**Cardinal Local School District**
**Special Meeting**
**April 25, 2016**

The **Special Meeting** of the Cardinal Board of Education held at 4:30 p.m. on April 25, 2016, was attended by Ken Klima, Wendy Anderson, Greg McClain, Linda Smallwood and Katie Thomas.

**Discussion Items:**

Financial/Forecast Review – Ms. Knuckles told the Board she asked Nita Hendryx from the Local Government Services Division (LGS) of the Auditor of State's Office to review the Forecast with us along with the parameters for Fiscal Watch/Emergency. We currently have LGS come in each year and help with the compilation of our financial statements before the audit side of the office comes in to prepare our auditor financial report. Mrs. Hendryx worked with Ms. Knuckles for nine years before she came to the District. She hopes Mrs. Hendryx can help to reinforce our financial situation and the need for a levy and give the Board a different perspective of the financial information presented to the Board by Ms. Knuckles.

*Mrs. Hendryx stated LGS helps local governments and school districts to put together their financial statements. Ms. Knuckles does most of the work for your financial statements. We just swoop in and put them together and make sure any new requirements are covered. They also help schools in financial distress. Right now we have a couple of schools in fiscal emergency and are working to take Niles out of fiscal watch. That's why she is here. You are all wonderful people, but you do not want to see her every month at a meeting. She wants to help us avoid that situation. Ms. Knuckles asked her to review the forecast and see if anything struck her funny or was a concern and she did notice few things. The format for the five-year forecast is always the same – three years of actual numbers and five year of projected numbers. Today is April 25th and tomorrow they will probably change. At any given time these numbers can change and these are the best numbers we can have. There were a few updates today to the report. She would like to go through the revenues briefly. Taxes changed a little bit due to Trumbull county taxes not being included with the Geauga County numbers. Tangible personal property taxes have been taken away and only delinquent amounts have been collected. Unrestricted grants in aid is a constant, you will get something twice a month from the state in the form of foundation payments. What that amount will be next year is still in the air since the formula could change. FY 16-17 figures just came out. The rest of the years are kept the same since we do not know what they may be.* Ms. Knuckles stated when they talked earlier this week, Mrs. Hendryx suggested looking at the foundation simulation for FY 17 to see what the potential number may be. In doing so the amount is slightly higher than FY 16. This year the state is basing the foundation payments on daily attendance, so every two weeks the amounts can change. She received $135,000 less one payment then an increase of $50,000 the next time. *Mrs. Hendryx stated this makes it very hard to budget and plan when you do not know what the figures may be.* Mrs. Smallwood questioned, if kids are absent you drop enrollment and you lose funding. *Mrs. Hendryx replied yes. It is not a constant figure any more.* Dr. Hunt called it a rolling enrollment, it is no longer the enrollment figures from October paid out over the year. *Mrs. Smallwood said that is crazy.* Ms. Knuckles stated "welcome to my world." *Mrs. Hendryx wanted to make sure everyone knew where these figures come from so they could see the challenges in budgeting for Ms. Knuckles.* Mrs. Smallwood thanked her as it helps to understand why we would not know how much money we are getting. *Mrs. Hendryx continued with restricted revenues that come from the state for specific items. Property tax allocation comes from the County Auditor for homestead and rollback monies. The homestead and rollback is what you see on your tax bills at home. The state pays that to the district. TPP monies have changed according to Ms. Knuckles.* Ms. Knuckles shared the state told us the TPP monies were going to start a phase out period back in August and we received less than we were expecting in November for the first distribution. Then a short time later we received notification that there will be a distribution in February to make-up for the loss of revenues between FY 2015 and the November amount. We received a partial payment of these monies in April with a note that they have no idea when the balance will be paid or how much it will be. *Mrs. Hendryx continued with other revenues being all other monies received and not part of the ones previously discussed. On the worksheets provided by Ms. Knuckles you will see the* *breakdown of items that make up this amount. They include open enrollment tuition revenues and it is good to see this going up. There is not a lot of fluctuation in these amounts.*

*Mrs. Hendryx said the next category is expenditures and this is where we spend our money. We are a service industry and we therefore spend most of our money for salaries and benefits. We provide a service to the kids and that is what we are here for. Ms. Knuckles told her prior to the meeting that she and the superintendent looked at a reduction in force for the next fiscal year. In row 3.01 and 3.02 you will see a decrease in costs. The reduction for salaries and benefits for those employees on the RIF list are reflected here in the forecast. As we continue talking you will see why these reductions were needed. Employee benefits reflects the assumption that a change is expected in health care costs as they are looking into ways to save money on the premium costs. These savings are much needed to eliminate the red showing on this forecast. Purchased services, supplies and materials, capital outlay, and other are the necessary expenditure to run this district. Ms. Knuckles provided tables in the handout so you can see what makes up the numbers and where the costs are going. Huge costs in purchased services are the excess costs for our special needs students. It is usually cheaper to join an ESC to save on these types of costs, but she knows how this ESC works. She was with Ledgemont until the bitter end and knows the billing was not done like other ESC's. Usually you are billed for the number of children you have in the program. If Cardinal has 50 out of 200 students, they would pay 25% of the bill for that program. This ESC bills all six districts the same amount even though they may only have a small portion of the population. She hears that is hopefully going to be changing.* Dr. Hunt stated yes, they are working on it. *Mrs. Hendryx said that piece of the puzzle could help to reduce your costs. A large portion of your purchased services goes towards these services; around $2 million. This forecast and budget is a big puzzle and any time you can adjust part of the puzzle to increase revenues or decrease expenditures it is a good thing. One thing she noticed is on line 5.01, transfers out. Whenever they go to a district that is in financial trouble they look for low hanging fruit and this is low hanging fruit. Ideally all other funds should be able to take care of themselves. Your grant funds, your student funds, your cafeteria funds. These means they bring in enough money to cover their expenditures. When she asked about what is in the transfers out line item, Ms. Knuckles said most of it is the intrafund transfers within the general fund. But over $100,000 a year is for the food service fund. When you transfer money to that fund to operate, it is taking money away from the general fund. So you need to see if there is anything that can be done to alleviate the burden on the general fund for the food service fund. This may be reviewing the costs or increasing the lunch fees. Whatever it is could save a teacher for $100,000 a year. This is just some food for thought on potential savings.*

