Audit Results
Garden City Public Schools
November 16, 2011

The district's auditors, Plante Moran, recently completed its audit of the district's financial statements in accordance with state law. The auditors have confirmed that the District's General Fund has come out of deficit. This is very good news.

<u>Fund Balance</u>

As part of the annual financial close-out process, district staff calculates the fund balance for each fund. The auditors review numerous financial records and provide an opinion on the school district's year-end financial statements including the fund balance.

Fund balance is one common measure of a school district's financial health. The district ended the 2010-11 fiscal year on June 30 with a fund balance of $3,035,844 in the General Fund. This represents 12 school days, or 7.1% of our 2011-12 budget.

A slightly positive fund balance does not make a District fiscally healthy. It is a step in the right direction, but it is only one—albeit important—step in the journey. Later in this communique, some current and future fiscal challenges will be shared with you.

It is worth noting that the fund balance is a fiscal snapshot for one day—June 30, 2011. It does not factor in the additional $300 per student cut that was enacted this past summer. Continued state aid cuts, enrollment declines across the State, the county, and in our own district place increased stress on our budget. We are projecting our June 30, 2012 fund balance to be $36,000. This includes new health insurance cost estimates that reflect last year's significant one-time reduction.

The table below compares the fund balance results with a hypothetical family income that is exactly one-thousandth of the district's 2010-11 budget.

	Annual Budget	**Year-end Fund Balance**	**Fund Balance in School Days (175 days/yr.)**
School district's 2010-11 budget	$45,375,000	$3,035,844.00	12 school days
Personal budget for one year	$ 45,375	$ 3,035.84	12 school days

Expressed in percent, the district's June 30, 2011 fund balance was 7.1% of the 2011-12 General Fund expense budget. The Michigan School Business Officials organization recommends that school districts maintain a fund balance of at least 15%. Maintaining a fund balance this level or higher can provide school districts with increased program stability.

A second, more global measure of a school district's financial health is its "net assets", or in Garden City's case, its net deficit. A district's General Fund does not reflect the value of high dollar assets such as school buildings, land, and vehicles. The General Fund does not reflect its long-term liabilities. A district's "net assets", however, includes the value of high dollar assets and long-term liabilities. Garden City's net assets (actually a net deficit) was minus $3.2 million as of June 30, 2011.

While it is always good to be out of deficit, this is a ***great*** time to be out for a couple reasons. First, a new emergency finance act was enacted this year that gives the State the power to appoint an emergency manager, and the new laws gives emergency managers more power to terminate contracts and to make other sweeping changes independent of the Board of Education.

A second reason that this is a great time to get out of deficit pertains to the school district's cash flow borrowings. In previous years, a deficit district could borrow more money through the State than the district had borrowed the previous year. Now, however, deficit districts are prohibited from borrowing more than they borrowed the previous year. By increasing Garden City's fund balance this year, the district was able to reduce its borrowing amount in 2011. When the fund balance grows to the level recommended by the MSBO, the district will be able to borrow even less, and can save hundreds of thousands of dollars in interest costs per year.

Was Last Year a Normal Year for Garden City Public Schools?

Last year, was a ***very unusual*** year for GCPS. The following changes occurred in one year:

1. Reconfigured elementary school buildings and reduced staffing
2. Privatized pupil transportation – all bus drivers and bus aides
3. Privatized half of the buildings and grounds hourly staff
4. Privatized several clerical staff
5. Health care reform began taking effect for GCPS with 26 year-olds and other changes
6. Early retirement incentive resulted in significant staffing changes
7. Eliminated HS bussing
8. Consolidated child care programs into one site
9. State offered an unusual pension multiplier increase, enticing more employees to retire than usual
10. District started a new virtual high school (GIVE program)
11. Federal stimulus funds – one of only two years of this type of funding in decades, if ever
12. Drawdown of previous years' cumulative IDEA carryover grant funds
13. Dramatic changes in Michigan's emergency manager law

And these were all done in the last year!

How Did We Get Out of Deficit by Three Million Dollars?

In addition to the changes listed above, there were several other key factors. These are listed below:

- The district benefited from an unusual reduction in health care costs that was not foreseen by insurance consultant. This equaled nearly one million dollars for the General Fund. More information on this dimension will be sent in another e-mail later this week.

- The district received more delinquent property tax revenue than usual. We received no such payments in 2009-10, and we received two payments in 2010-11. Due to the timing of these tax checks, the district received $350,000 more delinquent property taxes than budgeted in 2010-11. We will not receive two years of delinquent property taxes in 2011-12.

- The district received an unexpected increase in funding from the ISD for the AI "center program". This resulted in a $430,000 larger transfer from the Center Program Fund to the General Fund than what was received in 2009-10, and $430,000 more than budgeted in the 2010-11 fiscal year.

- The district budget administrators demonstrated their sensitivity to the District's financial position by under spending their budget accounts. This represented nearly $1.6 million in addition to the health insurance savings noted earlier.

- The district deferred some planned "big ticket" purchases.

How Did the District's Actual Revenues and Expenditures Compare to Budget?

