

Drew School District – Report Of The Financial Advisor

Report dated: May 4, 2011

Background

The Drew School District ended FY 2009 with a \$67,577 deficit fund balance in the District Maintenance fund. This deficit prompted the Office of the State Auditor to declare a serious financial condition in the district. Lisa Thompson from the Mississippi Department of Education, Office of School Financial Services, was named as the financial advisor to the district on July 19, 2010.

One of the main contributors to the FY 2009 deficit of \$67,577 was the FY 2009 state funding cut of \$108,011. The district failed to reduce expenditures accordingly to absorb this cut and subsequently ended the year with a negative fund balance.

During FY 2010, bank statements were not reconciled. The Excellence group was hired to reconcile bank statements and close out the year for the district. The FY 2010 un-audited District Maintenance ending fund balance was \$21,654. The increase in fund balance from FY 2009 to FY 2010 was primarily due to moving cash from certain investment funds into the District Maintenance fund and obtaining a Tax Anticipation Note in the amount of \$75,000. Additionally, a shortfall in Ad Valorem receipts for FY 2010 was declared and \$209,500 was borrowed and placed in the District Maintenance fund before June 30, 2010.

Also during FY 2010, the Drew School District Board of Education voted to terminate the superintendent and paid off the last year of the contract. The Board hired an interim Superintendent. This resulted in expenditures of approximately \$200,000 for salaries and benefits for superintendents during FY 2010. The district exhibited a pattern of spending money without considering implications of those expenditures on the budget. Examples of these expenditures included allowing the interim superintendent to purchase new office furniture and transferring approximately \$30,000 of district funds to athletics during the year. These expenditures took place prior to the Financial Advisor being named.

Issues and Concerns

Revenue

The Drew School District's financial difficulties center on a lack of revenue. The value of a mill is \$18,000 and Ad Valorem tax receipts continually fall short of the amounts requested by the school district. Compounding this problem is that the district has not asked for a tax increase in the previous five years (FY 2006 through FY 2010).

The district asked for an increase in local taxes for FY 2011. This was a result of requesting a 7% tax increase on the base and a decrease in the amount of Ad Valorem Tax Reduction funds received from state sources. The shortfall was also included in the FY 2011 tax request. The tax increase would have increased the millage from 43.50 mills to approximately 52 mills. However, on November 1, 2010, the

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district received the certificate of tax loss from the county, which indicated that the millage remained set at the FY 2010 level. The business manager called the city clerk's office to report that the millage was incorrect. It was discovered, after talking with the county tax assessor, that the city filed their budget two months after the deadline.

The FY 2011 budget was prepared by the Financial Advisor. The budget was based on receiving the requested amount of \$991,306 in Ad Valorem and receiving sufficient revenue to repay the shortfall. The current shortfall note is in the amount of \$76,858.13 and is due on June 24, 2011.

The budget was amended in January of 2011 to reflect the decrease in Ad Valorem that the district will receive. It appears that the district will have another shortfall for the FY 2011 year. Tax collections are similar to what the district received in FY 2010 which ended with a \$209,500 shortfall.

Drew School District received \$121,562 in Education Jobs money. These funds were requested in December of 2010. There are no additional Education Jobs funds available to the district for FY 2012.

Food Service has approximately \$65,000 as of March 31, 2011. Food Service has not been paying indirect cost in the past but will pay some indirect cost to the district maintenance fund during FY 2011.

A Tax Anticipation Note was repaid before July 1, 2010, and subsequently re-issued in order to provide the needed cash flow for FY 2011. The new note is in the amount of \$75,000 and is due October 1, 2011.

The anticipated 16th Section Interest revenue for FY 2011 is \$99,400. These funds will be used to pay the shortfall note and part of the tax anticipation note.

Expenditures

Given the timing of the declaration of the serious financial condition, the Financial Advisor's ability to make significant cost saving measures for FY 2011 was significantly impaired due to the following facts:

- ~ Teacher and administrator contracts already in place.
- ~ Less than two weeks to prepare and file the district's budget.
- ~ Insufficient time to insure that federal funds were being used in the most efficient manner.

Personnel expenditures were reduced to the extent possible. The local supplement was eliminated based on authority provided by HB 1170 which was passed during the 2010 Legislative Session. Expenditures in other areas were also reduced in order to keep a positive ending fund balance at the conclusion of the 2011 fiscal year. The board approved the budget on August 10, 2010 and filed with the city clerk on August 13, 2010.

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Personnel expenditures decreased during FY 2011 due to the fact that four teachers left or moved to another position. The district lost a special education teacher in October, a gifted teacher in November, and the alternative school teacher in December. The business manager passed away in March, and was replaced with the acting librarian. There has been a very high teacher turnover due to the fact that the board continues to release teachers from their contracts. While the reduction in teachers will impact the district's accreditation, the reduction in personnel expenditures has allowed the district to maintain sufficient cash flow to meet payroll.

Federal program expenditures are reimbursed after they are spent. This creates a challenge to spend the district's federal dollars due to cash flow issues. Better communication is needed between the federal programs director and the business manager in order to spend the funds as approved in the project and to spend them for the best use of the students. Prior to the financial advisor being appointed to the district, ARRA funds, including Federal Education Technology funds, were not spent in a timely manner. This resulted in the district not receiving the full benefit of these funds. The district now plans to have the remaining ARRA funds spent by the September 2011 deadline.

Unemployment benefits of \$56,772.07 have been paid during FY 2011 which the district did not anticipate. This amount was due in large part because the Superintendent non-renewed eight teachers at June 30, 2010. The total amount of unemployment benefits for the current year is anticipated to be approximately \$100,000.

Conclusion

Total expenditures for the district have been reduced to the lowest amount possible. The district has many needs for which funds are not available. The buildings are in need of repair. The district has a total of three buses that were purchased used in 2002. An engine had to be replaced in one of the buses during the FY 2011. The district is also in need of textbooks.

The cash balance as of March 31, 2011, is \$600,128.98. The Ad Valorem receipts will decrease from April through the remainder of the year. The financial advisor is continually monitoring cash flow and the budget to ensure that only necessary items are purchased and to ensure that payroll continues. The district will possibly end FY 2011 with a positive fund balance. FY 2012 year will be a difficult year since the payroll expenditures will greatly increase when the district hires the required number of teachers needed to fill positions that are currently vacant.

The financial advisor has made every effort to reduce expenditures and increase revenue whenever possible. However, regardless of financial management, the local revenue combined with the decrease in state revenue for this district is insufficient to provide the most basic needs of the students of this school district.