



On behalf of the Monona Grove School Board

MGSD Budget Update–Questions and Answers

Last update: August 21, 2024

To provide information to the school district community and to be transparent, the following questions and answers will be updated. Please direct questions to mgsd.board@mgschools.net.

Why is the August 22 Board meeting being held at the same time as the first home football game and other school events or meetings?

This meeting was not purposely scheduled in order to conflict with any other events. Except for extenuating circumstances, the School Board holds its special meetings at 6pm. The meeting needed to be held as soon as possible due to the consideration of the operating loan. Qualifying for the loan requires a petition period of 30 days; extending the meeting beyond August 22 would mean we would miss the deadline(s) for existing payment obligations. We would not have the cash needed to cover operational expenditures.

What is the financial situation that needs to be addressed?

A review of District finances by our new Superintendent and Assistant Superintendent has uncovered that the District has been operating in a deficit over the last three years and is nearing the depletion of its fund balance. Specifically, \$7.9 million of fund balance has been utilized, leaving a balance of \$2.5 million or about 4% of our operating budget.

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This will have operational impacts as we address acute cash flow needs and plan for a sustainable future for the district.

What will happen as a result of this situation in the short term?

We have acute cash flow needs and long-term fiscal sustainability to address. The August 22 Special Meeting will conclude with consideration and potential approval of a resolution to obtain an operational loan. This loan would be used to retire part of the district's existing short-term debt and cover operating expenses in the coming months.

What will happen as a result of this situation in the long term?

Getting the fund balance back in compliance with board policy and operating with a balanced budget will take time, requiring difficult decisions and an intentional effort to rebuild trust. We will need to think differently about how we use the resources we have.

The first step is to continue the current examination, inspection, and analysis of records. While there are some immediate next steps, as listed in the FAQ above, the full scope of the path forward will result from a collaborative process involving residents, families, and staff. The board cannot do that work in isolation and is committed to transparency and open communication to ensure all impacted parties have a voice in the process.

How will this impact our students?

Our number one priority is our students. Although we know we will have to change the way we do business, all financial decisions will be made with students at the center.

How will this situation impact our staff?

Maintaining high-quality educational experiences for our students necessitates the retention of high-quality staff and programming, even while the district reduces expenses.

What will the board and district do to ensure this never happens again?

To start, we are:

- Hiring a new financial advising firm and a new auditor
- Reducing expenditures to mission critical items for the 2024-25 Adjusted/Final Budget in October
- Conducting long term financial planning to outline our strategy to rebuild the fund balance in alignment with board policy and provide future financial sustainability
- Implementing increased scrutiny and adherence to new and existing checks and balances
- Assuring quarterly budget reports to the board take place

What, if any, Board policies were found to be out of compliance in this process?

In reviewing Board policy, non-compliance has been identified in Board policies, including:

- [policy 6111](#) on establishing internal controls
- [policy 6210](#) on fiscal planning
- [policy 6220](#) on budget preparation
- [policy 6231](#) on budget implementation
- [policy 6235](#) on fund balance, and
- [policy 6830](#) on audits.

Was any fraud committed?

There is no evidence that district money was diverted by anyone for personal gain. Although expenditures were in excess of budgeted amounts, they all appear to be investments intended to enhance district operations, safety and security, and performance.

The community recently supported an operating referendum. Was the information provided at that time accurate?

The district provided information that was known to be true at that time. No single action brought us here, as this is the culmination of multiple failures in policies and practices over several years. Some statements made in advance of the referendum may no longer be accurate, but there were no intentional falsehoods, misdirections, or misrepresentations provided to the community.

Over the coming days, weeks, months, and maybe years, the board will need to reconcile the fact that many commitments that were made to the community when those referenda were proposed and passed may no longer be accurate.

Will taxes go up as a result of this situation?

The School Board has no intention of going to referendum to solve this problem. Therefore school taxes will not be impacted by this situation. Because the 2023 referendum was designed to increase over time, and because school districts do not control how taxes are levied by municipalities, school taxes will continue to change over time. Future changes will not be connected to this situation.

When was the last financial audit conducted?

