



Arizona State Board of Education

1700 W. Washington Street
Executive Tower, Suite 300
Phoenix, Arizona 85007
Phone: (602) 542-5057
Website: azsbe.az.gov



TO: Governor Doug Ducey
President Steve Yarbrough
Speaker J.D. Mesnard

DATE: December 17, 2018

SUBJECT: Receivership and Fiscal Crisis Teams Annual Report

A.R.S. §§ 15-103 and 15-107 outline the process by which a school district is placed into receivership or a fiscal crisis team is assigned to a school district.

A.R.S. § 15-107 (I) requires the State Board of Education (SBE) to submit an annual report to the Governor, the President of the Senate and the Speaker of the House of Representatives that includes the following:

1. A summarized compilation of the fiscal management reports submitted by school districts;
2. The actions taken by SBE, the Arizona Department of Education (ADE), school districts, fiscal crisis teams and receivers during the most recently completed fiscal year; and
3. Recommendations regarding improvement to the laws of this state or to administrative actions required under the laws of this state.

Attached is the annual report pursuant to A.R.S. § 15-107 (I).

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1. Summarized Compilation of Fiscal Management Reports Submitted by School Districts

SBE received one fiscal management report in 2018.

SBE appointed Simon Consulting LLC, as the Receiver for Murphy Elementary School District (MESD) on June 25, 2018. The Receiver submitted the one hundred twenty day report and financial improvement plan on October 5, 2018 pursuant to A.R.S. § 15-107 (H).

In the report, the Receiver details its activities, including the following:

- Taking control of all administrative, financial and operational responsibilities for MESD;
- Implementing cost cutting efforts including staff reductions, the reduction of costly vendor contracts, the reduction of employee stipends, reorganization of remaining staff and decrease of the number and usage of cell phones; and
- Installing a new superintendent, business official and district administrator in charge of curriculum.

The Receiver will transition control of District operations to the new, permanent administrative staff while retaining oversight and decision-making authority.

MESD and the Receiver anticipate the district's FY 2019 budget will break even.

For the full report, see the Appendix.

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2. Actions Taken by the Board, the Department, School Districts, Fiscal Crisis Teams and Receivers During Most Recently Completed Fiscal Year

There are two schools currently in receivership: 1) Cedar Unified School District; and 2) Murphy Elementary School District. The Receiver for both districts is Simon Consulting, LLC.

Cedar Unified School District (Cedar) – SBE placed Cedar into receivership in April 2011. Since at least 2016, the Receiver has largely acted in an oversight and monitoring role and has relied on the current administration and governing board to conduct daily operations. The Receiver stated the district is capable of standing on its own and would have qualified for removal from receivership absent an amount of debt, approximately \$500,000, that exceeds the limit established in A.R.S. § 15-103 (B)(6). The District will need to reduce the debt to approximately \$100,000 before being eligible to petition the Auditor General to determine solvency. The Auditor General will be able to determine solvency if the district has been financially solvent for on fiscal year. See the Appendix for the 2018 Semi-Annual Progress Report from the Receiver.

Murphy Elementary School District - Beginning in January 2018, ADE in cooperation with the Maricopa County School Superintendent (MCSS), monitored the budget of Murphy Elementary School District (MESD). MCSS projected MESD to overexpend its budget before the end of the fiscal year and possibly before the end of the school year. MCSS, ADE and SBE notified the Legislature, the Governor's Office and appropriate stakeholders.

On June 11, 2018, MESD overexpended its budget by \$32,800. On June 25, 2018, SBE placed MESD into receivership and appointed Simon Consulting, LLC as the receiver. At the time of the receiver's appointment, the budget deficit had risen to approximately \$1.2 million. As detailed in the section above and in the attached report, the Receiver took steps to ensure MESD's budget was break even in FY 2019.

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3. Recommendations Regarding Improvement to the Laws of this State or to Administrative Actions Required under the Laws of this State

The Board has identified two items for the Legislature's consideration: 1) proactive assistance for financially distressed districts and 2) the "exit criteria" for school districts in receivership.

Proactive Assistance to Financially Distressed Schools – A.R.S. § 15-103 requires SBE to appoint a receiver or fiscal crisis team for a school district that is insolvent or has grossly mismanaged its finances.

"Gross mismanagement" means that the school district's officers or employees committed or engaged in gross incompetence or systemic and egregious mismanagement of the school district's finances or financial records. Statute requires SBE to find a school district "insolvent" if it meets any of the criteria outlined in statute.

The definitions of "insolvent" and "gross mismanagement" are largely retrospective and limit SBE's ability to assist financially distressed schools proactively.

As explained earlier, in January 2018 the Maricopa County School Superintendent informed SBE that Murphy Elementary School District (MESD) would exceed its budget in the middle of the school year by approximately 20% if it continued its spend rate. MESD did not meet the definition of insolvency at the time and SBE could not provide official supports or interventions pursuant to statute.¹

Despite support from MCSS and others, MESD overexpended its budget in June 2018 and was placed into receivership.

If SBE was able to provide official supports or interventions in January 2018, rather than six months later, MESD may have been able to avoid insolvency and possibly receivership.

Exit Criteria for Districts in Receivership – A.R.S. § 15-103 (J) requires SBE to remove school districts from receivership thirty days after all of the following have occurred:

¹In this context, official supports and interventions mean level one fiscal crisis teams, or a similar mechanism, that monitors and oversees district finances and reports to SBE.

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1. The Auditor General certifies that the school district has been financially solvent for one fiscal year.
2. The Auditor General certifies that the school district's financial records are in compliance with the uniform system of financial records and generally accepted accounting principles.
3. The receiver certifies that the school district is no longer engaged in gross mismanagement.
4. SBE has determined that the school district is able to pay its debts as those debts become due.

In some cases, the exit requirements may require districts to remain in receivership longer than necessary, leading to additional costs to the district. For example, Cedar Unified School District remains in receivership due to outstanding debt that exceeds the statutory limits. The district is exploring options to reduce this debt rapidly but it may simply require time to pay off the remaining debt.

In June 2017, the receiver for Cedar Unified School District stated, "Cedar was capable of standing on its own and would have qualified for removal from Receivership absent the building debt issue." As a result, the receiver has transitioned to being minimally involved in the daily operations of the District to keep costs to a minimum until the district reaches the statutory criteria for exit from receivership.

Additional flexibility for when schools may exit receivership could lead to savings for districts in receivership.

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Appendix

History of Receivership			
School District	Entered Receivership	Exited Receivership	Time in Receivership ²
Colorado City Unified School District	12/7/2005	9/24/2012	6 years, 10 months
Union Elementary School District	6/28/2007	10/25/2010	3 years, 4 months
Saddle Mountain Unified School District	6/28/2007	12/6/2010	3 years, 5 months
Peach Springs Unified School District	7/27/2007	9/4/2012	5 years, 1 month
Cedar Unified School District	4/26/2011	Remains in Receivership	7 years, 8 months
Murphy Elementary School District	6/25/2018	Remains in Receivership	6 months

²For districts still in receivership, time calculated as of December 17, 2018

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***One Hundred Twenty Day Report and
Financial Improvement Plan of the
Receiver for
Murphy Elementary School District No. 21***

*Peter S. Davis of Simon Consulting, LLC as Receiver for
Murphy Elementary School District*

October 5, 2018

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DOCUMENTS REFERENCED LIST

- 1) Order appointing Simon Consulting as Receiver; Case No. 2018-001, dated June 25, 2018
- 2) Arizona Department of Education Health and Nutrition Services Division (<http://www.azed.gov/hns/frp/>) 2017-18 school year data published April 27, 2018.
- 3) The McKinney–Vento Homeless Assistance Act of 1987 (Pub. L. 100-77, July 22, 1987, 101 Stat. 482, 42 U.S.C. § 11301 et seq.)
- 4) Cruz, Jeannett. “Turning point: GCU aids struggling school district.” February 2, 2018
- 5) Investigation Report dated 6/21/2018, conducted by Aaron Brown of Cantelme & Brown PLLC
- 6) Notice of Claim from the office of Phillip A. Austin, Esq. dated July 2, 2018
- 7) “Arizona School District Spending, Fiscal Year 2017,” dated March 2018, Report 18-203; page 240
- 8) MESD Board Agendas for meetings held on June 27, July 30 and August 30, 2018.

1. Executive Summary

The Receiver, appointed by the State Board of Education on June 25, 2018 has completed an initial evaluation of the Murphy Elementary School District No. 21 (“MESD” or the “District”) and has prepared a Financial Improvement Plan for MESD. In addition, the Receiver has taken control of all administrative, financial, and operational responsibilities for MESD. Cost cutting efforts implemented by the Receiver include staff reductions, the reduction of costly vendor contracts, the reduction of employee stipends, reorganization of remaining staff, and decrease of the number and usage of cell phones. These changes have decreased the operating costs for the District and set the stage for savings through improved fiscal responsibility in future years.

The Receivership successfully replaced the administration of the District during the days spanning from June 26 to June 30, 2018 while schools were not in session so as to not cause significant interruption to the education of MESD’s students. In that time, the newly-appointed District Office administrative staff and a team of consultants worked tirelessly to prepare a budget to submit to the Arizona State Board of Education for approval within the first few days of the Receivership.

As part of these staffing changes to the District administration leadership, Dr. Vicki Douvikas (“Dr. Douvikas”) accepted a position with the District and will be overseeing the revisions of the District’s curriculum to ensure it is appropriate and is aligned with Arizona education standards. Dr. Douvikas will continue to work to align the teaching in the classroom to the Arizona college and career readiness standards. Dr. Douvikas was instrumental in authoring an intervention process with Camp Verde School District, and will be working with MESD to establish ongoing support and a refreshed method of how to assess student needs.

As mentioned above, the Receiver has worked with the District on the proposed financial improvement plan submitted in this report to the Arizona State Board of Education. As part of the proposed financial improvement plan, the Receiver will transition control of District operations over to the new, permanent administrative staff that was interviewed and hired by the Receiver. By transferring day-to-day operations back to District staff while retaining oversight and decision-making authority for MESD, the Receiver seeks to minimize future expenses incurred by the Receivership without compromising the financial integrity of the District.

