



# Charter School Board

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September 12, 2018

# Receivership/Solvency Reviews



## Background

- Arizona Revised Statutes §15-103, added in 2005
- State Board of Education can place districts in receivership
- Determination or by agreement
- Six districts have been in receivership
- Two are currently in receivership (Cedar USD and Murphy ESD)

# Receivership/Solvency Reviews



## Removing a District from Receivership

- Financial Solvency
  - USFR Compliance
  - No Gross Mismanagement
  - Ability to pay debts when due
- Determined by Auditor General's Office

# Receivership/Solvency Reviews



## **Auditor General Review of Solvency**

### **Based on ARS §15-103.B criteria for insolvency**

- Unable to pay debts when due
- Salaries remaining unpaid for 45 days
- Tuition due unpaid after January 1 of following year
- Default on bonds or rental payments for 60 days
- Contracting for any unauthorized loan
- Accumulating an operating deficit of 5% or more of the Revenue Control Limit at anytime in the past 2 years
- Warrants have not been honored for a period of more than 60 days

# Receivership/Solvency Reviews



## **Auditor General Review of Solvency**

### **Evidence reviewed**

- Most recent audited financial statements
- Assertions and data from County School Office and County Treasurer
- Assertions and reports from Receiver
- Confirmation from districts billing for tuition, if any
- Review of ADE BUDG reports

# Financial Stress Assessment Background

First included in FY 2012 annual Arizona School District Spending Report to:

- Provide information to stakeholders and district decision makers
- Draw attention to local district-specific factors that have financial impact
- Highlight a possible need for further consideration or action in some cases to reduce financial stress at a district

# Other States Assessing District Financial Stress



California  
New York  
Colorado  
Texas  
Ohio

Louisiana  
North Carolina  
Pennsylvania  
Illinois  
Oregon

# Measures Used in Other States



- **Fund Balance**
- **Deficit Spending**
- **Level of Reserves**
- **Enrollment**
- **Asset Sufficiency**
- Debt Burden
- **Voter Approved Increases**
- **Compliance and Internal Controls**
- Operating Margin
- Extent of Short-Term Borrowing
- Tax Collections
- Timely Report Filing
- Assessed Property Values
- Student to Teacher Ratio
- Academic Achievement
- Free/Reduced Demographics



# Assessment Measures



## Financial stress assessment

	Number of districts		
Overall financial stress level:	164	39	4
Measure: 2015 through 2017			
Change in number of district students	151	39	17
Spending exceeded operating/capital budgets	179	18	10
Spending increase election results	77	4	11
Operating reserve percentage, Trend	174	10	23
Years of capital reserve held	137	61	9
Current financial and internal control status	143	42	8
	Low	Moderate	High

# Change in Number of District Students

**Data used:** ADE-provided ADM data for fiscal years 2015 through 2017 to determine the direction and extent of change in the number of district students from fiscal years 2015 to 2017.

**Analysis:** Considered both the percentage and direction of the change in the number of students, based on district size

# Operating and Capital Overexpenditures

**Data used:** District-reported budget limits and expenditure data of the Maintenance and Operation (M&O) and Unrestricted Capital Outlay (UCO) Funds obtained from ADE's BUDG 75 reports.

**Analysis:** Considered the frequency of overspending.

# Spending Increase Election Results

**Data used:** Election results for operating and capital budget overrides and bond authorizations confirmed with county and independent reports of election results.

**Analysis:** Considered the most recent result for each type of override if more than one override of the same type was sought in the last 3 years.

# Operating Reserve (Budget Balance Carryforward)



**Data used:** Allowable M&O Fund Budget Balance Carryforward (BBCF) and Budget Limit from ADE's BUDG 75 report

**Analysis:** Considered the average percentage of carryforward and the direction of change in carryforward over the 3 years.

# Capital Reserves



**Data used:** District-reported spending capacity of the Unrestricted Capital Outlay (UCO) Fund using the UCO budget balance and adjusted District Additional Assistance (DAA) obtained from ADE's BUDG 75 reports.

**Analysis:** Considered the percentage of the annual funding limits that is built up in this fund in the last 3 years.

# Current Financial and Internal Control Status

**Data used:** District submitted audited financial statements and related required reports for the most recently required fiscal year.

**Analysis:** USFR Compliance status.

# Overall Financial Stress Level



The overall financial stress level equally considers each of the district's financial stress measures.

## Table 4

Number of districts by overall financial stress level  
Fiscal year 2017

Stress level	Number of districts
High stress	4
Moderate stress	39
Low stress	164

Source: Auditor General staff analysis of district financial stress measures.



# Any Questions



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