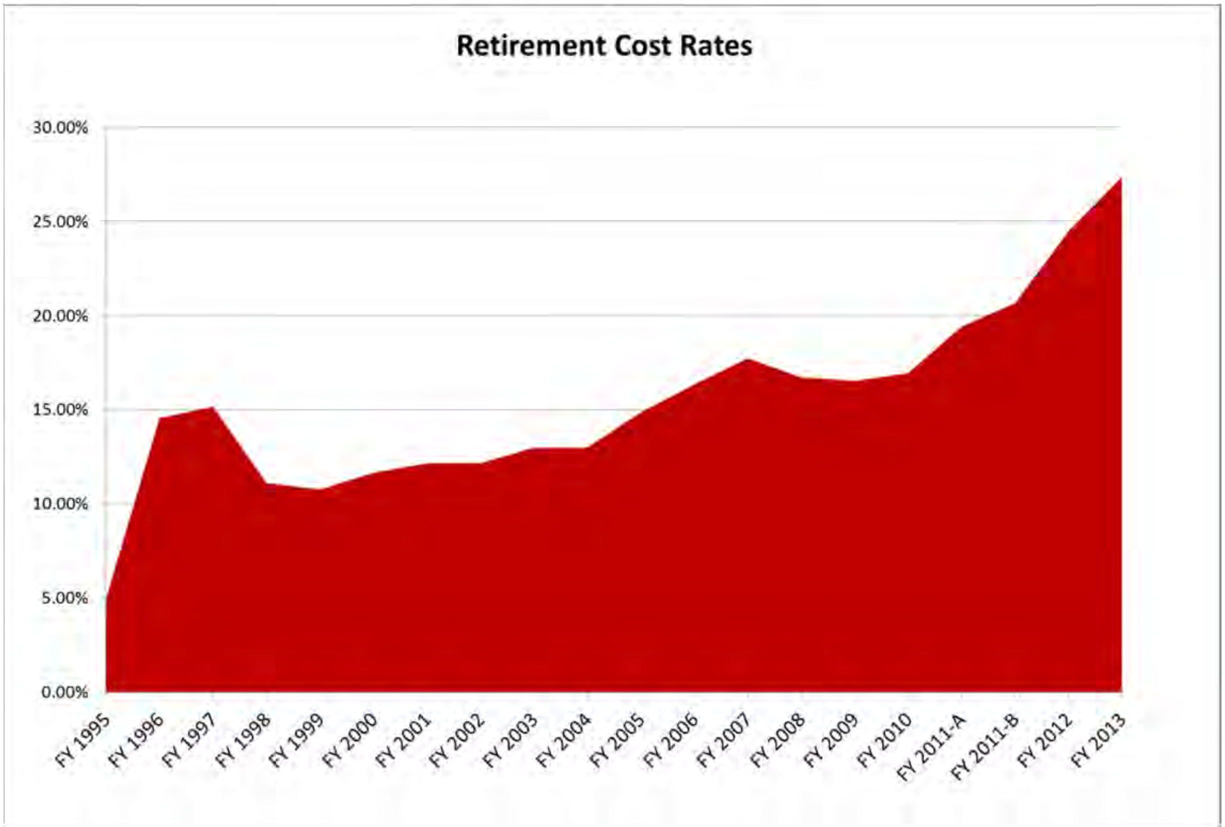
In 2010-11, the district's actual General Fund revenues were 1.3% higher than budgeted. The actual expenditures were 5.6% less than budgeted. Using the personal budget example provided on the first page of this communication, the amounts equate to the following:

Personal budget example:	$45,375 per year
Equivalent of 1.3% more income than expected:	$ 608 for the year
Equivalent of 5.6% less expenses than expected:	$ 2,554 for the year

Looking Ahead

While news of the district emerging from deficit is very exciting news, the volume of our collectively voiced "Hurrays!" must be tempered by the following factors:

- **This fiscal year**
    - Employee retirement costs
        - Employee retirement costs continue to climb at levels way beyond the rate of inflation.
        - The 2011-12 retirement rate is 24.46% and is expected to surge to 27.37% in 2012-13.
        - For every $100 of salary the district pays, it pays an additional $24.46 in retirement costs. This cost is above and beyond what employees pay to the state retirement system.
        - The employee retirement cost rate is slated to increase from 16.94% in 2009-10 to 27.37% in 2012-13, an increase of a whopping 61.6%!
        - The graph that follows shows retirement costs as a percentage of payroll costs.



- Recent change in "at risk" funds spending requirements – During the last two fiscal years, the State permitted school districts to spend "at risk" funds on general operating purposes. In 2011-12, however, the State is once again requiring districts to spend these dollars on at risk students. This reduced flexibility in how we spend "at risk" funds is expected to increase our costs by approximately $650,000 beyond what has been budgeted.

- **Future fiscal years**
  - Declining enrollment past and projected, with corresponding state aid reductions
  - Possibility of more state aid decreases in the next 1-2 years
  - Elimination of the one-time retirement categorical offered in 2011-12
  - Elimination of the one-time state aid of $100 per student for "best practices"
  - Possibility of center program chargebacks beginning in 2013-14
  - Proposed legislation to eliminate personal property tax
  - Possible expansion of charter schools

In addition to the fiscal challenges noted above, this district has substantial needs ranging from school bus replacements, technology upgrades, maintenance truck replacements, textbook replacements or e-book purchases, telephone system replacements, and substantial facility needs. The recently approved sinking fund will make a dent in the district's facility needs, but the needs are far greater than what the new, five-year sinking fund will support.

A few examples of facility needs beyond what the sinking fund was intended to fund are as follows:

- Electrical upgrades
- Heating/ventilating/cooling system replacements in MS and HS
- Plumbing system upgrades
- Window replacements in the middle school and the high school
- Extensive renovations or the replacement of Burger and Cambridge
- And more

Summary

- District is out of deficit, but is not yet fiscally healthy
- Depending on the fall enrollment and other factors, the District could go back into deficit this fiscal year or next fiscal year
- District has significant financial challenges ahead
- District has many unmet needs