Successful execution of the proposed financial improvement plan will put the District in a position to remain in operation and keep the elementary schools open. There is minimal debt carryover from the 2017-18 school year, and the 2018-19 budget is expected to break even.

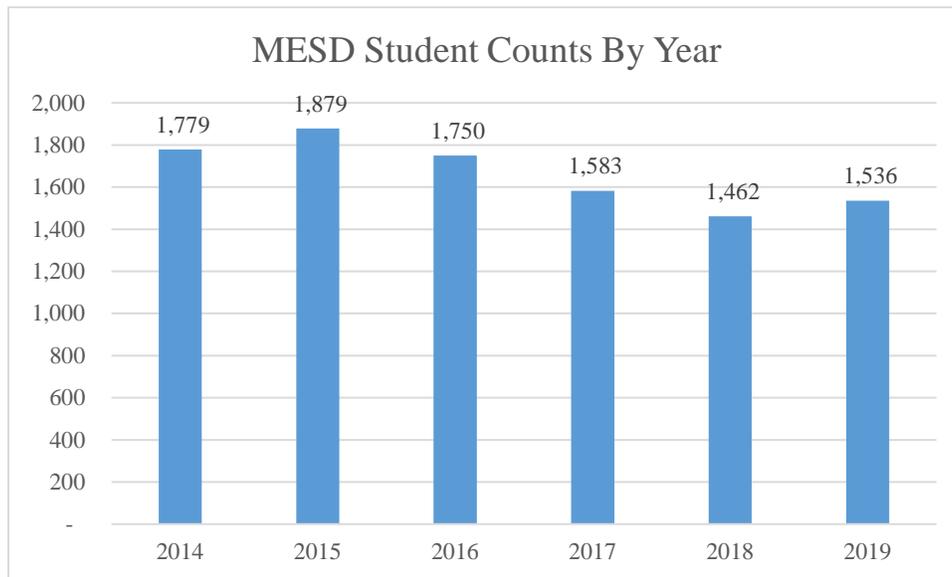
2. Background

Murphy Elementary School District (“MESD”) is an elementary school district located in the south-central portion of Phoenix, Arizona. It contains four elementary schools, and services approximately 1,530 students.¹

¹ Arizona Department of Education Health and Nutrition Services Division (<http://www.azed.gov/hns/frp/>) 2017-18 school year data published April 27, 2018.

Due to the economic conditions within the District, the District often experiences up to a 50% mobility rate.² The mobility rate for students is also called “transience” and is a measurement applied to quantify any time a student changes schools for reasons other than promotion. Numerous studies have been conducted on the effects of elevated student mobility over time, and in all cases, the noticeable results include decreased graduation rates, increased stress and frustration at the educator level due to high turnover in classes, and the student getting poorer grades, particularly in reading and math.

During the last several years, the District has experienced a decline in student population.



Source: Annual Report for the Arizona Department of Education, fiscal years 2013-14, 2014-15, 2015-16, 2016-17, 2017-18; 2019 student count is an estimated based on first day of school counts for expected attendance in fall, 2018.

One thing that makes the District unique is that it also owns and operates the Murphy Education and Health Center (“Community Center”), which provides medical and dental services for members of the community with the goal of encouraging regular checkups to help prevent tooth decay and chronic health problems. In addition, the Community Center provides outreach services to the community that include providing products and services specifically to homeless students. These products include clothing and school supplies, as well as personal care items and the funding is provided for use by the facility under the McKinney–Vento Homeless Assistance Act of 1987.³

2.1. Timeline of events leading to Receivership

The following is a timeline of important events affecting MESD leading up to the establishment of the Receivership:

² Based on student body counts submitted to the Arizona Board of Education as of May 31, 2018.

³ The McKinney–Vento Homeless Assistance Act of 1987 (Pub. L. 100-77, July 22, 1987, 101 Stat. 482, 42 U.S.C. § 11301 et seq.) is a United States federal law that provides federal money for homeless shelter programs.

2.1.1. Fiscal year 2016

MESD student count is 1,750. This is a decrease of 129 students from the 2015 fiscal year, which had 1,879 students.⁴

2.1.2. Summer, 2017

Parents stage a protest at the school to speak out against rising headcounts in classrooms, the number of long-term substitutes, high staff turnover and disgraceful facility conditions. Many parents do not feel comfortable with their children returning to MESD in the fall.⁵

2.1.3. October, 2017

AZMerit exam scores from the 2016-2017 school year are published, with the elementary schools in the District being graded as follows:

School Name	K-8 Percentage	
	Earned	Letter Grade
William R Sullivan Elementary School	62.46%	C
Jack L Kuban Elementary School	59.67%	D
Alfred F Garcia School	58.72%	D
Arthur M Hamilton School	43.11%	F

Source: <https://azsbe.az.gov/f-school-letter-grades>; 2016-2017 A-F Letter Grades

2.1.4. December, 2017

Superintendent José Diaz (“Superintendent Diaz”) receives a \$12,000 performance bonus, in spite of declining student performance, decreased enrollment, and overspending at the District level.

2.1.5. January 29, 2018

District was running \$2,136,245.20 over budget and would exceed the school year budget in March. This would lead to the District not being able to pay its liabilities.⁶

2.1.6. February, 2018

The Governing Board for the District decided to not cut teacher pay by 5% in spite of declining student attendance. Additionally, the administration of MESD did not make any efforts to decrease staffing or expenses, feeling confident that the decrease in enrollment was temporary.

The Maricopa County School Superintendent and his team met with Superintendent Diaz and his staff and was unable to find a remedy to resolve the financial concern before the

⁴ Average Daily Membership (ADM) for fiscal year 2016 as cited in the Average Daily Membership report from Arizona Department of Education.

⁵ Cruz, Jeannett. “Turning point: GCU aids struggling school district.” February 2, 2018.

⁶ Order Appointing Receiver, dated June 25, 2018.

school year closed in May, 2018. Additionally, the governing board did not make any adjustments at this time to reduce the District's liabilities.

Superintendent Diaz suspends the payment of certain retirement compensation as they pertain to incentive awards based upon seniority. The incentive awards referenced in this decision are the payment of accumulated personal time off (PTO) that was allowed to accrue to a much higher limit for long-term employees than newly-hired employees. The District policy is changed so that only up to 80 hours of accrued PTO will be paid at the termination of employment.

Budget deficit of the District is estimated at approximately \$2.2 million.⁷

2.1.7. March, 2018

Superintendent Diaz announces his retirement from the District.

Governing Board President Richard Polanco announces his resignation the following day. He was elected to the position in 2014.

The District attempts to reduce its budget deficit by cancelling contracts with third-party vendors that supply additional temporary teaching staff. Class sizes swell to over 40 students per class in some cases.

Budget deficit of the District has been reduced to approximately \$1.5 million.

2.1.8. June 11, 2018

Maricopa County School Superintendent notifies the Arizona Department of Education that MESD has processed a check run that will overspend the district Maintenance and Operations fund by \$32,800. The District was aware of and failed to take the necessary steps to reduce liabilities and avoid the over expenditure. This over expenditure is a qualifying event to bring the school district into Receivership.⁸

Budget deficit is estimated at approximately \$1.2 million.

2.1.9. June 25, 2018

The Arizona State Board of Education enters its Order Appointing Receiver, placing MESD in to Receivership pursuant to the provisions of A.R.S §15-107 et seq.

3. Reported Mismanagement

On June 25, 2018, the State Board of Education entered into a consent order which, among other things, placed MESD in Receivership pursuant to ARS § 15-103, and appointed a Receiver for the District. In the Order, allegations are made against MESD for gross financial mismanagement.

⁷ Order Appointing Receiver, dated June 25, 2018.

⁸ Ibid.

3.1. Allegations of gross financial mismanagement:

3.1.1. January 30, 2018

The Maricopa County School Superintendent's Office held the opinion that the District would over-expend the Maintenance and Operations fund by the end of March 2018 by \$2,136,245.20.⁹

3.1.2. February 23, 2018

The Maricopa County School Superintendent's Office found that the District's current expenditures and encumbrances versus the budget showed that the financial situation had not improved and the over-expenditure was still set to occur in March.

3.1.3. June 11, 2018

The District processed a warrant run that expended the District's Maintenance and Operations fund by \$32,500. The school district was aware of this possibility and failed to take the necessary steps to reduce liabilities and avoid the over expenditure. This over expenditure is a qualifying event to bring the school district into Receivership.

3.1.4. Fiscal year 2017

The District spent \$11,739 per student on administrative expenditures while districts of similar size and demographics spent \$10,106.¹⁰

3.1.5. Stipends

12 district employees are issued a stipend of \$4,500 for the official use of their personal vehicles, whether or not travel between schools is required for their jobs.

3.1.6. Curriculum

The District spent \$173,000 on curriculum in spite of having approximately \$500,000 worth of curriculum that has not been used.

3.1.7. Cell Phones

The District spent thousands of dollars each month on cellular phone plans.

3.1.8. Staff Size

The District failed to reduce administrative staff even as the student population declined from nearly 1,900 to 1,460.

3.2. Timeline of events following placement into Receivership

The Receiver has faced several unique challenges in the initial days and weeks of the Receivership of MESD. An overview is provided to give a deeper understanding of the operational and

⁹ Order Appointing Receiver, dated June 25, 2018.

¹⁰ "Arizona School District Spending, Fiscal Year 2017," dated March 2018, Report 18-203; page 240.

educational challenges facing MESD and the rationale behind the Receiver's proposed financial improvement plan.

3.2.1. June 27, 2018

A meeting was held at the Receiver's office to go over arrangements and decisions that were made in the days leading up to the District going into Receivership. In attendance were: Linda Cordova from MESD, Marc Kuffner and Shane Wikfors from the Maricopa County School Superintendent's office, Dr. Dennis Goodwin as incumbent for the Superintendent vacancy, Shelby Exposito from Gust Rosenfeld PLC, Lynn Lang from Isaac School District, Bill Maas as consultant to MESD and Peter Davis as Receiver.