The last audit was conducted in 2022-23; an audit for 2023-24 had not been started prior to our new Assistant Superintendent joining the district on July 1. An audit of the 2023-24 fiscal year has since been initiated.

What problems or concerns were flagged in previous audits?

Findings related to federal awards date back to 2017-18, but 2020-21 was the first year of findings with district financial statements.

In 2020-21, audit comments relating to account reconciliations in our financial statement first appeared. At that time, the district laid out a plan of response.

In 2021-22, a financial audit of the district found what is called a “material weakness” related to account reconciliations not being done in a timely manner. A material weakness is something that is pervasive and/or a significant dollar amount. The audit comments and subsequent plan of response from the 2020-21 audit were not resolved, which led to the 2021-22 financial audit including a "material weakness" related to the same comment in the 2020-21 audit. The deficit for the 2021-22 fiscal year was \$900,000.

In 2022-23, a financial audit again found a material weakness in account reconciliations. In addition, expenditures exceeded revenues by \$2.9 million. This action reduced the fund balance to 12%, a level that was out of compliance with School Board policy requiring a minimum of 15%.

Is the district working with an outside expert on this situation?

The district is working with a variety of experts in several capacities. To address immediate financial concerns, the district is working with Robert W. Baird and Co. to ensure that district operational expenses are fully covered through the 2024-25 school year. Our financial consultants are working to verify and correct comprehensive financial data to determine the full extent of the budget deficit, to advise on spending without impacting student experiences, and to seek additional revenue opportunities.

The district also remains in contact with its legal and fiscal counsel on all relevant matters.

How will the board and district provide transparency to the community as this situation is resolved?

Transparency is critically important to rebuilding trust. As such, the School Board intends to provide the community with all available information about how we arrived at this point, as well as detailed information on the timeline of events and immediate next steps being taken to stabilize the situation.

Easily accessible financial statements, audits, budgets, and other relevant documents will be posted to the [website](#) and updated regularly.

Why did the district have to take out an operational loan?

Our cash flow has been impacted considerably due to the reduction in fund balance. Many school districts in the state of Wisconsin have to engage in short-term borrowing to cover expenditures while waiting for property tax revenue in January. Property taxes are the biggest portion of revenue for most districts, and the first installment is not received until six months after the start of the fiscal year (July 1).

The district borrowed \$12.2 million in fall 2023 to cover expenditures during periods of low cash flow. To short-term borrow for the 2024-25 fiscal year, the district must pay off the \$12.2 million borrowed in the previous fiscal year. Unfortunately, due to the reduction in fund balance, the district does not have enough funds to pay the 2023-24 debt.

The condition of the district's fund balance has created the need for us to take additional steps to secure funding for operations through January 2025. An operational loan is necessary to pay off a portion of the outstanding debt, which will allow the district to short-term borrow for the 2024-25 fiscal year. This loan will be considered by the board at its August 22 meeting.

What is a fund balance?

Governments (such as school districts) usually organize their accounting systems on a "fund" basis. A fund is a separate set of accounting records, recorded and established separately from each other to show that financial resources are being used only for permitted purposes.

The Wisconsin Department of Public Instruction (DPI) specifies the various funds required to be used by Wisconsin school districts. All school districts have a General Fund and may have one or more other funds to account for specific activities. For example, special education activities are accounted for in the Special Education Fund. Transactions relating to payment of general obligation debt are accounted for in a debt service fund.

Having a fund balance is not the same thing as having cash on hand because assets and liabilities may fluctuate throughout the fiscal year. A fund balance is a snapshot in time as of the date it is calculated.

A fund's balance is what's left over after subtracting its debts from its assets. If this number is positive, it can be used to cover expenses in the next budget year. A deficit fund balance can only be recovered by having revenues exceed expenditures in a future fiscal period.

More information on fund balances can be found on the [DPI website](#).

Where can I find additional information about this situation?

The School Board is committed to creating opportunities for community feedback as we have more information and as future plans come together.

Information is available on our [website](#), and questions and feedback can be addressed to the School Board by emailing mgsd.board@mgschools.net.