

Briefing Paper: Current Financial Status

Grand County School District

October 5, 2009

We would like to share with you preliminary findings that point to a very serious situation that has unfolded regarding the district's financial condition. These findings identify problems that are having a substantial impact on the current budget and will have substantial impacts on district staff and our community.

The Grand County School District has been in a transitional period in its business and fiscal management during the last four months. In July, the District hired Richard Clark, recently retired Business Administrator from the Murray City School District, to work the equivalent of two days a week. Because the District has critical financial reports due October 8th and other fiscal reports due in November and December, the Board made emergency personnel transfers to facilitate the completion of the necessary work. We are fortunate to have been able to adjust assignments so Robert Farnsworth can serve as the acting Business Administrator and Brandy Shumway can serve as principal at H.M.K, both for the remainder of this school year. Mr. Clark remains working for the district on a part-time basis. The Board commends H.M.K. for its patience in this staffing change. In addition, we appreciate the High School and Middle School staffs for weathering the shift in Special Education staff.

The Grand County Board of Education approved the current year's budget (2009-2010) on June 15, 2009 and made adjustments to the budget on August 19, 2009 based on its understanding of the District's financial condition at that time.

In preparing for last year's independent audit and the current year's budget, the Board referred to previous years' financial statements. As required under Utah law, the district's yearly financial statements are audited by an outside auditing firm. Each year the audit report has included a letter expressing the opinion that, "...the financial statements...present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Grand County School District..." As we examine our current financial condition, we have found a lack of agreement between our current status and these audited financial statements required by law.

There are numerous funds and revenue sources in the District budget. We have discovered that the balance in the operation fund is lower than previously reported. We have reported these problems to the Utah State Office of Education. We are now in the process of examining past district financial records and independent audits. It is important to mention here that at this time we have no indication of embezzlement or theft. To repeat, to date we have not discovered any evidence that District money or property is unaccounted for. The problems seem to be the result of accounting errors.

We are currently in the process of determining:

- a. the exact magnitude of the problem;
- b. the history of the problem (how far back the inaccuracies go); and,
- c. how this could happen when the District prepares and submits regular financial statements and reports, and the District hires an independent auditing firm each year to review the accuracy of financial statements.

To answer these questions, the Board has brought in a number of experts to assist us in investigating these discrepancies. While we do not yet have answers to many questions, we do know that the problem is real. We also know with a high degree of certainty the amount of the current difference between planned revenues and planned expenditures. Our deficit **last year** (that is, the difference between the district's revenue and the district's expenditures in the District's operating fund) was approximately \$1 million.

To compound the problem, the current budget is based on the same inaccurate assumptions that created last year's operation fund deficit. If left uncorrected, our current operation budget deficit would add an additional \$1.2 million to the existing \$1 million deficit, more than doubling it by the end of **this school year**. By law the District cannot operate in a deficit position.

There are three important points to understand:

First, funds for school building construction obtained by the district through the sale of general obligation bonds are fully intact and accounted for. Our construction of new buildings is progressing well. However, by law, bond money cannot be used to help us with this deficit situation.

Second, most of you know that all public school districts in Utah face lower revenues in their operating budgets due to the economic downturn. While the District planned for the legislative shortfall in state funds both last year and this year, these budgets were based on what we now know to be inaccurate figures both in fund balances and in adopted budgets. This reduced revenue from the State of Utah is part of the \$1.2 million deficit already described – it does not add to it.

Third, during the September 16, 2009 School Board meeting, the Grand County Board of Education formally approved the action of conducting a Voted Leeway election as part of this November's election. At that time, it was the intent of the Board to request permission from voters to create a Voted Leeway tax rate and **lower other District tax levies**. The leeway would provide the Board flexibility to meet specific educational needs by raising more revenue for maintenance and operations (and concurrently generate less revenue in restricted fund categories) by granting more local control to our District without raising taxes. This is a common practice, and most districts in the state already have a voted leeway. Two days after the decision to put the leeway on the ballot, the Board was informed of the operating fund

deficit. Because of this deficit, the Board was compelled to change course and conduct a Voted Leeway election this November with a tax rate that will likely result in a tax increase. After the district completes its Annual Financial and Annual Program reports on October 8th, **we will be able to determine how much of a tax increase this leeway needs to generate (new taxes), and how much of the leeway will be a simple redistribution of tax rates (resulting in increased operations flexibility, but no tax increase). This information will be provided to the community in a county-wide household mailing and other media before the election.** If the Voted Leeway election is successful, those funds will be available for District use beginning with the 2010-2011 school year. However, they will not be available to address the current \$1.2 million deficit, or last year's \$1 million deficit.

We have a plan to solve this problem. It involves a concerted effort on everyone's part. We must put all immediate efforts toward addressing the current deficit. We have the best people working on the problem including: people from the finance department at the Utah State Office of Education, a retired school district business administrator, and the District's new independent auditing firm.

It is important to know that the District is solvent – we have fund balances in restricted fund accounts this year, yet we have a significant deficit in our operating fund. We must cover an estimated \$1.2 million deficit in this year's operating fund. On Friday, October 2nd, we received permission from the Utah State Board of Education to pay back 25% of last year's \$1 million deficit each year for the next four years (\$250,000 per year, beginning this year). Therefore, the District's target for reduction this school year is a total of \$1.45 million.

Our first step was to stop spending money we don't have. On September 30 in an emergency meeting, the Board approved a plan to cut approximately \$680,000 from this year's operating budget. Cuts include:

- 2 additional furlough days (for a total reduction of 5 school days) (\$90,000 savings)
- An immediate insurance co-pay for all insured District employees (\$224,000 savings)
- A reduction in the student activities budget (\$100,000 savings)
- A 4% salary cut for all District employees - this will be implemented with the November 2009 payroll, unless other cuts equaling \$262,408 are made.

In addition, on Friday October 2, the Utah State Board of Education designated GCSD as a financially distressed school district. This designation authorizes us to make interfund transfers of money the District currently has in non-operating (restricted) fund accounts in the amount of \$773,592. These transfers to the operating fund combined with the approximately \$680,000 in cuts will make up this year's \$1.45 million operational fund deficit.

Finally, the Board will review our local property tax structure and levies, and implement changes as needed to modify the tax structure, and increase local tax revenue as appropriate. The solution will require both increased revenues as well as cuts.

The cuts outlined above, combined with the benefits of “financially distressed school” status, will ensure the continuity of educational services to the students of Grand County School District this school year. In order to avoid massive disruption to students, the educational program and staff this year, the Board considered but has not implemented:

- Immediate lay-offs
- Midyear consolidation of schools
- Midyear consolidation of classes
- A 12-15% salary rollback for all District employees

It is not to anyone’s benefit at this time to point fingers or assign blame. When in a position to report its findings, the Board will do so. The Board is in the process of confirming and verifying information - a thorough investigation is underway.

Although we do not have all the answers yet, there is no question that we must take the immediate and painful steps discussed above to stop spending money we don’t have. We plan to review and analyze completely the District’s revenues and expenditures. It is clear that the District’s anticipated revenues and anticipated expenditures going forward must be revised.

A final word from Superintendent Hopkin: “In closing I would like to share that in the past 30 years, I have seen Grand County School District weather all kinds of storms. In times of severe cutbacks, we have hung together and come out stronger. The current situation is different in that it has come upon us suddenly. We have had no time to anticipate or to plan. But I am convinced our spirit is still the same. We are more than capable of rallying, supporting each other in our times of need and meeting this challenge together. This situation will require extraordinary stamina from us all. I request your patience and your ideas as we work through this together.”