The attendants discussed the challenges facing the District including budgetary adjustments, reductions in staffing, services still required, and the offered assistance from a neighboring district to provide janitorial and maintenance services in the absence of available personnel at the district and school levels.

A board study session was held the same evening, with discussions revolving around the budget items mentioned above, programs that principals would like to see back in their schools, ideas and suggestions on how to prevent additional transfers of students to other districts, and to introduce Dr. Goodwin as a candidate for the superintendent position.

3.2.2. June 28, 2018

Interviews were held at the Receiver's office with Mrs. Sandoval, Mr. Garcia, Mrs. Ramirez, Manuel Ramirez (Mrs. Ramirez's husband and also an employee of the District at that time), and Corina Mejia (Mrs. Sandoval's daughter and also an employee of the District at that time). These individuals requested the interviews with the Receiver to discuss concerns they had with the future of the school district, and to explain events of which they had institutional knowledge.

A Governing Board meeting was held the same evening, with Dr. Goodwin being unanimously approved by the governing board to fill the role of Superintendent of the District. The agenda also included considerations to approve the proposed budget, to name the Governing Board Clerk, to approve the revisions on policy revisions, to approve new job descriptions for Reading Coach and Parent Outreach/Bus Monitor Aide for the 2018-19 school year, and to approve to eliminate the 4% salary increase that was given to all teachers earlier in the year.

3.2.3. July 2, 2018

A meeting was held with the principals of all four elementary schools to reinforce District policy and directives for behavior on a school level, to make clear the expectations of the incoming leadership staff, and to collect lists of concerns they have for the repairs and maintenance their buildings will need.

In attendance were Dr. Goodwin, and the following principals:

Simon Consulting, LLC
120-Day Report of the Receiver
Murphy Elementary School District No. 21

School Name	Principal Name
William R Sullivan Elementary School	Mr. Ruben Ruiz
Jack L Kuban Elementary School	Mr. Jose Trevizo
Alfred F Garcia School	Ms. Takesha Turner
Arthur M Hamilton School	Mr. Erik Haarstad

It was disclosed during the course of this meeting that all four elementary schools have evidence of black mold. Receiver immediately approved testing of the classrooms and buildings with the suspected mold, and will approve treatment as the results of the testing become known.

Additionally, there is a significant rodent and pest problem at Garcia, which resulted in two children being bit by rats in the previous school year. The Receiver immediately approved extermination and pest control services for the rodent issue to this school and any others with a documented infestation.

The Receiver worked with the school administration to put these remedies into place while school was not in session so as to not cause significant interruption to the education of the students. The extermination process was started the week of July 16th, and continued until the end of the month.

3.2.4. July 16, 2018

Receiver attended a meeting that included employees of the State of Arizona Auditor General's office regarding a 90-day notice that was issued by their office on June 27, 2018 against the district. The notice indicates that several material and significant deficiencies were noted in the most recent audit conducted at the district office and that immediate correction is required.

The Receiver began actively working with the school district to create procedures to remedy these deficiencies and ensure that correct internal controls are in place. This will help ensure success in future audits and will also limit risk to the district's financial standing.

3.2.5. July 19, 2018

Receiver attended a meeting with Coach Mo Streety of the Arizona Cardinals football team regarding intramural sport programs he would like to reintroduce back into the district. Additional attendees were Patricia Blanton and Dr. Goodwin of MESD.

These programs are managed entirely by the sports franchise with no additional cost to the district and they existed prior to Superintendent Diaz being in office as superintendent and were successful. During the meeting, Coach Streety expressed his feelings to those attending, that the administrators at the time were not interested in supporting the program, and it was eventually removed from the district.

These programs have also had widespread success in other inner-city and impoverished neighborhoods in the metropolitan Phoenix area due to the increase of physical activity,

active mentoring program, and assistance in instilling a sense of community pride in the youths that participate.

District staff members who attended the meeting also alleged a loss prevention issue involving game tickets that were delivered to the school for staff and student use by Coach Streety.

4. Scope of Engagement, Progress, and Findings

The following topics are responsibilities and goals assigned to the Receiver in ARS § 15-103. In addition to these responsibilities, the Receiver is charged with objectives in the Consent Order. Maintaining and improving the quality of education for MESD students is a primary objective for the Receivership. The Receiver also has a responsibility to maintain and, if possible, improve the quality of education at MESD.

ARS § 15-103 (F) contemplates that the Receiver, in his financial improvement plan requests the State Board of Education to authorize the Receiver to continue to utilize certain powers specifically enumerated in ARS § 15-103 (F) (1-11). Accordingly, the Receiver requests that the State Board of Education empower the Receiver to continue to have the authority, powers and duties outlined under ARS 15-103 (F) (1-11).

4.1. ARS § 15-103 (F)(1): Override any decisions of the school district's Governing Board or the school district superintendent, or both, concerning the management and operation of the school district, and initiate and make decisions concerning the management and operation of the school district.

The current Governing Board of the District is made up of Raymond M. Rodriguez (member), Robert Ellis (member), Regina Baca (member), Tina Muñiz (President) and Angela Newingham (board clerk). As of this report date, Mr. Ellis has missed three board meetings in a row, and his absence has created a vacancy in the governing board. The board must approve the vacancy, and then it will be reported to the Maricopa County Board of Education with three nominees that the County Board can select a replacement from. This vacancy will be reported by Dr. Goodwin in the coming weeks, as the candidates' information is gathered for review.

Governing Board meetings are now being held monthly in the Governing Board room of the MESD district Office. The Receiver attends all meetings in person or via teleconference, approves all Board agendas prior to the meeting, and reviews all decisions made by the Board after the close of the meeting. As of this report, there has been no occasion for the Receiver to override any new decisions by the Governing Board. On occasion, the Receiver offered amendments to some decisions made by the Governing Board, which were accepted and approved by the Board.

Several policies that were put in place in the past have been changed or eliminated by the Receiver, and the Governing Board has consistently voted to approve and support those changes.

The Receiver believes it is critical to the success of the Financial Improvement Plan that the Receiver maintain the authority.

4.2. ARS § 15-103 (F)(2): Attend any and all meetings of the school district's Governing Board and administrative staff.

MESD was already in a cycle that included conducting regular board meetings on a monthly basis. In addition, the Receiver has assisted with the recruitment and hiring of a new superintendent that could take the place of Superintendent Diaz due to his retirement. At the June 28 Board meeting, the governing board voted unanimously to approve Dr. Goodwin as the new superintendent of the District. Dr. Goodwin has a long history of serving as an administrator during his career and has corrected low-functioning or failing school districts. He is familiar with the rules and laws that the board and district must abide by. As such, Dr. Goodwin has ensured that the school district continues to have regular and legal board meetings to maintain this compliance.

The Receiver is preparing for the school to function without day-to-day instruction from the Receiver as soon as possible. For this reason, the new administration put in place by the Receiver is now attending many administrative meetings without the Receiver. The current administration consults with the Receiver prior to such meetings for guidance and planning, then briefs the Receiver following the meeting to provide any new information or plans. Many day-to-day decisions are being made by the new administration, and the Receiver is gradually transitioning to a monitoring role as opposed to a management role.

There is a new, permanent administration in place, which is quickly learning how to operate the District. The Receiver is confident in the abilities of this new administration, and while there will be unforeseen obstacles and setbacks, the District is staffed to excel.

4.3. ARS § 15-103 (F)(3): Supervise the day-to-day activities of the school district's staff, including reassigning the duties and responsibilities of personnel in a manner that, in the determination of the Receiver, best suits the needs of the school district.

As part of the financial recovery plan and new budget requirements, significant reductions in personnel needed to be made. As mentioned above, several of the remaining positions are being redefined with new tasks and posted to the district website. While former employees who held these jobs are encouraged to apply for the open positions, previous employment does not guarantee reemployment.

The net impact is expected to be a savings to the 2018-19 budget of \$1,226,883. See Appendix A for details surrounding the financial impact of these reductions, changes, and additions.

The District is capable of functioning for all normal business procedures. All expenditures are still approved by the Receiver, and near daily conversations with the new administration ensure that the Receiver is still in complete control of the District. Significant events outside of the control of the Receiver or the District may change these circumstances in the future, but going forward, the Receiver plans to continue to reduce his role in the daily operation of the District. The Receiver's transition to a monitoring role is detailed in the "Financial Improvement Plan" section of this report.

During these conversations, the team identified a contract that was costing the district significant amounts of money for very little benefit. This contract was with Tolin Mechanical and was intended to serve as a maintenance and repair contract for the HVAC systems on school property. After investigation and monitoring, it was found that the basic monthly maintenance that included changing air conditioner filters and checking hoses, for example, was simply not performed. This contract was terminated by the Receiver on August 8, 2018. The district intends to have their maintenance staff perform monthly maintenance and monitoring, and will outsource any large repairs that need to be done. The savings this created is \$85,000 and is included in the savings estimate to the 2018-19 budget above.

4.4. ARS § 15-103 (F)(4): Place on extended leave, suspend or terminate for cause the school district's superintendent or chief financial officer, or both. A person terminated pursuant to this paragraph may appeal the Receiver's decision to the state board of education if an appeal is filed with the state board within thirty days of receiving notice of the termination.

At the onset of Receivership, several key roles in the district administration were unfilled, having been recently vacated by prior leadership due to resignation or retirement. Additionally, at least one school district employee was on administrative leave pending the outcome of an investigation. The Receiver was able to endorse Dr. Goodwin for the role of Superintendent and this endorsement was approved by the governing board unanimously. Under the approval of the Receiver, Dr. Goodwin also made some adjustments to his staff, including shifting personnel into vacant roles to help ease redundancy and ensure that all functions were still being performed.

At this time, no former employees have appealed to the State Board, and the time under ARS § 15-103 for an appeal expired at the end of July, 2018. Any litigation resulting in wage or other claims against the district are related to other allegations and personnel, and not the superintendent or district chief financial officer.

4.5. ARS § 15-103 (F)(5): Authorize pupils to transfer from schools operated by the school district to schools operated by another school district that is not currently in Receivership.

