

School District Superintendents and Business Officials,

After researching studies on school districts' financial health and stress levels done in many other states, we reviewed several measures for assessing financial stress related to Arizona school districts with the School Finance Advisory Committee in December 2012. The Financial Stress Measures described below are the result of our research and the committee's input. These local impact measures will be used in our initial assessment of school districts' financial stress that will be included in the 2012 School District Spending (Classroom Dollars) Report. In the future, we anticipate being able to add other measures to the assessment to address additional factors affecting school districts' financial stress. We realize that these local measures will not identify all possible financial problems a district may have, but that providing this information to district decision makers and stakeholders can raise awareness on key measures that impact financial stress. Additionally, the data needed to assess these initial measures was available at a state level for all school districts so that no additional reporting requirements were needed.

Each of the measures shown below affects a school district's financial stress either through its impact on the district's resources or spending capacity, or as a measure of the district's financial management practices, or both. Each measure can be assessed as described below to indicate more or less financial stress would be felt by a district based on its circumstances. Districts will be given an assessment for each measure as well as an overall assessment based on the combined impact of the individual measures. In this initial assessment, districts will be assessed with Low, Moderate, or High financial stress related to these measures. Accommodation School Districts, Joint Technical Education Districts, and transporting districts will not be assessed.

As the financial stress assessment is being incorporated into the 2012 School District Spending Report, your district will receive the data that we will use for this assessment in an email later this week along with the normal request for verification of the data for that report. We will also have a webinar on January 15, 2013, at 9:00 a.m. to provide additional background on our research and further explain each assessment measure. If you would like to register for that webinar, please use the link at the bottom of this email. If you are unable to participate in the webinar on the 15th you will be able to view a recording of the webinar on our Web site shortly after the webinar.

Financial Stress Assessment Measures

Changes in ADM – small changes indicate less financial stress than larger changes and increases are less financially stressful than decreases.

Assessed based on the percentage change in attending ADM from fiscal year 2010 to fiscal year 2012.

Overexpenditures – staying within budget limits indicates less financial stress than exceeding budget limits.

Assessed based on occurrence of overexpenditures in the Maintenance and Operation, Unrestricted Capital Outlay, and Soft Capital Allocation Funds in the last 3 fiscal years

Spending Increase Election Results – recently approved overrides or bond authorizations indicates less financial stress than recently rejected ones.

Assessed based on the most recent election results for each type of override and bond election in the last 3 years.

M&O Fund Reserve – having a high M&O Fund budget balance carryforward compared to the maximum 4 percent allowable carryforward indicates less financial stress than having a low carryforward.

Assessed based on the average M&O Fund Carryforward in the last 3 years and whether the carryforward was increasing or decreasing.

Capital Reserves – higher levels of accumulated budget capacity in the Unrestricted Capital Outlay (UCO) and Soft Capital Allocation (SCA) Funds indicate less financial stress than lower levels.

Assessed based on comparison of the budget capacity in the UCO Fund to the district's Capital Outlay Revenue Limit (CORL) and comparison of the budget capacity in the SCA Fund to the district's Soft Capital Allocation for each year and then averaged for fiscal years 2010, 2011 and 2012.

Current Financial and Internal Control Compliance – compliance with the requirements in the Uniform System of Financial Records (USFR) indicates less financial stress than noncompliance.

Assessed based on the district's most recent required/submitted audit reports and USFR Compliance Questionnaire.

If you have any questions about registering for the webinar on the 15th please reply to this email or call Meghan Gouker 602-553-0333.

Accounting Services Division

Office of the Auditor General

To register for the online event

1. Go to <https://azauditor-events.webex.com/azauditor-events/onstage/g.php?d=660548566&t=a&EA=mgouker%40azauditor.gov&ET=70252d66ff73665182b11f4507436aeb&ETR=c099ad6b5ae61db5e023427840415303&RT=MiM1&p>
2. Click "Register".
3. On the registration form, enter your information and then click "Submit".
4. You will receive a confirmation email shortly after registering.

<http://www.webex.com>

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