Financial Accountability for Schools Advisory Workgroup Treasury's Role

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How Treasury Gets Involved

- Typically, Treasury is only involved with districts that participate in borrowing programs, such as the State Aid Note (SAN), Local Government Loan Program (LGLP), or School Bond Loan Fund (SBLF)
- The SAN is a one year short-term cash flow borrowing program used to fund a portion of current year operating expenses. The loans close in August each year and mature the following August
- The LGLP is a long-term bonding program to assist schools in financing capital improvements
- The SBLF also relates to long-term debt for facilities and carries a State guaranty
- Regardless of Treasury's loan activity and monitoring, MDE typically sees the first signs of fiscal distress

Fiscal Distress Early Warning Signs

- There are several early warning signs that a district may experience fiscal distress:
  - Enrollment declines
  - Increases in accounts payable including late payments to the Office of Retirement Services or Unemployment Insurance Agency
  - Steady erosion of operating cash
  - Increased short-term borrowing
  - State Aid advance requests
  - Requests for State Emergency Loans
  - Inappropriate inter-fund borrowing e.g. using cash from debt service or sinking fund mills to fund operating activities

Financial Reporting

- Audited financial statements are not due until November 15th each year; five months after fiscal year end
  - In some cases, the audit is not completed until several months later
- Once Treasury and MDE become aware of a potential problem, cash flow projections along with an aging of accounts payable are requested from the district
  - While the cash flows are more timely than the audit, there is typically a 30 day lag
  - Cash flow projections fluctuate greatly from month-to-month, making analysis and planning difficult
- Budget vs. Actual comparisons are usually not very accurate, and suffer from the same time lag as cash flows

Financing Tools

- There are a few tools to assist districts with cash issues:
  - State Aid advance
  - Emergency Loan
  - State Aid Note (SAN)
  - Tax Anticipation Note (TAN)
- But each of these is a temporary solution and without action from the district to reduce costs, they may merely delay the problem
- In an attempt to intervene before the problem becomes unmanageable, the Department actively monitors and engages schools that may become severely distressed

Need for Financial Literacy

- There may be a need for greater financial 'literacy' at the local level, among both district staff and board members, regarding budgets, cash flow, and accurate forecasting
- MDE has resources and provides guidance and training to school districts; however, districts experiencing fiscal distress may not take full advantage of the resources soon enough if at all
- Often schools experiencing severe fiscal distress do not have adequate 'in house' staff to manage financial operations and contract with an accounting firm for those services.

Additional Steps

- The Department has been attempting to keep districts from reaching crisis status
  - Instituting stricter standards in borrowing programs, especially the SAN
  - Closer monitoring of borrowers with early reporting mechanisms
  - Additional security on loans, e.g. tax intercept agreement on SAN
  - Escrow loan proceeds, requiring borrowers to requisition funds with Treasury approval