At this time no students have elected to transfer to another district or school as a result of the Receivership. On the contrary, the students are supporting the Receivership by continuing their education with MESD and returning to their chosen schools when the school year resumes. Additionally, frequent contact with the community has revealed a

“wait and see” approach has been adopted by many of the families within the district, with many families opting to give the Receivership a chance to implement positive change before making a final decision to remove their children from the MESD on a permanent basis.

Currently, the Receiver estimates that student enrollment will remain close to constant or increase in coming years. According to the attendance office, enrollment on the first day of the 2018-19 school year was reported as 1,536 students.¹¹ This indicates an increase of 74 students from 1,462 at the end of the previous school year. A healthy relationship between the administration and the teachers has improved the District’s local reputation.

4.6. ARS § 15-103 (F)(6): Appoint a chief educational officer who shall possess the powers and duties of a school district superintendent. A chief educational officer who is appointed pursuant to this paragraph shall hold a valid administrative certificate.

Receiver recruited and employed two individuals to evaluate and ensure educational standards of the District are met. As set forth above, the District has engaged Dr. Douvikas and Jason Douvikas (Mr. Douvikas”) to oversee the revisions of the District’s curriculum to ensure it is appropriate and is aligned with Arizona education standards. Dr. Douvikas will continue to work to align the teaching in the classroom to the Arizona college and career readiness standards.

Dr. Douvikas has her doctoral degree from Northeastern University and holds active teaching certificates. Her background focuses primarily on reading, with a particular emphasis on improving standardized test scores and improved literacy through increased fluency rates. She has also held positions developing afterschool enrichment programs, assisting with school improvement plans and supporting coaches and teachers through the accumulation of data.

Mr. Douvikas holds a Master’s degree from Northern Arizona University and holds active teaching certificates and principal endorsements. Through availability of data from standardized testing and meaningful test preparation, he has been able to increase end of grade scores in the schools he worked in by 20%. Additionally, he has held positions mentoring teachers in best practices and instructional strategies to help them be more effective in the classroom.

4.7. ARS § 15-103 (F)(7): Appoint a chief fiscal officer who shall possess the powers and duties of the school district's chief school business official and any other duties regarding budgeting, accounting and other financial matters that are assigned to the school district by law.

Upon appointment of the Receiver, the district did not have a Business Manager. Under the supervision of the Receiver, Dr. Goodwin extended an offer of employment to James Serbin, who is an experienced Certified Public Accountant with a rich background in school district

¹¹ PowerPoint presentation assembled by Bill Maas and Linda Cordova, data is cited from Average Daily Membership counts that were supplied to the Arizona Department of Education as a result of compliance reporting.

management, which he has accepted. His role will be to manage the day-to-day operations of the district and assist with revenue-generating decisions that will help MESD to grow.

Mr. Serbin’s most recent work experience was for the Tolleson Elementary School District (“TESD”) as the Executive Director of Business Services. Like MESD, TESD also has 4 elementary schools, however, the student body is more than double that of MESD at 3,300. Mr. Serbin was responsible for the supervision of district office accounting staff, financial reporting compliance, working with board members and members of the community.

4.8. ARS § 15-103 (F)(8): Appoint a competent independent public accountant to audit the accounts of the school district.

The Receiver selected Heinfeld & Meech (“H&M”) to perform audits for the 2018-19 fiscal year by following the Request for Proposal process set forth in the Uniform System of Financial Records (USFR). H&M has a proven track record in auditing school districts. Their expertise allowed H&M to audit the District constructively and efficiently.

Additionally, the district was issued a 90-day notice from the Arizona Auditor General’s office on June 27, 2018. The notice indicates that several material and significant deficiencies were noted in the most recent audit conducted at the district office and that immediate correction is required. These deficiencies largely pertained to cash handling and asset tracking policies. The district immediately remedied the most critical and easiest to correct errors, and worked toward putting controls in place by the beginning of the school year.

The Receiver is actively working with the school district to create procedures to remedy these deficiencies and ensure that correct internal controls are in place. This will help ensure success in future audits and will also limit risk to the district’s financial standing. The corrective action plan (CAP) was due to be submitted to the Auditor General’s office by the district no later than September 25, 2018. Some of the items to be corrected involve handling cash or receipts for student transactions. These controls are being tested as school resumes in the fall.

The Auditor General will be conducting a follow-up audit in late Fall 2018, to ensure that these deficiencies have been corrected and that the procedures indicated in the CAP are in place and being utilized.

4.9. ARS § 15-103 (F)(9): Reorganize the school district's financial accounts, management and budgetary systems to improve financial responsibility and reduce financial inefficiency within the district.

Travel

The Receiver analyzed the process by which MESD executes and records financial transactions and information. This analysis identified numerous inefficiencies and integrity issues in the accounting systems and methodology employed by the District. To correct this issue, the Receiver has implemented numerous procedural controls and

infrastructure changes that will improve the efficiency, accuracy, and integrity of MESD's accounting system. The following processes were deemed as "low integrity" and changed as indicated:

Travel reimbursement forms were submitted incorrectly and often were with incomplete information and improper reimbursement request.

The current process is for the travelling employee to calculate the approximate amount the trip will cost based on travel guides and per diem. The district covers any large travel costs (such as airfare or lodging) on the district credit card. After a total has been calculated, the employee makes their travel arrangements and submits their expense report for payment prior to departure. This procedure is incorrect and allows for fraudulent travel by paying for expenses that have not occurred yet. Additionally, this method of calculation could cost more than paying off of actual receipts upon the employee's return because MESD is paying a flat rate which could be higher than the actual amount.

MESD employees stated that travel is not very common during the summer months, Receiver suggested an overhaul to this system to be placed in effect at the next available opportunity. This revision includes reimbursement of actual expenses after travel is completed, and that airfare will only be reimbursed after proof of travel is provided, such as a boarding pass. Due to the district covering most—if not all—of the airfare for travelling employees, it is not expected that reimbursement of this expense is to happen very often.

Payroll

All payroll records were tracked by hand and then manually entered into Visions. The payroll specialist allowed hourly employees to turn in hand written time cards despite the ability to use electronic time punch clocks.

In 2013, the District purchased Time America Genesis Pro, including several biometric scanners that can scan the palms of the employees to help improve accuracy of time punches and eliminate or reduce fraudulent clocking in and out.

MESD is currently in the process of activating the time clock software. Until it is operational, the payroll specialist will continue to collect manual timecards and enter the data by hand until the scanners and timeclocks are installed.

Inventory

Inventory was not effectively being tracked or recorded by the inventory manager or business manager. Few assets were in the location where they were recorded on inventory sheets. ID tags did not follow a consistent method, and many assets had no ID tags.

A complete inventory overhaul was performed for all assets. Additionally, a full inventory was taken of all assets with a useful life of greater than one year and a cost greater than \$1,000 in the spring of 2017, following the audit from the Auditor General's office. Due to inefficient inventory management practices in the past with respect to fixed assets, it is

unknown at this time if any district property is missing. However, a complete and thorough inventory and tag system has been established that includes all fixed assets being identified and tagged, and regular inventory and inspection should identify any shrinkage issues quickly.

The methods for tracking future inventory will be the responsibility of individual teachers. Each teacher will be given a list of assets in their classroom. The assets on this list are the teacher's responsibility. At the end of each semester, the teacher will certify that those assets are still in their classrooms. When new assets are purchased, they will be added to the corresponding teacher's asset list. When assets are to be moved, the inventory coordinator will be notified, update the relevant asset lists, and ask each teacher to certify the new asset list.

Donations

There was not an established method of oversight with regard to donated items to the District for student benefit.

Allegations indicate that while significant numbers of tickets were left at the district office-50 to 200 tickets for either Arizona Cardinals or Arizona Diamondbacks games on a regular basis, that very few if any were actually used for this purpose. Coach Streety supported this allegation by stating that the staff at the Cardinals found evidence of these tickets being sold online. Numerous school employees stated that they were aware of certain district employees attending games on a regular basis, but were under the impression that the tickets were being purchased by some other means. The Cardinals and Diamondbacks decided to stop delivering the tickets at the time their sales were discovered online, and Coach Streety stated that both teams are interested in renewing the program now that the district is under both new leadership and Receivership. The Receiver is actively investigating this matter, and will update this report when further information becomes available.

4.10. ARS § 15-103 (F)(10) Establish school district fiscal guidelines and a system of internal controls, including internal administrative controls and internal accounting controls, with provisions for internal audits.

Upon assessment of the internal controls system at MESD, the Receiver noted numerous processes that were susceptible to fraud, human error, and/or manipulation. In order to correct the systemic control issues, the Receiver has elected to work closely with Mr. Serbin to correct the issues and establish protocols that will reduce the risk of reoccurrence. Mr. Serbin has been tasked with identifying the system access each employee has, and deciding the correct level for that job position. With his direction, his team will then go through and limit employee access to the accounting system to only what is required for each job description. Additionally, he has been tasked with updating the internal controls system to help the district reduce risk in its day-to-day operations.

Starting in October of 2018, detailed analyses will be performed randomly by the Receiver to ensure compliance with the USFR, Governing Board policy, and the new accounting

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controls put in place by the Receiver. These evaluations will be performed on a monthly basis for the first six months, then transition to a quarterly basis for the following 6 months. Each evaluation will consist of one or more representatives from the Receiver traveling to MESD and checking historical work to ensure proper procedures were performed for each work sample.

During these evaluations, the Receiver will critique the process by which accounting rules are followed. By participating in these evaluations, district employees will have better controls and be better prepared for future audits.

- 4.11. ARS § 15-103 (F)(11) Cancel or renegotiate any contract, other than contracts of certificated teachers who have been employed by the school district in the capacity of a certificated teacher for more than one year immediately before the date the Receiver was appointed, to which The Governing Board or the school district is a party if the cancellation or renegotiation of the contract will produce needed economies in the operation of the district's schools. The Receiver may refuse to reemploy any certificated teacher who has not been employed by the school district for more than the major portion of three consecutive school years as provided in section 15-536.**

Several teachers have resigned from MESD since the Receiver took over for reasons not associated with the Receivership or the mismanagement of the District. The majority of these resignations were in process prior to the Receivership taking place. It is unknown at this time whether any additional teachers will resign before the end of the school year. There is some indication that a small number of teachers will not renew their contracts due to other opportunities or retirement.

