

**Red Clay Community Financial Review Committee**  
**Wednesday, June 12, 2013**

**Meeting Minutes:**

The Community Financial Review Committee met on Wednesday, June 12, 2013 at 6:30 PM in the Brandywine Springs School Conference Room.

**Members in Attendance:**

Jane Rattenni – Committee Chair  
Steven Fackenthall – RCEA Member  
Jill Floore – Red Clay Chief Financial Officer  
Victoria Kent – Community Member  
Lynn McIntosh – Community Member  
Larry Miller – Community Member  
Kenneth Rivera – Board Member

**Others in Attendance**

Frank Defroda – Barbacane & Thornton

**I. Introduction and Opening Comments:**

Ms. Rattenni opened the meeting welcoming everyone introducing our guest, Mr. Frank Defroda of Barbacane & Thornton who will give a presentation on the Red Clay internal audit.

**II. Minutes**

After a review of the May meeting minutes, Mr. Miller moved to accept them and Mr. Fackenthall seconded. The motion carried.

**III. Presentation – Audit Update**

Mr. Defroda distributed the financial statements for the period ending June 30, 2011. The main independent auditor's report states that Barbacane & Thornton has audited the financial statements of the general funds, as well as major capital, debt services and the nutrition funds of Red Clay. The document explains the process of the audit and where the opening balance is derived. The audit is not of the entity audit, but at the fund level. An entity audit includes your fixed assets, your debt, on a complete accrual basis. Ms. Floore explained that the first time the audit was done, it was an entity audit. The Committee elected to have a fund audit for this audit. The audit states that except for any adjustments that may come up, the fund level statements are fairly stated.

The audit reviewed compliance with laws and regulations. The management discussion and analysis was not done at this time due to it not being an entity audit. Supplemental information was audited but not the opening balances so this is a qualified opinion because it is not consecutive years. The fund level is fairly presented.

On the back of the report, Pages 11 and 12, present the combining consolidated balance sheets. This consolidates the 3 schools, RPLC/Central, Meadowood and Division 32. Pages 13 and 14 are the balance sheet for Division 32. We receive state allocations, federal funding and local funding. The state allocation was \$1.7 million in cash \$42 million in local, equaling under \$44 million in a cash basis. Adding the tax receivables that were received later making \$3.2 million in receivables. Ms. Floore explained that this cash balance liquidates encumbrances. Reserved money on a purchase order is an encumbrance. That is cash as it hasn't been spent yet, but promised to pay. \$20 million was reported as cash at the time with the rest as encumbrances turned into cash. Mr. Miller then stated that the cash is there but the funds have an obligation. We show it as cash but they are obligated but not yet spent.

On Page 14 depicts the State column with \$101 million in revenue \$100 million in expenses with \$36,000 was reverted to the state leaving a positive \$700,000 in state funds. We also had a positive \$6.6 million in local funds. In federal dollars we have spent what we have received. We only recognize the revenue of that is spent within the year.

The final column shows \$215 million in revenue and \$200 million in expenses. Transfers of \$9.8 million from Red Clay to the special schools. Leaving a \$5.8 increase to the balances. Ms. Floore explained that includes tuition, MCI (minor capital improvement) which is separated out in the budget. This format includes them all together. Mr. Fackenthall asked about Central School. Ms. Floore explained that Central is part of 58 included in the RPLC funding. 54 is Meadowood. First State is included into the 95320. ELL is also into 95320. They are also reported into the budget as such.

Pages 15 and 16, \$3.3 million list Meadowood with \$75,000 liabilities and a net of \$3.2 million. Income statement for Meadowood is positive \$34,000, local \$825,000 with \$838,000 increase for Meadowood. Pages 17 and 18 RPLC and Central, Division 58 show \$20,000 liabilities with a \$3.2 million total.

Looking at the Income statement, the state allocation had a positive \$324,000, local is total is \$866,000 and in total a positive \$868,000.

The consolidated balance sheet is titled governmental funds and is the sum of all previous reports, breaking out major capital and debt service funds. At the end of the year Red Clay had \$57 million in assets at the fund level \$54 million in cash, \$3.2 million in receivables, liabilities of about \$5 million, leaving \$52 million left of which \$13 million was ear marked for encumbrances. \$39 million of an unreserved surplus was rolled over into the following year. Ms. Floore wanted to qualify that tuition may have a balance; Meadowood may have a balance, RPLC and Central all may have balances in the budget.

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It is not aggregated as it is only on the operating budget. We may have cash yet we cannot use it for salaries. Funds cannot comingle with salaries.

Page 4 lists the income statement with a \$6.5 million increase on the beginning balance. Page 5 is a statement of assets for fiduciary funds – funds held for other entities as clubs, etc. This money cannot be used for operating expenses. Ms. Floore explained that this money is used for field trips, year books, proms, etc.