*Mrs. Hendryx's favorite line on any forecast is line 6.01, Excess of revenues over expenditures. What this is telling you is if you are bringing in more money or spending more money during the year. Unfortunately there is some red. This year is what it is. But let's look at year 2018, this line is a negative $960,000. What Ms. Knuckles has to do in this forecast is reflect the loss of tax revenues in the year the levy expires. This forecast is telling you that if you do not renew this levy you will be spending $960,000 more than you are bringing in. But if you renew it you will have a healthier fund balance as reflected on line 12.01. The significance of your renewal levies cannot ever be underestimated. They are huge to your survival. In FY 19 and 20 in 6.01 the revenue has been taken out up above and in 19 you are deficit spending by $2,865,700. If we renew the levy that revenue amount is $2,766,600, line 11.02, is still about $100,000 short of covering our costs. The monies you are getting are not enough to sustain your current levels of spending over the long run. FY 20 shows the same story. Even renewing the levy and with the rif's taking place in 17, you are still not bringing in enough revenues to sustain your operating costs, according to this forecast. Looking at 12.01 we assume the levy will be renewed and we look ok, but it is kind of scary that on line 12.0 for this year it is showing $14,000 in the bank at the end of the year. When she asked Ms. Knuckles what a sample payroll is she told her about $257,000. In order to make payroll at the end of the year, something else is going to have to give, maybe hold some bills, but you must do something. You can see what the dilemma is; it is a cash flow issue. The following year you are doing better, but that is when the rif's come into effect. The end of this year is going to be very,*

*very tight.* Ms. Knuckles added we do have the potential for additional revenues through our catastrophic cost reimbursement, the Metz passthru funding and the additional TPP monies. There is an amount in the budget for these items but we do not know with any certainty how much. Therefore, they are not included in this forecast. The ending balance can look a lot better but she cannot say for sure. *Mrs. Hendryx agreed, we cannot include those items since we do not know what the amounts are expected to be. This is the best information we have today. She asked if there were any questions. There is a lot to soak in since there is so much to this and it changes regularly, but it is the nature of the beast.*

*Mrs. Hendryx stated that sums up the forecast, but let's look at what happens when you are in financial distress which is classified as fiscal caution, watch or emergency. Fiscal caution comes first. This is the least problematic of the three. The auditor's office does not declare fiscal caution; that is the department of education. When the department of education sees a low carryover balance in your forecast they will send a letter to let you know you have a low balance and they are going to watch your balance. They want you to tell them how you are going to make the situation better for next year, hence the reduction in force. The forecast shows a leveling off then a drop. Even with the reductions, if your revenues stay the same or go down and the expenditures go up there will be a financial situation. Caution is the first step. If you cannot rectify the cash issue or they are not happy with how things are looking in your plan they can elevate you to fiscal watch. Then you have to have an even stronger plan to balance the budget out and operate healthier. If that doesn't work and they see big red deficits, that is when the auditors are called in. The auditors will come in and put a forecast together to see how close you are to fiscal emergency. If the deficits are significant you would be declared in fiscal emergency where the auditors and a commission come in and work to turn things around.* Mr. McClain wanted to clarify that we are not in a state of fiscal watch or emergency at this time. Someone is going to pay attention to our bottom line but we are not in any of these fiscal situations right now. *Mrs. Hendryx replied you are not in any of these items; she just wanted to make you aware of them.* Ms. Knuckles stated we did receive a letter stating "were you aware that you have a low cash balance". It was like, "Oh really?" They know in October the forecast can change by November but it is their way of giving you a heads up that they are watching and hoping you are able to address the cash issues for that fiscal year. *Dr. Hunt stated on line 6.01 it shows a balance of $60,000, so this is not new news about the low cash balance. History shows we have been spreading things out to meet our costs and now this is why we need this levy to pass since our cash is very tight. This is old news but now we need to address the issue of cash flow balances.*

Mr. McClain wanted to make it clear to everyone that we are not in fiscal watch or emergency, this was just a review of the process. *Mrs. Hendryx replied that is correct. If the Board would have any other questions they can let Ms. Knuckles know and she will get a hold of her.*

*The Board thanked Mrs. Hendryx for coming the meeting and for providing this information for the Board.* Mrs. Hendryx said it will be ok if you keep following the path and she wished the District well in passing the levy.

**Executive Session:**

It is necessary for this Board to go into this Executive Session for the confidential discussion of information so that the business of the District can be conducted effectively and efficiently.

Mr. McClain moved and Mrs. Anderson seconded a motion to retire to executive session for the purpose of Reduction in Force, Negotiations and Personnel Contracts.

Roll call vote:
Wendy Anderson, aye Greg McClain, aye Katie Thomas, aye Linda Smallwood, aye Ken Klima, aye

Motion approved: 5:05 P.M.
Time Retire: 5:08 P.M.
Time Return from Executive Session: 6:55 P.M.

**Adjournment:**

Mrs. Thomas moved and Mrs. Anderson seconded a motion to adjourn the meeting.

Meeting adjourned at 6:56 P.M.

Roll call vote: unanimous yes.

Kenneth Klima, President

Merry Lou Knuckles, Treasurer