Below is a table that summarizes the resignations by month since the Receivership took effect¹²:

MONTH	# RESIGNED
June 2018	2
July 2018	12
August 2018	4
TOTAL	18

Among these resignations was an Administrative Assistant for Human Resources matters. Due to this vacancy, Dr. Goodwin extended an offer of employment to Tiffany Johnson, who most recently held a similar position with Camp Verde School District, where she has worked for the past 4 years. Prior to that, Ms. Johnson worked for Mayer School District, where she held a variety of district office positions over a period of 10 years.

Of the 22 teaching positions that needed to be filled as of the end of the 2017-18 school year, 4 had been filled at the time of this report, and recruiting to fill the remaining 18 vacancies will be the responsibility of Ms. Johnson. The goal of MESD is to have a full teaching staff by the end of the 2018-19 year, and eliminate dependency on third-party vendors for long-term substitutes that are currently used to fill the gaps in staffing. This

¹² MESD Board Agendas for meetings held on June 27, July 30 and August 30, 2018.

will create a savings impact to the district budget as well, as the current markup for these third-party vendors is approximately 35%.

Teacher contracts for 2018-19 had already been negotiated, offered, and accepted prior to the Receivership taking effect.

5. Financial Improvement Plan

This plan details how the District will eliminate any continued gross financial mismanagement and achieve financial solvency.

5.1. Overview:

The Receiver has divided the financial improvement plan into two sections: operational and financial. Each part of this plan is essential to the success of the school and correction of any gross mismanagement issues that occurred in the past.

5.1.1. Operational Improvement Plan

Currently, the District is working towards “independent functionality” without the daily assistance of the Receiver. The operational improvement plan contains three vital steps.

5.1.2. Return day-to-day management decisions to district employees:

The Receiver has hired competent professionals who are diligently working to adapt to their new job responsibilities. The Receiver is transferring the day-to-day management of the District to these employees as quickly as possible. Currently, the District employees are still in daily contact with the Receiver for assistance on various district business issues. The Receiver anticipates that in the near future the new administration will function independently of the Receiver, but will seek Receiver approval and counsel on all significant decisions and/or strategies the administration wishes to pursue.

5.1.3. Ensure compliance with all USFR and Federal guidelines:

The Receiver has implemented the aforementioned procedural policies and practice with the District. In order to ensure that the District is operating in compliance with the USFR and all Federal guidelines, the Receiver is fostering relationships between the new District administration and regional or state authorities on said guidelines.

By working closely with State and regional authorities, the District will ensure compliance and build quality relationships that will help improve the District over time. The Receiver will continue to look for opportunities for the new administration to work more closely with their peers outside of the District.

5.1.4. Monitor the performance of the District through periodic detailed evaluations:

The Receiver plans to use the Receiver evaluations in conjunction with external audits to improve the job performance and knowledge base of the administrative staff, and as a mechanism for monitoring the relationship.

Once the procedures are deemed compliant with the USFR and ARS, the Receiver will select a sample of work performed by the employee and compare it to established procedures. The Receiver will analyze the work sample to ensure that the employee followed the procedures and documented their work.

At the end of the Receiver evaluation, the Receiver will review what was done in a detailed analysis, report any deficiencies to the employee and their supervisor, and create a plan for correction of the deficiencies in future work.

These Receiver evaluations are vital to the effective reformation of the District. The Receiver's evaluations are learning experiences for the employees and monitoring activities for the Receiver.

5.1.5. Reestablish a meaningful relationship between the district and the community it serves:

The Receiver has worked from the beginning of the Receivership to establish a meaningful relationship with the community surrounding the District. From partnering with local business owners, to attending parent-interest groups hosted by the District administration, the concerns and wishes of the community have been a top priority.

On August 29, 2018, the Receiver and Dr. Goodwin met with several parents who were interested in forming a focus group with the intent of helping the administration identify the concerns of the parents in the community. The purpose of this meeting was also to offer the parents an opportunity to be part of a plan to improve the reputation of the community by offering viable solutions to current issues and to help pinpoint areas of parental dissatisfaction. Out of this meeting came a proposal to re-establish PTAs in all of the schools. The PTAs at each of the elementary schools were removed by the prior administration, and the parents were very frustrated that they did not have this resource available to them. With the support of Dr. Goodwin, at least one PTA has been re-established, and the other schools are following suit.

Additionally, in an attempt to foster open communication, the Receiver encouraged the members of the community to contact him directly. This has continued with varied results—in the case of a local business owner, for example, the information received has been supportive and helpful, and has given the Receiver insight into how the community functions and is responding to these new changes.

5.2. Financial Improvement Plan

5.2.1. As mentioned above, prior to the Receivership taking place, significant efforts were made at the county and district level to curtail spending and balance the 2018-19 budget. Included

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in this revision were significant changes in staffing which included removing some positions and reassigning tasks to others.

- 5.2.2. Curb wasteful spending:** In addition to the Tolin maintenance contract, Dr. Goodwin and his team have found numerous instances of wasteful spending. Most significant, to date, was the discovery of approximately \$500,000 in brand new, unused curriculum that had been ordered in prior years and never used. Dr. Goodwin and the Receiver made the decision to liquidate the surplus curriculum, in an effort to reclaim some of the funds used. Additionally, as this curriculum was being stored in a classroom, this space has been opened up as a potential teaching area for future use.
- 5.2.3. Fiscal 2018-19 Expenditure Budget:** The Receiver intends to capture significant savings through cutting payroll and travel expenses, tighter controls on expenditures, and reduced loan liabilities in the 2018-19 fiscal year.
- 5.2.4. Payroll reductions:** By reducing the administrative head count, the District will save approximately \$278,000. This is accomplished while increasing classroom teachers' pay by an average of 10% and setting starting salaries at a more competitive rate.

The total savings from staff reductions and job description realigning from fiscal year 2018-19 is approximately \$640,000. These savings will be applied to the budget shortage as they are realized.

- 5.2.5. Tighter expenditure controls:** Prior to the Receivership, MESD employees often purchased items before receiving approval from the District and after the purchase, applied for reimbursement or opened a purchase order. In addition, purchase orders and requisitions were often incomplete, open, or had incorrect information. New controls have decreased the amount and frequency of unnecessary, incomplete, and erroneous purchase requests. These new controls will be a source of savings for the District going forward. The Receiver has access to the District's accounting system and will be monitoring spending from a supervisory standpoint.
- 5.2.6. Assess Viability of Community Center or Liquidate:** Receiver will work with the District to decide whether the Community Center can be financially independent from the District. If it is unable to sustain operations on its own, the District and Receiver will evaluate options to address the issue.
- 5.2.7. Training for Administrative staff and board members:** As a condition of provision 6 of the Order Appointing Receiver, "District Governing Board members and District administrative personnel shall complete at least twelve hours of professional development training within 120 calendar days after the date of this Order." As of the date of this report, 12 hours of training have been scheduled for October 13, October 20 and October 27th of 2018.

5.3. Timeline

The Receiver will use the following timeline to implement the aforementioned improvement plan. This timeline is subject to change due to events outside of the control of the Receiver.

5.3.1. October 2018

- 5.3.1.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.1.2** Also, Receiver will begin detailed random analyses to ensure compliance with the USFR, Governing Board policy, and the new accounting controls put in place by the Receiver. These evaluations will be performed on a monthly basis for the first six months, then transition to a quarterly basis for the following 6 months.
- 5.3.1.3** The District will be conducting Board Member training and financial management training to comply with the professional training requirement.

5.3.2. November 2018

- 5.3.2.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.2.2** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
- 5.3.2.3** The Receiver will calculate further cost savings for the District.

5.3.3. December 2018

- 5.3.3.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.3.2** Week 4: The State of Arizona Office of the Auditor General will have completed their audit regarding the 90-day notice that was issued in June, 2018.
- 5.3.3.3** The Receiver will calculate further cost savings for the District.
- 5.3.3.4** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.

5.3.4. January 2019

- 5.3.4.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.4.2** The Receiver will calculate further cost savings for the District.
- 5.3.4.3** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
- 5.3.4.4** Receiver will meet with the Auditor General's office to discuss updates to the 90-day letter and the implementation of corrected procedures.

5.3.5. February 2019-May 2019

- 5.3.5.1 The Receiver continues to perform evaluations of MESD administrative employees to ensure compliance to ARS and USFR rules.
- 5.3.5.2 The District and the Receiver will file fiscal year 2019-20 revenue and expenditure budgets.
- 5.3.5.3 The Receiver continues to conduct oversight and approval of all purchase orders and expenditures.
- 5.3.5.4 The District and the Receiver prepare for the closing of the books for the end of fiscal year end 2018-19.

5.3.6. June 2019-August 2019

- 5.3.6.1 The Receiver performs another round of evaluations and assesses the overall financial progress of the District by analysis of year-to-date expenditures and revenues.
- 5.3.6.2 The Receiver continues to conduct oversight and approval of all purchase orders and expenditures.

5.3.7. Fiscal Year 2019-20

- 5.3.7.1 The Receiver performs another round of evaluations and assesses the overall financial progress of the District by analysis of year-to-date expenditures and revenues.
- 5.3.7.2 After September, quarterly evaluations will be performed by the Receiver. All expenditures and Governing Board decisions will be reviewed and approved by the Receiver. Each quarter, the Receiver will conduct a full analysis of the financial progress of the District by analyzing expenditures, budgets, and revenue data.

5.3.8. Fiscal Year 2020-21

- 5.3.8.1 The Receiver continues to monitor the Governing Board to ensure their actions are fiscally responsible, and in the best interest of the District.