Starting on Page 6 are standard notes on the policy. On Page 8, is the cash equivalent footnote. The majority of our cash is with the State of Delaware who invests our cash and we earn funds on those investments. There is a lease operating footnote. Note 5 states that employees are part of the State pension plan. On Page 10 Note 6 risk management and that the school has adequate insurance. Note 7 contingency notation of grants and those grants can be separately audited. Note 8 states that there are no subsequent events that would have impact on the financial statements.

Pages 19 and 20 list the internal control findings and there are no findings to be reported. In 2008 there were 2 findings listed on Page 21 has 2 for nutrition and in 2011 they have been addressed and no new findings to be reported to the Board.

Mr. Defroda would like the Committee to recommend to the Board if another audit would be beneficial for 2 or 3 years from the 2011. Ms. Rattenni thanked Mr. Defroda for his time. There were no other questions for Mr. Defroda.

Mr. Fackenthall asked if we are audited every 3 years. Ms. Floore explained this audit was discretionary. The State auditor audits all state entities every year. They conduct an audit on federal, local, internal accounts and state funds. They also do a major cap and debt service audit. Then the federal auditors come in and do an audit on all federal funds such as Race To The Top, ARRA, etc. The State Auditor does an audit on lower Delaware school districts every 3 years. For us it's every year. In 2008, after the 2007 problematic year, the CFRC was established and we requested our own audit. We had to request permission from the State auditors. We did an RFP and had an audit on 2008.

Charters schools are required by law to have an entity wide audit for a charter school based on singular funding structure. Because we're part of the State, we don't have a balance sheet, therefore, this audit tried to craft a balance sheet for the district. Assets and buildings are state property not district property. The Committee decided that an entity wide was not practical and would prefer a more limited scope. Ms. Rattenni explained that at the beginning there was no starting point and we felt more comfortable if an audit was done. Between the loans and the leasing of property, we were interested in getting more information.

Mr. Fackenthall asked how much did we pay for the audit. Ms. Floore stated \$65,000-70,000. Ms. Kent asked if this audit was recommended to the Board by our Committee? Ms. Floore answered yes and it was done two times. It was done in 2008, and now 2011. Ms. Kent asked if the next would theoretically be 2014.

Mr. Miller explained that the finance committee wanted to establish credibility with the community. We had state, federal and now an independent auditor. Since that time, our monthly financial statements are verified as accurate. Actions were taken where needed putting the district back on track. We have complied with everyone. Do we now need this extra layer? Mr. Miller would make the motion not to do another audit but leave the financial board the option to reinstate the audit in the future. Ms. Kent understands why it was needed at first and that the internal controls and safeguards are now in place and in compliance, therefore, this layer is no longer necessary. Ms. Rattenni agrees that the second audit has produced an extremely valuable document. However, another audit at this time is unnecessary. Leaving open the option of an audit in the future may be requested. We have a message for the community that we have a flawless audit and are back on track. Mr. Miller also explained that using external auditors, when the State makes changes in the financial system, we need to train them in our own system. Ms. McIntosh asked about the first version had an omission \$800,000. Ms. Floore stated Barbacane found the discrepancy.

Mr. Miller made the motion that we discontinue the external audit effective the next fiscal year and let it be utilized again if the Financial Committee and the Board finds it necessary based on the information provided by the current external audit and the reconciliation of the balance sheets. Ms. Kent seconded and all agreed. The motion carried.

Ms. Rattenni thanked Ms. Floore for her work in the audit and within the process. Ms. Floore also included her thanks to the Committee for their participation and work on the transparency. Mr. Fackenthall asked if the final report would be on the website. Ms. Floore explained that yes it would.

#### **IV. Monthly Reports**

In the past we have often missed a June meeting. This is close-out time of funds. The State has a cut-off date on purchase orders and payments. May normally remains stable and then in June is the time to clean up. The financial system shuts down for 2 weeks to prepare for the next fiscal year.

On the revenue side, we are very healthy. The main difference is the 99.2% of last year. We had 98% of the State Division 1 salary money. This year they haven't moved the remaining funds. There are 2 payrolls in June and the funds will move as those payrolls happen. They will true up at that time. Last year they moved it earlier. Local funds is line one. The tax rate is set by referendum. We would get in \$56 million with a delinquency factor. We don't charge more than we asked for, but with the delinquency factor, we can go over. 101% is our position this year due to the diligence of New Castle County collections. In June we will likely get nothing toward that funding.

MTI and Technology and eRate funds are slightly lower than anticipated. Indirect cost needs to be made on the last June draw. Income from fees is bigger in the spring and June for the rental of our grounds by private groups.

