



Internal Audit Report

General Fund Financial Observations

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Project #2026-26

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Summary

Internal Audit has identified a significant risk that the District’s General Fund could become financially insolvent within one to two fiscal years. In light of the District’s recently reported decrease in state revenues, likelihood of a multimillion-dollar deficit in the health plan fund (Fund 753), continued enrollment decreases, and rapid depletion of the General Fund (Fund 199) unassigned fund balance, there is a significant risk of financial insolvency and a possibility of needing to declare a financial exigency.

The table below summarizes the issues included in this report and the related risk rating.

Audit Issues Risk Rating	
Description	Risk Level
General Fund Insolvency	Priority
- Risk Level definitions are included in the Engagement Overview section of this report.	

Detailed Observations

Significant Risk of General Fund Financial Insolvency

Similar to school districts across the state, Ysleta ISD continues to face significant financial difficulties. Unlike many other districts in the state, the District does not have adequate reserves to face those difficulties without significant expenditure reductions. Although the District has taken some measures to reduce expenditures in the current and prior fiscal years, it has not been sufficient. The District also continues to find alternative funding for some expenditures (e.g. moving some salaries to allowable federal funds), however not all of these are permanent sources of funding. Some will revert back to the General Fund. Significant expenditure reductions must occur in order to meet financial obligations and cease reliance on short term loans.

Below we describe four specific areas to be aware of: *depletion of general fund balance, conditions met for financial exigency declaration, cash flow shortages solved by short term loans, and potential ‘F’ in TEA financial FIRST ratings.*

Imminent Depletion of Fund Balance

At the current rate of spending, General Fund unassigned fund balance may be depleted by the end of the 2026-2027 fiscal year.

Unassigned Fund Balance as of 6/30/25	\$35,546,784
Projected Fiscal Year 25-26 Deficit	<u>(16,700,000)</u>
Projected Unassigned Fund Balance as of 6/30/26	18,846,784

The District’s unassigned fund balance (the amount available for use which does not include assigned or committed fund balance amounts) has decreased from \$78.9M in fiscal year 2021 to a projected \$18.8M in fiscal year 2026, a potential decrease of over \$60M (75%) over 5 years.

The General Fund balance will be further strained by significant deficits in the District’s health plan fund.

Although final projections for the health plan fund (Fund 753) are not yet available, Internal Audit’s preliminary analysis of the fund shows a deficit of \$5.8M as of February 28, 2026. If this amount is annualized, the deficit in the health plan fund could be \$8.6M. Existing fund balance in the health plan is \$1.9M indicating a net loss of potentially \$6.7M that will have to be made up from the General Fund.

Project Unassigned Fund Balance as of 6/30/26	18,846,784
Potential loss in Health Plan Fund	<u>(6,700,000)</u>
Adjusted Unassigned Fund Balance	12,146,784

Therefore, there may only be approximately \$12M available in unassigned fund balance by the end of the 2025-2026 fiscal year. Therefore, the District cannot adopt a deficit of more than \$12M for the 2026-2027 fiscal year. If fiscal year 2026-2027 budget is approved for more than a \$12M deficit, then the District will not be able to meet its full obligations for the year with existing funds.

Subsequently, there would be almost \$0 unassigned fund balance by June 30, 2027. Future adopted budgets would need to be balanced budgets. Any future deficits in the health plan fund would continue to impact the General Fund.

The health plan has changed for calendar year 2026, however future projections for fiscal year 26-27 have not yet been made available. Employee contributions have increased and plan options have changed which may decrease claims expenses.

Declaration of Financial Exigency

The District meets conditions 1 and 2 below to declare a financial exigency.

Board Policy CEA (Legal) *Annual Operating Budget Financial Exigency* defines financial exigency as the District’s financial resources are insufficient to support academic programs or inability to finance full compensation of staff for the current or subsequent year. The Board can declare a financial exigency if

the District meets one or more of the following conditions. (Note, there are three more conditions, however they are not applicable to the District’s current situation.) Declaring a financial exigency allows for reductions in force in accordance with Board Policy (Local) DFFA.

1. A decrease of more than 20% in unassigned General Fund balance per student in weighted average daily attendance over the past two years or a projected reduction of 20% compared to the current year.