Peter S. Davis, Receiver
Simon Consulting, LLC

10/5/2018

Date

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**Appendix A: Murphy Elementary School District No. 21 Proposed
Adjustments to 2018-19 Budget**

Qty	Descriptions	Suggestion for improvement	Proposed Savings
4	Facility Managers	Replace with 4 school lead/maintenance	(\$183,620)
4	Lead Custodians	Replace with 4/hr. custodians	(\$165,082)
4	Custodial Worker I	Replace with 4/hr. custodians	(\$154,741)
3	Maintenance Worker III	Outsource as Needed	(\$160,535)
2	Grounds Maintenance I	Add Grounds/Maintenance	(\$89,501)
1	District Fleet Mechanic	Outsource as Needed	(\$57,729)
1	Receiving Clerk	Combination Bus Driver/Receiving	(\$40,008)
1	Maintenance Worker III	Position Eliminated	(\$47,546)
1	Transportation Assistant	Replace with Clerk	(\$51,989)
4	Principals	11 Month Contract	(\$31,668)
4	School Secretary	11 Month Contract	(\$13,130)
2	Registrar	11 Month Contract	(\$6,271)
1	Asst. Superintendent CIA	Position Eliminated	(\$100,563)
1	Asst. Superintendent of Business	Change to Director of Operations	(\$12,000)
1	Administrative Assistant	Retired 7/5/2018	(\$64,694)
1	Administrative Assistant	Retiring 12/31/18	(\$47,546)
1	Executive Administrative Assistant	Position Eliminated	(\$81,455)
1	Ed Center Coordinator	Rental of facilities to business office	(\$95,865)
	Vehicle Allowance	Except Director of Operations	(\$48,600)
	4% Staff Increase	Rescind Increase	(\$145,464)
	Board Stipend		(\$10,000)
	Newsletter Stipend		(\$3,500)
	Psychologist Stipend		(\$10,000)
	Speech Pathologist Stipend		(\$4,500)
	Tolin AC Contract		(\$87,000)
	TOTAL SAVINGS		(\$1,713,007)

(A)

**Appendix A (cont.): Murphy Elementary School District No. 21
 Proposed Adjustments to 2018-19 Budget**

Qty	Descriptions	Suggestion for improvement	Proposed Additions
4	School Lead/Maintenance	To Replace Facilities Manager	\$191,000
8	Part Time Custodians	2 for 4 hours at each school	\$99,436
	Outsource Large Maint. Projects		\$40,000
1	Automotive Tech		\$41,900
1	Transportation Clerk		\$41,900
3	Coordinators	To Replace Directors	\$30,000
1	Nurse Assistant		\$41,888
	TOTAL ADDITIONS		\$486,124

(B)

Net Impact of Proposed Adjustments to 2018-19 Budget

TOTAL SAVINGS	(\$1,713,007)	(A)
TOTAL ADDITIONS	\$486,124	(B)
TOTAL (SAVINGS)/ADDITIONS	(\$1,226,883)	



*Receiver Report for
Cedar Unified School District No. 25*

Keith Kenny

For the Receiver

Simon Consulting, LLC

November 19, 2018

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Appendices

Appendix A CUSD Work Plan for Fiscal Year 2018-19

Executive Summary

Simon Consulting, LLC (“the Receiver”) was appointed as the Receiver for the Cedar Unified School District No. 25 (“CUSD”) by the Arizona State Board of Education (“ASBE”) on April 26, 2011. As of the end of the FY 2011-12, CUSD still owed the state \$492,441 due to previous overpaid state aid and was also required to reduce its budget capacity by \$935,834 to repay previous overspending during the FY 2003-04 through FY 2005-06 school years. CUSD repaid the state \$100,000 in FY 2011-12 toward the state aid overpayment and also reduced its budget capacity by \$100,000 during FY 2011-12 in accordance with HB 2707. Additional money remained unspent from the FY 2012-13 budget and was returned to the state to further reduce the owed balances. The FY 2013-14 budget contained the required budget capacity reduction of \$99,195 as required by HB 2707 and recalculated by ADE Finance. Per discussions with ADE Finance, it was finally determined that Cedar had indeed satisfied its requirement to repay all of the budget capacity reductions through its voluntary additional budget reductions in FY 2011-12 and FY 2012-13. Cedar timely filed an amended budget in May 2014 to remove the previously budgeted \$99,195 capacity reduction, at the direction of ADE Finance. No further budget reductions are required.

Cedar continues to pay back the cash overage owed to the state on the agreed plan timeline. The current amount owed as of the end of FY 2017-18 in overpaid state aid is \$114,639.94. This amount, payable in fiscal year installments of \$57,319.97, will be completely paid off in FY 2019-20. The state deducts this annual payment from state aid payments due to the District.

The Receiver, both through its own actions and those of CUSD administration and staff, has had a positive impact on CUSD in that CUSD is operating more efficiently and cost effectively. Cash flow remains the single largest issue standing between CUSD and fiscal soundness. Cash flow issues will continue to trouble the District, at least until Cedar is able to rebuild its cash reserves. Cedar has not sold any warrants since FY 2012-13. Cedar ended the FY 2017-2018 with cash reserves of \$11,935 after applying \$63,747 to the remaining White Cone building debt leaving a remaining balance of \$436,253. Once the Receivership is terminated after Cedar meets all of the requirements for exiting the Receivership spelled out in ARS 15-103, Cedar should be able to obtain a small credit line to help smooth out the inevitable cash flow shortages that may occur.

The adopted FY 2018-19 budget was timely filed in July 2018 as required. The adopted Maintenance & Operations (“M&O”) budget total was \$2,096,398 excluding any carryforward.

The White Cone Impact Aid bonds final payment was made on July 1, 2017. Reduction of the remaining \$436,253 of White Cone building debt is the last remaining impediment to the termination of the Receivership. Once Cedar can build a cash reserve, it will be able to eliminate the remaining White Cone Debt and the Receiver and the District will be able to petition the State Board for the formal termination of the Receivership. Cedar has also been working with a member of Navaho Nation Legislation on a proposal of a transfer of lease and sale of assets agreement for White Cone High School. The proposal was put on hold until after Navaho Nations legislative election earlier this November. Cedar’s Superintendent is hopeful that the proposal will be taken

up by the legislation in early 2019. If the Navaho Nation legislation were to approve the proposal, the plan is to use funds received from the sale of assets to build the cash reserve and pay-off the remaining White Cone building debt. Cedar's Superintendent is also pursuing one other party that has expressed interest in the White Cone building. In addition, the Superintendent and the business manager are working on a 3 to 5 year minimum payment plan for the remaining White Cone building debt that is to be presented to the Receiver for review and approval in January 2019.

Cedar has completed its repayment of budget capacity reduction and is on schedule for the repayment of the overpaid state aid cash component. Cedar has proven its ability under the current administration to stay within budget parameters and self-manage its daily operations in accordance with state law and the Uniform Standards of Financial Reporting ("USFR").

Background

CUSD serves students on both the Navajo and Hopi reservation areas, approximately 60 miles north of Holbrook in Navajo County. CUSD's FY 2010-11 100 day ADA was approximately 250 students. CUSD experienced a year after year decline in enrollment and attendance from FY 2010-11 through FY 2016-17 when the 100 day count was 112.879. FY 2017-18 is the first year that CUSD had not experienced a decline in enrollment since the early 2000s. CUSD's has current enrollment of 137 students, average daily attendance of 129.844 students and a weighted student count of 180.662 for which is the current basis of CUSD's state aid funds, which is a slight increase over the prior year. The current Superintendent's recruiting initiatives and emphasis on the programs and students has contributed members of the community changing their perception of CUSD and increased enrollment. Three years ago only 30% of the parents returned parent surveys rating CUSD fair to good. Last year 100% of the parents returned the parent survey rating CUSD good to excellent.

CUSD is currently operating Jeddito as a traditional school for FY 2018-19 and White Cone has been closed. Traditional high school students from White Cone have enrolled in other surrounding high school districts.

Reported Mismanagement

On April 26, 2011, ASBE entered a Consent Order which placed CUSD in Receivership pursuant to ARS § 15-103, and appointed Simon Consulting, LLC as Receiver for the District. The Order incorporated a Consent Agreement between ASBE and the District in which the Governing Board admitted that the District was insolvent. The District further agreed to submit to a Receivership with the appointed Receiver having full receivership powers under ARS 15-103.

Scope of Engagement, Progress, and Findings

The Receiver completed the initial 120 day analysis and investigation and filed the required 120 day Receiver's Report on August 15, 2011. Since that time, the Receiver has continued to investigate different areas of the District's operation, both financial and educational. The primary purpose of the continuing investigation was to identify and correct the issues that caused CUSD's original financial problems, establish proper procedures and policies to ensure that those financial problems do not arise again in the future, and to ensure that all district operations are in compliance with the USFRs, Generally Accepted Accounting Principles ("GAAP"), and state law. The Receiver has now completing the seventh year of the Receivership and has seen significant progress. However, until the building issue discussed below is removed, Cedar will be ineligible to be removed from Receivership.

The following issues have been identified and addressed by the Receiver.

Personnel Issues

Mr. Duane Noggle, the current district's Superintendent, plans on retiring after the 2018-19 school year. For the FY 2018-19, Mr. Noggle has proposed and the Board has agreed to hire Mr. Noggle's as the Superintendent working part-time. The purpose of which is two-fold. First, this allows the District to save on labor costs and work toward building necessary cash reserves. Second, the Board has elected to hire a Ms. Virginia Coleman as Director of Curriculum and Instruction/Teacher Coach for the FY 2018-19. Ms. Coleman was hired with the intension of transitioning to the Superintendent position in the FY 2019-20. During the FY 2018-19, Mr. Noggle is working with the selected candidate in order for a smooth transition in 2019-20 and the progress that has been made over the last two years will continue upon Mr. Noggle's departure. Ms. Coleman came from Sanders Unified School District leaving her position as Director of Education Support Services.

