MARKLUND
MINUTES OF THE FINANCE COMMITTEE MEETING
Thursday, May 18, 5:30 P.M.
Marklund Hyde Center
Geneva, IL

CALL TO ORDER
Mike Herlihy called the meeting to order at 5:39 p.m.

ALSO PRESENT
Jeff Blanchette, Bill Dolen, Gerry Estes, Duane Fitch, Frank Murnane, George Webster

NOT PRESENT
John Wick

STAFF
Kudus Badmus, Gil Fonger, Kelly Kramer

PREVIOUS MINUTES
None discussed

FISCAL YEAR 2018 MARKLUND BUDGET
Kudus B. began by sharing a presentation detailing the number of clients at each site currently being served under the three primary programs at Marklund (Residential, Educational, and Vocational), as well as a funding breakdown for each program. He then distributed an Expense Accounts Summary detailing the major expense categories covered in the budget. Directing the committee's attention to the Budget Summary by Program, Kudus B. distributed a worksheet containing a correction to the Provider Taxes line item for MWC. The original calculation reflected eight months of activity, rather than a full year. Jeff B. inquired about the line item for Bad Debt Allowance (calculated at $12.5K), which Kudus B. and Gil F. explained was a nominal figure to allow for receivables that may not be collectible. Marklund's consolidated Revenue Budget for FY18 totals $26M, with 23.6M of that total coming from Marklund, including $641K in anticipated revenue from the Day School in Elgin. The consolidated Expense Budget for FY2018 is $28M. After backing out non-cash items, Marklund's total net loss equals $1.3M, with Charities adding back $1.7M, for a consolidated net revenue of $411K. Salaries and benefits account for approximately 74% of the budget, with benefits for FY2018 at 24.5% of overall salary expense. Kudus B. then distributed and reviewed a worksheet detailing expense trends from FY2014 thru FY2017, which contained a correction to the net income / loss projections for FY2017.

Moving on to Marklund Charities, Kudus B. reviewed the trends from FY2014 thru FY2017. Addressing the $500K increase in revenue between FY2016 and FY2017, Kudus B. reminded the committee that $150K of that came from MWC, and another $180K pledge that was recorded this year. Gil F. added that the assumption now is that the Pledge Run will not repeat next year, unless another 3rd party takes it on. Frank M. asked why that is the case, and Gil F. further explained the need for an outside party to organize and run the event, due to the time commitment required of staff as well as the expense. Windy City Harley has expressed interest in continuing the event, and Marklund will be supportive of this if they decide to do so. Gerry E. shared that past pledge runs have been very weather-dependent, and can result in a disappointing day if conditions are not ideal. Gil F. also shared that the Angel Songs event will continue, and a 4-mile run in Bloomindale has been scheduled for FY18. Jeff B. asked what prompted the addition of the 4-mile run, with Gil F. responded that the event will create more exposure and expand our donor base in Bloomingdale.

