened and how to prevent it from occurring again in the future)

During our discussion about the policy a couple valid concerns were raised:

- It might be best to wait until six months into the fiscal year before taking any actions, since some costs (textbooks, supplies, etc.) can be frontloaded into the school year.
- Trigger or review points should be based on an IBU's expended percentage, instead of using the expended and encumbered percentage, because it might discourage managers from doing any long-range budget planning using encumbrances.

PUBLIC COMMENTS

Please refer to the meeting minutes for March 3, 2008, for a detailed report on this subject.

UPCOMING MEETINGS / DATES AND TIME

The Red Clay Community Financial Review Committee will hold its next meeting on Monday, March 31, 2008, starting at 6:30 P.M. in the Library at Skyline Middle School (note: this date has been moved from April 7th, due to a scheduling conflict).

Respectfully submitted,

Paul Lloyd

Paul Lloyd, Committee Chair