Cscrp will never be 100% this year. Cscrp is a cost recovery program. Therapists provide a service we then bill Medicaid for those services. The Medicaid program, however, has been suspended during their time and effort study. All fees and reimbursements were suspended but were promised in the future. Ms. Kent asked if that line has significantly increased from last year. Ms. Floore stated that the actuals have been tracking low. The study started last year. We hoped the true up would be this year but we think it will happen next year.

We are collecting revenue now for the summer school reported in 2014. Ms. Floore is very comfortable being over 100%. The amount increases as more students than anticipated sign up for our summer school classes.

Ms. Kent asked about "state all others". Ms. Floore explained that most of that funding is Groves Adult Education. We have several funding lines that go through that program. Related services also comes through that funding line as well. Ms. Kent commented that it is significantly more than budgeted. Is that a sustained increase? Ms. Floore stated it is more than budgeted as we cashed in on related services. It comes in one form or another.

The district gets academic excellence units. We receive 1 for every 250 students. This year we received 63 and we can use them throughout the district. The district also gets related services units based on the needs of our students. These are the therapists not covered on Cscrp. Historically, in Red Clay and many districts, you receive units and can cash them in. We try to directly hire as many therapists as we can as employees. However, many of those therapists prefer to work privately or through a private company. We cash in those units for those we cannot directly hire. We grew under needs based. We earned more units and more excellence units.

Expenditures should be 92%. This is the time we work with our managers. Schools are allowed to carryover 15% of their budgets. There is still June to carry out and get to 15%. Heritage is low due to the large PO for a playground coming. The funding needs many approvals, therefore, it is moving slowly. They will be at 85% at year end. Brandywine Springs and Linden Hill and North Star are also working through purchases at this time. Mr. Fackenthall asked if when these numbers are seen, immediate contact is made with the principal. Ms. Floore stated yes, absolutely, many new principals are slow to purchase and then once they know their school, purchase what is needed.

Ms. Rattenni asked about overages in legal services. Ms. Floore explained that most programs that go over need to make changes to fix the overage. Unfortunately, legal bills cannot be negotiated. This means we went over our estimates.

School based intervention. This is school improvement money. Ms. Floore estimated that we would get \$15,000 but more was given to us from the state so we need to spend it. Therefore, we are an overage of our estimate but not more than we received.

Mr. Rivera asked what the BOE spent their funding on. Ms. Floore explained it was due to the association fees, Ms. Foster's time worked as well as training and travel.

Ms. Kent asked about Library services are at 77%. The libraries are restocking at the end of the school year. The print shop did change some encumbrances and had funding paid back to them from the schools.

Ms. Rattenni stated that there is nothing of concern at this time.

Ms. Floore stated we won't meet in July. We will meet in August speaking to the tax rate and the budget. At that time you will see the close out of FY 13. That is also the meeting we set the agenda for the year. Please email Jill what presentations you'd like to see i.e., major capital, food service, transportation even if you've seen them this year. Federal grants are done every year. Also to consider is Race To The Top from Ken Goodwin and Professional Development from Jim Comegys.

Mr. Miller stated that RTTT is ending. Does this have a long term impact on the operation of the school? Ms. Floore explained that the grant has been pared down from last year. It contains pre-school teachers and academic deans. Literacy coaches were not RTTT but stimulus funding. Mr. Miller asked if programs or positions introduced into the system that now do we continue to fund or do they disappear. Ms. Floore explained that there is no way we can fund 100% locally the 8 academic deans. Preschool is being worked on by Dr. Daugherty. Ms. Kent asked what an academic dean does. They are administrative support for the school so one administrator can be solely dedicated to operations and one working on PLCs and academic component. In larger schools, they are unilaterally seen as extremely valuable. Mr. Rivera and Mr. Fackenthall both teachers feel the loss of those in their schools. Ms. Floore stated that Red Clay may focus more at the secondary level. Dr. Daugherty is working to find a way to make the pre-school program sustainable. Now there may be a combination of tuition, purchase of care, the DE Stars program from the governor and a grant obtained by Mr. Stewart for before/after care. It will not serve hundreds of children. But we will try to reach those in the neediest areas. The school sites are Mote, Baltz, mote and Warner.

Mr. Miller stated all this time and energy that went into creating these positions, to lose them, is devastating. Mr. Rivera stated that they knew they were short term funds but the loss is still felt.

Ms. Floore stated that competitive grants are problematic. Not everyone qualifies, and it makes uneven programs throughout the State and throughout the country. RTTT was intended to provide for things we could then live without. Ms. Kent stated that now the requirements the schools need to follow don't go away when the funding does. Mr. Fackenthall stated that data coaching is now done by the teachers.

