

March 26, 2020

Ms. Samantha L-Wright
School Board President
Sto-Rox School District
c/o Superintendent's Office
298 Ewing Road
McKees Rocks, PA 15136

RE: Financial Watch Status

Dear Ms. Wright:

The Pennsylvania Department of Education ("Department") was required pursuant to Act 141 of 2012 to develop and implement an Early Warning System to identify and offer technical assistance to school districts experiencing financial difficulties. The Early Warning System identifies a number of indicators of financial difficulty that the Department evaluates to determine whether a school district should be designated in Financial Watch Status.

Pursuant to the Early Warning System, the Department conducts an initial analysis of the financial health of a school district. *See* 22 Pa. Code § 731.2(I). Based upon the initial analysis, it was determined the following indicators are present in Sto-Rox School District ("District"). These factors support the District's designation of Financial Watch Status:

- **Fund Balance Ratio:** The District's fund balance ratio was -17.61% in 2018-19 in the General Fund as reported on the District's annual financial report. The District experienced a steady deterioration in fund balance ratio from -7.06% in 2015-16 to -15.95% in 2018-19 based on all governmental fund and all proprietary fund types as reported on the District's annual financial report.
- **Advance of Basic Education Funding (BEF):** In FY2019-20, the District requested and received a BEF advance of \$3,500,000 on July 10, 2019. The District also requested a BEF advance of \$1,000,000 on March 25, 2020, with a pay date of April 13, 2020 expected. In FY2018-19, the District requested and received a BEF advance of \$1,700,000.
- The District experienced a deficit of -7.49% in 2016-17 and -19.94% in 2018-19 based on all governmental fund and all proprietary fund types as reported on the District's annual financial report.
- **Equalized Mills:** The District's 2017-18 Equalized Mills were 26.2 (ranked 44th highest out of 500 school districts).

Based upon the results of the initial analysis, the Department gathered additional information from the District. *See* 22 Pa. Code § 731.2(II). The following indicators were present in the District which further

support the designation of Financial Watch Status:

- State Appropriation Intercept Agreement: Per this agreement, the Commonwealth directly pays a scheduled debt service payment for the District, totaling \$10,530,719.42, from state appropriations otherwise due to the District for \$10,530,719.42.
- A review of the District's single audit for the year ended June 30, 2018 and the Auditor General's Performance Audit for the period July 1, 2012 to June 30, 2015 showed significant instances of failure to apply best practices and noncompliance with relevant requirements. This contributed to the District's financial decline, resulting in a negative \$5,536,273 unassigned fund balance in the General Fund as of June 30, 2019.

Based upon the existence of these indicators, both separately and cumulatively, the Department hereby notifies you that the District is designated in Financial Watch Status pursuant to section 611-A of the Public School Code of 1949. 24 P.S. § 6-611-A; *see also* 22 Pa. Code § 731.2.

As such, the Department will offer technical assistance to help the District with its financial challenges. The Department will be contacting you soon to discuss and schedule this technical assistance.

Sincerely,

A handwritten signature in cursive script that reads "Deborah A. Reeves".

Deborah A. Reeves
Deputy Secretary

cc: Frank Dalmas, Superintendent
Kimberly Puskarich, Director of Fiscal Services and Business Manager