Budget Issues

When the Receiver was appointed, the Arizona Department of Education ("ADE") advised the Receiver that CUSD had overspent their allowable M&O budget in previous years, leaving a net balance due to the state in excess of \$1,000,000. Additionally, \$592,441 was paid to the District in state aid to which the District was not entitled. These issues resulted primarily from the District's utilization of a part-time business manager. The fact that the part-time business manager lived in another state only served to exacerbate the problem as she was unable to timely react to overspending conditions. Additionally, the District missed several important financial report filing dates. The Receiver retained a competent full-time Chief Fiscal Officer for the District, Ms. Henrietta Keyannie ("Keyannie"). Through Keyannie's experience, the hard work of both she and her staff, and the oversight of the Receiver, the District has complied with all filing dates since Keyannie's employment, was

under budget for M&O spending for FY 2011-12 and FY 2012-13. Cedar was again under budget for FY 2013-14 and FY 2014-15. The District relied on the CONSULTANT to perform the function of business manager for the remainder of FY 2014-15. The District retained a full-time business manager, Ms. Bonnie Haven, for the FY 2015-16. The hiring of a principal and unbudgeted repairs and maintenance issues resulted in the FY 2015-16 budget being extremely tight. The principal position has been eliminated for the FY 2016-2017. The decline in enrollment during FY 2015-16 resulted in a reduced budget for FY 2016-17. In addition to the elimination of the principal position, the Superintendent had taken other measures to reduce spending. However during the FY 2016-2017, Cedar had two employees go on medical leave which had to be temporary filled which resulted in increased payroll and had air conditioning and other maintenance issues that had to be addressed. The unbudgeted additional costs and untimely Impact Aid payments resulted in Cedar spending its reserves. Therefore, Cedar ended FY 2016-2017 with no reserves to pay down the remaining White Cone debt. During the FY 2017-18, CUSD had to purchase a long overdue School Bus. The capital outlay and the untimely Impact Aid payments had Cedar operating on a tight budget. However, CUSD was able to operate within its budget, pay down the White Cone debt \$63,747 and end the FY 2017-18 with a \$11,935 cash carry over.

Cash Flow Issues

The previous budget overspending, the failure to timely file for grant funds, and the delay in receipt of state aid payments due to state budget issues all contributed to the cash flow shortage experienced by CUSD. The cash flow shortage was the immediate proximate cause of CUSD being placed into Receivership, due to the District's inability to meet payroll.

A contributing factor to the cash flow issue was the inability of the District to repay a credit line from Wells Fargo at the time the District was placed into Receivership. Through discussions between the Receiver, the Navajo County Treasurer, and Wells Fargo, the credit line was paid off and the Navajo County Treasurer purchased the warrants necessary to allow the District to make payroll and complete the school year. The corresponding credit line was cancelled by Wells Fargo for FY 2011-12. Wells Fargo has declined to provide a credit line for the District until the Receivership is dissolved.

On two occasions during FY 2012-13, to supplement the cash flow, the District had to sell warrants to the Navajo County Treasurer's office due to delayed state aid payments. Cedar has not sold any warrants since. Timely state aid payments and the proper transfer of some M&O expenses to Federal Impact Aid Funds assisted in alleviating the cash flow situation.

The District received \$1,011,084.28 in Federal Impact Aid for FY 2013-14. That amount was reduced by \$507,526.50 for the bond payments required for FY 2013-14, leaving the District a total of \$503,557.74 available for allowable uses. For FY 2014-15, the District

received total Impact Aid funds of \$1,030,600.95 minus the required bond payments of \$505,675, leaving the District with \$524,925.95 for other uses. For FY 2015-16, the District has been allocated \$1,056,712.40 minus the required bond payments of \$508,176.25 leaving the District with \$548,536.15 for other uses. For FY 2016-17, the District had been allocated \$896,153.95. For FY 2017-18 the District has been allocated \$921,281.95 of which the District received \$756,057.56 during the year. For the FY 2018-19 the District was allocated \$1,018,406.23 in Impact Aid funds of which Cedar expects to receive approximately 80% or slightly over \$800,000.

The Receiver believes the low cash flow condition will continue for the FY 2018-19 as the District works toward reducing the debt and building a cash reserve. CUSD is currently working with a representative of the Navaho Nation to get a bill on the Navaho Nation legislation to approve a transfer of lease and sales assets agreement. If approved the Navaho Nation would assume the land lease and purchase the assets of White Cone High School. The proposed bill was stalled due to the legislation elections in November but CUSD are attempting to get the bill to legislation sometime in early 2019. Should the Navaho nation agree to the transfer of lease and sale of assets agreement CUSD would be able to build the necessary cash reserves to pay-off the remaining White Cone High School debt. Without a transfer of lease and sale of assets agreement, it is anticipated that it could take 3 to 5 years to build the necessary cash reserves to pay-off the White Cone High School debt based on current enrollment and timely payments of Impact Aid. The Superintendent and his staff are working on a proposed 3 to 5 year minimum payment plan to completely pay off the White Cone Building Debt to be presented the Receiver for review and approval in January 2019 before taking it to the Board for final approval should CUSD be unable to enter into an agreement with interested parties to assume the land lease and purchase the assets of White Cone High School.

Repayment Issues

ADE Finance had previously informed the Receiver that the District had been paid state aid for which it was not legally entitled. The amount of this overpaid state aid totaled \$592,441. The Receiver, through independent calculations based on information received from ADE Finance, determined the amount to be approximately \$590,000. Based on the small difference, the Receiver has accepted the ADE Finance amount. Per HB 2707, the District was required to repay state aid to the state in the amount of \$100,000 for FY 2011-12. The remaining amount must be repaid to the state in equal installments of per fiscal year over the next several fiscal years. Cedar continues to pay back the cash overage owed to the state on the agreed plan timeline. The current amount owed as of the end of FY 2017-18 is \$114,639.94. The fiscal year installments are \$57,319.97 and the overpaid state aid will be completely paid off in FY 2019-20. The state deducts this annual payment from state aid payments due to the District.

Reduction of the remaining \$436,283 of White Cone building debt is the last remaining impediment to the termination of the Receivership. There is currently two plans to pay-off the remaining \$436,283 White Cone building debt. The first is to build cash reserves with Impact aid funds. Then apply some of the reserves to the White Cone building debt. This is a going to be a slow process since some of the Impact Aid funds are allocated to operations and some are allocated to maintenance issues and Cedar is dependent on timely payment of the Impact Aid funds. By early 2019, the CUSD and the Receiver will implement a minimum payment schedule for the next 3 to 5 years to pay-off the remaining White Cone Building Debt. The second is to enter into a transfer of lease and sale of assets agreement regarding the White Cone building and use the funds to pay off the White Cone building debt and build a reserve. CUSD is currently working with Navaho Nation representative to get a bill before the Navaho Nation legislation to do this. In addition, there is one other party that has expressed interest in the Building and the Superintendent is also pursuing that avenue. Should the Navaho Nation or any other party agree to the transfer of lease and sale of assets agreement then the funds received from the sale of assets would be used to build the necessary cash reserves to pay-off the remaining White Cone Building debt at a much faster pace.

Financial Audits and USFR Audit

The financial audit and USFR Questionnaire completed by Dobridge & Company, PC for FY 2016-17. Although there were no deficiencies found that would cause substantial noncompliance, it was noted that the District had many of the same internal control deficiencies most notably in the area of capital assets as the FY 2015-16 audit. Ms. Haven has been working to correct the deficiencies.

District Improvements and Accomplishments during Receivership

- The adoption and execution of the Arizona Department of Education Special Education Corrective Action Plan was instituted under the direction of Superintendent Randall and was completed satisfactorily during the fall of FY 2013-14.
- The District was subject to a Title I site monitor audit which it passed during the spring of FY 2012-13.
- The District was subject to an ELL program compliance audit and received a satisfactory finding. It was completed during the spring of FY 2012-13.
- Cedar has updated its Governing Board Policy manual to bring it into compliance. This was completed during FY 2013-14. This was important to ensure that the Governing Board operates in accordance with accepted policy once the Receivership is lifted.

- Due to its somewhat remote location, Cedar provides some staff housing to its administrators and teachers. Some housing was in need of repairs. The District started a maintenance program for the staff housing during FY 2013-14 which will continue for the next couple of years. Once some of the worst units were repaired, the District was able to fully lease all of the available units, generating approximately \$1,400 per month.
- When the Receivership was established, the District was contracting for its food service operation. This resulted in significant losses to the district. In FY 2012-13, food service was brought in-house. During FY 2013-14, the food service operation was completely reorganized saving an additional \$11,000 per year.
- Maintenance and transportation for the district was reorganized for FY 2014-15. Through this reorganization, Cedar better utilized its staff, provided more full time positions (less part time), and saved approximately \$25,000 per year. A new Maintenance Supervisor was hired in FY2015-16 and considerable improvements were made to the neglected grounds.
- One of the District's major USFR findings was the lack of tracking for fixed assets. What limited data existed was several years out of date. Cedar completed the GFA update during the summer of 2013. As a result, Cedar was current on its fixed assets and was able to identify significant obsolete and/or surplus assets. The Governing Board authorized disposal netted the District almost \$50,000. However, the GFA has not been kept up to date recently, Ms. Haven is currently in the process of updating the GFA.
- When the Receivership was established, the District had no insurance reserve on deposit and was in danger of not being able to pay out claims. The District administration and the Receiver established a plan to bring Cedar current on its required deposits. Cedar was finally current on the required amounts as of the end of FY 2012-13 and remained current for FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17
- One of Dr. Randall's major accomplishments was the modification and update of the student computer lab. Primarily through grants, the District was able to completely modernize the computer lab with new equipment, complete the updating of computer instructional materials, and obtain sufficient Ipads to issue to students and teachers. This is expected to have a significant impact on the quality of education at Cedar. This project was begun during FY 2013-14 and completed during early FY 2013-14.
- A school improvement grant was written by Dr. Randall to fund the continuation of some of the programs listed above as well as implement new programs designed to improve the education levels at Cedar.