Mr. Miller applauds the efforts put in by Dr. Daugherty in keeping the early childhood education in our district.

Future topics were discussed for next year. Mr. Rivera would like to see more discussions of future decisions on staffing and programs given to the Committee. Ms. Rattenni explained that our role is not in policy but to review the financial information.

Ms. Kent spoke to sequestration. Are there other items that need to be adjusted for the current situation? Ms. Floore explained that the presentation on the 3 year plan is next. Since 2008 the State has cut discretionary funds. At the very same time they funded growth. One doesn't equate to the other. The needs based funded paraprofessionals in special schools. This didn't replace the LEP or Technology grant nor does it provide a Minner teacher. So now we are growing back the discretionary funding. Now there is funding for computers specifically for State testing. Our share is about \$350,000, not a windfall, but good news. There is a tech block grant for support for technology which turns into people. Another is the ability for school boards to match tax. We were already doing that on technology and Minner reading teachers. Now we can match tax for extra time for teachers. Mr. Miller is concerned that the national debt is so high and interest rates going up. There will be cuts then happening elsewhere and he's afraid it will be education.

#### **V. Presentation – 3 Year Forecast**

On April 30<sup>h</sup> there was a Board workshop on where the District is headed financially over 3 years. The revenue streams we have on the local, current expenses are set by referendum. When do we need to go back to referendum? Choice and charter – Charter has a million dollar increase from last year to this due to the number of students attending charter schools. For every student in Red Clay who attends a charter school, we make a payment to that charter school. Odyssey, DMA, Charter school of Wilmington or those charters chartered outside of Red Clay.

Ms. Floore explained that without a referendum, we go up 1% every year due to reassessments of improvements. Interest decreases with our balance. In FY14 we will have the ability to match tax, and we will levy that tax. Choice is stable as we don't have seats to take students from other districts. These are estimates and predictions but Ms. Floore feels that at the end of FY16, we will require an operating referendum. It seems far away but we need to be prepared. Mr. Fackenthall asked if operating is what Colonial School District just went through. Yes, our last one was in 2008. Brandywine School District had one in 2008 and another in 2013. Ms. Kent asked if we should go sooner? Ms. Floore stated you don't go to referendum with money in the bank, however, you don't want to be depleted of funds before you go. As costs go up, with 2% raises for staff, you are always looking to the future for when to ask for more funding.

The presentation looks at what was cut from the budget from the State and how we will manage it from the local side. Other fundings came in to help bring the revenue up. It

reviewed what was covered by the 2008 referendum. We have accounted and shown where the funding has been used. The strategic plan which is voted on by the Board is established by staff members. That dictates what is in the budget. We maintained our priorities, leaving little discretion.

We are in a strong position. We end this year with almost \$17 million in the bank. Revenue will not increase but expenditures will. This model is only as good as the assumptions within. With one change, we will not end with \$16.6 million. We are tracking down, deficit spending. Therefore by FY16, we will need a referendum.

Ms. Rattenni stated that we are being conservative in our numbers.

## **VI. Public Comments**

Mr. Fackenthal was at a meeting that was being given by Technology. Some of the new programs would not be purchased for next year as per Dr. Mathis. Then it was discussed that some of the more affluent schools already have those programs. Are those programs being covered by the District or by the school budget? Ms. Floore explained it depends. There is some consistency. Curriculum will fund some things District-wide. Schools have discretion to buy from their school budget or wrote strategic plans to support technology or after school programs. Two things schools wanted were after school programs and technology. But the school directed the target. There is not a disparity in what the schools are able to purchase. Mr. Fackenthal stated there are some things that may look like a disparity. Ms. Floore answered that disparities can come into play when PTOs contribute funds to the schools. Playgrounds are a good example. Linden Hill was required to raise their own money to get a playground. Last year the District made sure every playground was brought up to the same level. Every school is funded on a per unit basis equally. How they choose to spend those funds can vary. Yes, situations in PTA fundraisers, etc. does change some things. Also the RCEF's intended purpose is to provide materials and equipment for schools that cannot do on their own.

Ms. Rattenni wanted to make a change for the day the meetings are held. Mr. Piccio is a Board member that wants to be on the Committee but he is unavailable on Wednesdays. It would be the changed to the 2<sup>nd</sup> Monday of the month. If there is a holiday, we move it to the following Monday.

## **VII. Announcements**

The next CFRC meeting will be held Monday, August 12, 2013 in the Brandywine Springs Teachers' Lounge at 6:30 PM.

## **VIII. ADJOURNMENT**

The meeting adjourned at 8:40 PM.

Respectfully Submitted,

Laura Palombo

Recording Secretary