

# FREQUENTLY ASKED QUESTIONS (FAQs)

## *The Effect of Modoc County's Fiscal Crisis on the Schools of the County*

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### ASSETS OF THE SCHOOLS

#### **1. How did the schools become aware of the fact that the county government was spending school money?**

The County Chief Administrative Officer, Mark Charlton, made a presentation to the Board of Supervisors on June 16, 2009 that clearly demonstrated the county government had spent all of their money and approximately \$1.1 million of the schools' and special districts' money.

#### **2. Have the schools been repaid their money from the county government?**

The county government used approximately \$300,000 of the schools' money in May 2009. It was "paid back" within one month.

#### **3. Do the schools have all of their money deposited in the County Treasury?**

No, the school districts and county office of education have always maintained investments outside of the county treasury. Due to poor fiscal oversight over a period of many years and a continued disregard for Generally Accepted Accounting Principles (GAAP) on the part of county officials, a large percentage of the schools' assets are maintained outside of the treasury.

#### **4. Can the schools withdraw all of their money from the County Treasury?**

No, the schools cannot withdraw all of their money. The schools are required to have an account in the county treasury to receive deposits of revenues. The schools are required to issue warrants (checks) from an account maintained by the County Treasurer.

#### **5. How could the county government spend the school money in the first place? Aren't there separate bank accounts?**

The school money was pooled (commingled) with the county government and special district money. When the county government became insolvent, the bank automatically transferred school money from the pool into the county government's checking account to pay warrants (checks) as they were cashed.

There were not separate bank accounts until the fall of 2009. Now, the schools have separate bank accounts from the county government and special districts.

#### **6. Have you hired an attorney to sue the county government?**

No, but we are engaged in ongoing discussions involving school board members and administrators with our attorneys in an effort to protect the assets of the schools from illegal use.

#### **7. Can the county government spend school money since the state says they have a legal opinion telling them they can use restricted accounts through the fiscal year?**

No, they are forbidden by law (Government Code 27100.1) from spending school money.

### PROPERTY TAXES

#### **8. What was the problem with the schools receiving their property taxes in April 2010?**

There were rumors that the County Auditor would withhold distributing property taxes to the schools in the month of April 2010. The schools were due 40% of their property taxes. A meeting was held between the school officials, County Auditor, County Treasurer, County Chief Financial Officer, and County Assistant Auditor where the County Auditor agreed to distribute property taxes equitably. After this meeting, the County Auditor agreed to distribute 30% in April, 10% in May, and 10% in June to all agencies.

### **9. What was the problem with the schools receiving their property taxes in May 2010?**

The County Auditor distributed 5% of the property taxes to the schools, after having agreed to distribute 10%. No communication prior to this reduced distribution came from any county official.

### **10. What happens if the schools do not receive their property taxes?**

Property taxes withheld from the schools would be adjusted by the state approximately eight months after the shortage is identified. The schools would be short of cash until the state made their adjustment. The county government would then owe the State of California the cash they did not distribute to the schools.

Depending on the undistributed amount and time of year, the schools would seek legal advice as to how to address future inequitable distributions of property taxes on the part of the County Auditor.

## **BANKRUPTCY/INSOLVENCY**

### **11. What happens to the schools if the county government goes bankrupt?**

No one can predict what affect Chapter 9 – Municipal Bankruptcy will have on our county. Since this problem is beyond the scope of our school officials' professional expertise, we have retained a bankruptcy attorney to protect the schools from declarations that the county might make against the assets of the schools. Threats to school assets will always be addressed promptly and aggressively. The school districts and county office of education would share the significant costs of the attorney's fees.

### **12. How do the county government's actions affect the schools in the future?**

Bankruptcy or insolvency will cause families to hesitate to move to Modoc County and some of our current families will choose to leave. A smaller number of families will reduce school attendance and revenues, which will lead to additional cuts in our school systems.

## **COUNTY GOVERNMENT**

### **13. Why are the schools treated differently from the departments of the county government?**

Departments of the county are under the authority of the Board of Supervisors and cannot invest assets outside of the county treasury. The County Auditor and County Treasurer have complementary financial oversight responsibilities to control the issuance of warrants (checks), track cash deposits, and prevent improper spending on the part of the Board of Supervisors.

The schools are financially independent from the county government, much like the City of Alturas is financially independent, and have the authority to invest a large percentage of their assets outside of the County Treasury. The County Superintendent of Schools has financial oversight responsibilities to control the issuance of warrants, track cash deposits, and prevent improper spending on the part of the school districts and county office of education.

### **14. Who is to blame for the county government's financial crisis?**

While school officials have avoided assigning blame, the 2009-2010 Grand Jury Report is clear: 1) The Board of Supervisors and CAO spent excessively and 2) The County Auditor and County Treasurer failed to perform their oversight responsibilities to stop the excessive spending.

### **15. Do the schools support the county government borrowing over the long term to "fix" the financial problem?**

We support the county government living within its means and being responsive to the citizens of the county.

Lane Bates, Superintendent, Modoc Joint Unified School District  
Don Demsher, Superintendent, Surprise Valley Joint Unified School District  
Patty Reeder, Superintendent, Tulelake Basin Joint Unified School District  
Gary L. Jones, Modoc County Superintendent of Schools