- Cedar was selected by ADE for a preliminary risk assessment of the selected State and Federal Grants for FY 2013. The grants requested for Cedar Unified School District included: Title I, Title II, Race to the Top and IDEA Basic. The District provided all requested information and was advised by ADE that Cedar was not selected based on the Risk Assessment results for a more comprehensive review of the selected State and Federal grants.
- FY 2015-16 Bus Routes were adjusted and Parent reimbursement program was instituted to save on bus maintenance. Additionally, alternative snow/mud day bus routes were implemented to minimize school closures and low attended makeup days.
- In FY 2015-16, sports programs were brought back to the district to increase school spirit.
- In FY 2016-17 a reading program was implemented.
- In FY 2017-18, 100% of the parent surveys were returned and rated CUSD as good to excellent compared to three years ago only 30% of the parent surveys were returned rating CUSD as fair to good. This positive impression, is the result of the current administrations work and has resulted in reversing the past declining student enrollment trend.
- In FY 2017-18 student enrollment has increased for the 2nd year in a row after many years of decline. It is believe that much of this success has been due to the current administration's ability to change the perception of the District in the community.
- In FY 2017-18 the School Facilities Board approved a budget for \$700,490 for capital improvements needed to upgrade the current heating and cooling system in school.

Receivership Authority and Powers

The Receiver had transitioned to a monitoring role with CUSD and had largely reduced involvement in the day-to-day operations process. The Receiver will continue to have regular interactions and obtain updates from Ms. Haven and Mr. Noggle on the daily operations and expenditures and budgetary issues.

The Receiver continues to exercise oversight over financial expenditures, largely through analyzing and approving expense vouchers and payroll expenses. The Receiver also attends Governing Board meetings and analyzes the agenda and minutes from each meeting. These activities will continue until the Receivership is dissolved by the State Board of Education after all of the dissolution requirements specified in ARS 15-103 are met.

Financial Improvement Plan

The financial improvement plan details how the District will attempt to eliminate the gross financial mismanagement and achieve financial solvency. The Receiver has divided the financial improvement plan into two sections: financial and operational. Each part of this plan is essential to the success of the school and correction of any gross mismanagement issues that occurred under the previous administration.

Financial Plan

Overspending Repayment

As stated previously in this report, the District has completed the budget capacity reduction repayment to the state and is no longer required to reduce budget capacity beginning in FY 2014-15. Cash state aid withholdings are being taken as required by ADE Finance and are on the agreed schedule.

The following Receiver actions are ongoing.

Continue to monitor spending to control costs

The Receiver is continuing the monitoring of purchase orders but has provided authority to the business manager and the Superintendent to approve purchase orders under \$5,000. This is part of the control transition process which allows more local control but still retains the Receiver's oversight. Payroll is still analyzed and approved as are all expense payment vouchers, as requested by the Navajo County Treasurer. The Receiver exercised only the highest-level oversight when the budget process was completed for FY 2014-15, FY 2015-16, FY 2016-17, FY 2017-18 and FY 2018-19. This transition process is necessary as the Receiver prepares the District to stand on its own in the future. All required deadlines were met and all Governing Board approvals were obtained.

Budget capacity and state aid continued to decline due through thru FY 2016-2017. However, Cedar had been able to weather these declines for FY 2016-17 and still operate within budget, although the budget had been tight. For the past two years (FY 2017-18 and FY 2018-19) enrollment numbers have increased over the prior year for two years in a row.

District Restructuring

The District moved to a four day week schedule in FY 2012-13. The administration, teachers, staff, students, and the community have all adjusted to the new schedule.

White Cone High School officially closed as a comprehensive High school at the end of the FY2011-2012. All staff, including administration, were released. White Cone

Academy housed a small portion of the facility through FY2014-15. White Cone Academy was a stand-alone computer based program. It was 100% computer based. Students worked on site, with an adult supervisor called the Program Facilitator seven hours per day. Students who demonstrated success, and were keeping pace with work assignments, were allowed to work remotely a maximum of 75% of the time, although most choose to work on-site 100% of the time. Students were required to work on-site a minimum of 25% of the time. Off-site work was closely monitored by the program facilitator. All assessments were completed on site for program integrity. Highly Qualified teachers of record monitored work and assisted students as needed. A certified staff member was on campus daily for additional support. White Cone Academy served grades 9-12 and used the Backbone Learning System, A+ Curriculum software. The Superintendent and the Governing Board elected to discontinue the program for FY 2015-16 due to declining interest and costs.

Maintenance and transportation had been reorganized for FY 2014-15 to save the District approximately \$25,000 per year. During FY 2015-16, the Superintendent hired new Maintenance Supervisor who has been working to improve neglected grounds and systems. Additionally, the Superintendent adjusted bus routes and implemented a parent reimbursement program to reduce maintenance on the buses. Food service has also been reorganized to try to make it at least a breakeven proposition. In FY 2017-18 the maintenance director's position was combined with the Transportation directors position in order to reduce overhead.

Operational Plan

Currently, the District is working towards "independent functionality" without the daily assistance or oversight of the Receiver. However, the success of the operational plan is completely dependent on solving the financial issues of CUSD. Without the financial solution, sufficient money will not be available to complete the changes described below. The operational improvement plan contains the following steps.

Ensure compliance with all USFR and Federal guidelines

The auditor, Dobridge, conducted a USFR audit for FY 2012-13. Dobridge's findings were almost exactly the same as those of the Receiver's analysis. The Receiver conducted a limited follow-up analysis for FY 2013-14 and found significant improvement. The deficiencies/findings noted by Dobridge are being addressed and it is believed that the District is in compliance with the USFRs at this time.

The District received a letter from the Auditor General's office dated June 13, 2013. The letter stated that the Auditor General's office had analyzed the audit report and USFR analysis submitted by Dobridge and, based solely on the information contained in those reports, determined that CUSD was generally in compliance with the USFR requirements.

The District received a letter from the Auditor General's office dated July 29, 2015. The letter stated that the Auditor General's office had reviewed the audit report and USFR Compliance Questionnaire completed by Dobridge & Company PC for the year ended June 30, 2014 and noted certain internal control deficiencies, most notably in the area of capital assets. Although the deficiencies did not cause substantial noncompliance, corrective action is underway by the business manager.

The District received a letter from the Auditor General's office dated July 25, 2016. The letter stated that the Auditor General's office had reviewed the audit report and USFR Compliance Questionnaire completed by Dobridge & Company PC for the year ended June 30, 2015 and notes the same internal control deficiencies related to capital assets as noted in the previous year.

Deficiencies related to internal control of capital assets and the outstanding White Cone Building Debt have continued to be the main issues in the CUSD's audit report for 2016-2017. The business manager continues to implement better internal controls and the debt issue will continue until the White Cone building debt can be completely paid off.

Special Education Program

ADE staff monitors were invited into the District in the fall of 2011 to evaluate compliance and provide guidance. A follow up analysis conducted by ADE in December 2012 found all special education records in compliance. The Receiver and ADE will continue to monitor this program to ensure continued compliance. The District has received a certificate of compliance from ADE for our Special Education Department and has closed its Corrective Action Plan.

Receivership Termination Issues

In discussions between the Receiver, the District, and the Auditor General's office, it was determined that while Cedar has met the majority of the requirements to terminate the Receivership, it is still in violation on A.R.A 15-103 (B) (6.) which states

“The school district has accumulated and has operated with a deficit equal to five per cent or more of the school district's revenue control limit for any fiscal year within the past two fiscal years or the conditions prescribed in section 15-107 have occurred.”

The amount in question is the original overspending for the White Cone High School building. The original amount was approximately \$695,000 of which \$436,283 remains. For FY 2018-19, the Revenue Control Limit (“RCL”) is \$2,050,641, meaning the debt will need to be reduced to \$102,532.05 or less for two years before the District will be able to petition the Auditor General

to determine solvency. The actual debt amount for any given year will be determined by the RCL in effect for that fiscal year.

The current plan is to build cash reserves with Impact Aid Funds, and pay down the White Cone building debt. This will take some time due to past years decline in enrollment resulting in reduced budget capacity and subject to timely payments of Impact Aid funds. Additionally, the District is pursuing a transfer of lease and sale of assets with the Navaho Nation pertaining to the White Cone High School, as previously discussed. If the sale of assets of White Cone High School were to occur, CUSD believes that the proceeds would be sufficient to pay-off the White Cone debt. The Receivership will continue until the remaining debt is reduced to less than five percent of the RCL.

Conclusion

It is the opinion of the Receiver that Cedar was capable of standing on its own and would have qualified for removal from Receivership absent the building debt issue. The District expects to continue to have a cash flow issues until such time that it can build a cash reserve to offset delayed State Aid and Impact Aid payments. The District has taken the appropriate measures to stay within its Budget Capacity but State Aid and Impact Aid delayed payments will likely result in cash flow issues for the immediate future. The Receiver has transitioned to being minimally involved in the daily operations of the District and has relied on the current administration and the Governing Board. The Governing Board has shown that it can maintain the proper fiscal policies and to make the sometimes difficult decisions on how to best operate the District. Unfortunately, due to the building debt discussed above, it will be sometime before the Receiver and the District will be able to request a termination of the Receivership. The Receiver has taken as minimal approach to oversight of the District as possible to keeps costs to a minimum until such time as the Receivership can be legally terminated.

This report was based on information available to the Receiver as of November 19, 2018.



Keith Kenny
For the Receiver
Simon Consulting, LLC

November 19, 2018
Date

Appendix A: CUSD Work Plan for Fiscal Year 2018-19

Task	Persons Responsible	Deliverable/Goal	Due Date
1) Regular Monitoring of CUSD financial affairs by the Receiver.	Receiver	Ongoing.	Monthly
2) Monitoring of credit position cash balances (County Treasurer), and budget capacity (Expenditure Budget)	Chief Fiscal Officer and Receiver	Monthly reports to the Governing Board.	Monthly
3) Implement and monitor school improvement program	Superintendent, Certified staff, Classified staff	Ongoing implementation and Evaluation.	7/1/2012 - Ongoing
4) Three to Five year plan to pay-off remaining	Superintendent, Chief Fiscal Officer, Governing Board / Review and Approval of Receiver	Minimum fixed annual payment to remaining construction debt.	January 2019
5) Adopt Budget for FY 2018-19	Superintendent, Receiver, Governing Board	Completed and adopted budget filed with ADE Finance	7/2018
6) Prepare quarterly Receiver Reports as required	Receiver	Quarterly Report Prepared and And Filed with ADE	Quarterly
7) Develop FY 2019-20 budget	Superintendent, Chief Fiscal Officer	Budget ready for presentation to the Governing Board in accordance with USFRs.	6/30/2019