Kudus B. then distributed and reviewed a corrected Variance Summary worksheet, which again contained a correction to the Provider Taxes line item. The budget for FY18 of $26.2M is a net increase of almost $3M (12.5%) over FY2017 year-end projections. Expenses for FY17 were budgeted at $23.4M, with year-end projections at $23.8M. The Expense Budget for FY18 is $27.8M, for an increase of $4M (16.8%). After backing out non-cash items and excluding depreciation, bad debt allowance, etc., Marklund anticipates a net income of $410K for FY18. Frank M. asked about the increases for the Salaries line item in FY2018 ($2.6M over FY2017 year-end projections). Kudus B. responded by referencing the Budget Summary by Program to point out that efficiencies have not yet been worked into MWC and MWC DT. Additionally, the budgeted revenue for the Day School in Elgin ($641K) is based on enrollment of eight students, vs a capacity of 18. Jeff B. also pointed out that the salaries for the staff at the school have already been factored into the expenses. Frank M. suggested running projections for FY2019 & FY2020 with full enrollment. Kudus B. agreed that could be useful. Jeff B. asked why the projected enrollment for the Elgin school is only at eight, when the Bloomingdale school grew so quickly. Kudus B. explained that Multi-Needs students are more difficult to acquire than Life Skills students. The choice to go with a Multi-Needs program was based on the current needs of the population at MWC. George W. asked if more teachers will be needed at the Day School in Elgin, with Kudus B. responding that the staffing included in the budget can accommodate 12-13 students. Gerry E. asked how many classrooms the school will have, Gil F. responded that that location will have two classrooms and each will accommodate different age groups. Frank M. suggested running additional revenue projections to determine at what point the total revenue will absorb the initial costs currently built into the budget. Gil F. added that Marklund is still working out accounting for MWC personnel, as well as learning about our newly acquired donor base. A discussion ensued regarding what Marklund's next steps will be once revenue reaches a certain point, with Kudus B. stating that the next logical step would be to expand the mission, as the financial goals of the organization should be to break even. Kudus B. then directed the committee's attention to the Consolidated Non-Salary Expense totals for FY2018, which include an increase in Employee Expense due to Marklund raising the tuition reimbursement rate from $50K to $60K and an added $22K for seminars. Gerry E. asked about the increase in Interest Expense (69.6%), with Kudus B. explaining that we refinanced the Chase loan inherited with the acquisition of Little Angels. Reviewing the detailed Revenue Budget, Kudus B. shared that the FY2018 budget for MPC reflects a decrease of $15K from FY2017 year-end projections, primarily due to anticipated increase hospitalization that may arise because of aging . The Day School budget of $5.6M is a 25.6% increase over FY17 year-end projections. Overall, total revenue for FY18 is $26.2M – a 12% increase over FY17 year-end projections. Frank M. asked how many students were currently enrolled at the Day School in Bloomingdale, with Kudus B. responding that current enrollment is at 59 students, with 4 students transitioning out at the end of the fiscal year. We will start the school year at 55 students, building up to the census of 72 stated in the budget. Kudus B. paused to allow for questions, and Jeff B. asked whether the REST program was still worth pursuing, with a budgeted loss of $50K after expenses. Mike H. responded there are some REST-specific contributions to Marklund that are not necessarily reflected in the Budget, with Bill D. stating that REST is a mission-centered program. A lengthy discussion ensued, with Gil F. agreeing to share the monthly Rest Around the Nation report with the full Board in the interest of providing additional information. Duane F. also suggested including a REST education session in the October Board meeting. At this time, Mike H. called for the committee to return to the Budget discussion.

CAPITAL BUDGET
Kudus B. informed the committee that an item-by-item approval of the $916K Capital Budget was completed by Leadership. Priority 1 and 2 items marked for purchase in FY18 total $600K, including a replacement of an outdated accounting system. FY17 year-end projections were $700K, for an increase of 23.6%. Frank M. asked if the increase is a trend, and suggested including a multi-year forecast in future budgets. He also requested including a snapshot of the endowment in future budget packets, with Kudus B. agreeing to do this. Jeff B. asked what improvements have been done at MWC so far. Gil F. shared we've replaced 3 main doors, a bus, in addition to building the two classrooms. Jeff B. asked when the parking lot would be resurfaced, and Gil F. responded this project is to be completed in FY18.

OTHER BUSINESS
Frank M. shared that the visuals presented earlier in the meeting breaking down the number of clients being served within each program were very helpful and suggested including those graphics in future board packets. Kudus B. agreed, and asked if there were any other questions. Gerry E. asked why reimbursement rates varied so much from home to home, with Gil F. responding that each home is a separate entity in the eyes of the State, and subject to different rates.

Mike H. called for a motion to recommend the budget to the board for approval; Jeff B. motioned and Bill D. seconded the motion. It was agreed that the FY18 budget be recommended to the board for approval.

ADJOURNMENT
The meeting was adjourned at 7:50 p.m. At which time, the meeting ended by mutual agreement of the parties and direction of the chair.