	Unassigned FB	WADA	FB/WADA	Difference from prior year
FY22-23	62,418,655	48,145	1,296	0%
FY23-24	61,623,145	47,238	1,305	1%
FY24-25	35,546,784	46,516	764	-41%
<i>Estimated FY25-26</i>	<i>18,846,784</i>	<i>44,451</i>	<i>424</i>	<i>-45%</i>

2. A decline in enrollment by more than 10% over the last 5 years.

	Enrollment per TAPR	Change in Enrollment Over Prior Year	Change Compared to 5 yrs Prior
FY19-20	40,428		
FY20-21	38,390	-5%	
FY21-22	37,244	-3%	
FY22-23	36,183	-3%	
FY23-24	34,918	-3%	-14%
FY24-25	34,062	-2%	-11%

3. A reduction of more than 10% in total General Fund total funding per student in weighted average daily attendance or a projected reduction of 10% compared to the current year.

	General Fund Revenues per AFR	WADA	Rev/WADA	
FY19-20	409,262,886	52,081	7,858	
FY20-21	410,281,337	52,503	7,815	-1%
FY21-22	401,895,236	50,203	8,005	2%
FY22-23	387,481,247	48,150	8,047	1%
FY23-24	385,558,508	47,238	8,162	1%
FY24-25	375,811,149	46,516	8,079	-1%
<i>Estimated FY25-26</i>	<i>381,254,500</i>	<i>44,451</i>	<i>8,577</i>	<i>6%</i>

Cash Flow Challenges and Short-Term Loan Use

The District continues to require short term loans to meet financial obligations.

Cash and temporary investments balances decreased to approximately \$21M at the end of June 2025. The District incurs approximately \$30M in payroll and other expenses monthly in the General Fund. At its June 2025 meeting, the Board of Trustees approved a \$49M loan (i.e. a Tax and Revenue Anticipation Note) with \$1.2M (3.88% rate) in interest. The note brought the General Fund cash balance to approximately \$70M by the end of the 2024-2025 fiscal year.

That loan was paid off in February 2026 as scheduled, after tax revenues became available. Another loan request in excess of \$50M is expected to be requested at the May 2026 Board of Trustees meeting. Because of limited reserves in the General Fund and the timing of tax and state revenue payments, the short-term loan is necessary to meet obligations. Tax revenues are received in December to February. State foundation payments are not received in April or August. The District will continue to need short term loans until reserves are built up again. Reserves will not be built up until revenues exceed expenditures.

TEA FIRST Ratings – “F” rating prevented by loan

The District has historically earned an A or B rating in TEA’s School Financial Integrity Rating System of Texas (FIRST). Most recently, the District earned a B for the financial period covering fiscal year ended 2023-2024. The District anticipates a B rating related to 2024-2025 fiscal year results, however this is due to the \$49M loan it received in June 2025. The District would have earned an F rating on the FIRST if it had not gotten the loan.

FIRST rating indicators #7 and #9 depend on the number of days cash on hand held by the District. Without the loan, the District would have had 18 days cash on hand. With 18 days cash on hand, the District would not have earned any points on these two indicators therefore earning an F rating. The official FIRST ratings on fiscal year 2024-2025 will not be released until Fall 2026.

Additionally, projections for the FIRST ratings based on fiscal year 2025-2026 financial estimates show a similar situation. Without a significant loan amount, cash balances will be low and not adequate to pass the same two indicators noted above. Final official FIRST ratings for fiscal year 2025-2026 are not released until Fall 2027. More accurate FIRST ratings cannot be calculated until after FY2025-2026 annual financial reports are completed, approximately Fall 2026.

According to the TEA website, “the state's school financial accountability rating system, known as the School Financial Integrity Rating System of Texas

(FIRST), ensures that Texas public schools are held accountable for the quality of their financial management practices and that they improve these practices. The system is designed to encourage Texas public schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes.”

Engagement Overview

Background

The purpose of internal auditing according to the Global Internal Audit Standards put forth by the Institute of Internal Auditors is to “strengthen the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.”

It is the responsibility of the Internal Auditor to communicate significant risks that may impact the District’s ability to meet its goals and objectives. As such, the Internal Audit Department presents the Board of Trustees with detailed findings on the risk of insolvency of the District.

Objectives

The objective of this engagement is to identify and communicate significant financial risks that have come to our attention.

Scope and Methodology

The scope of our review included financial transactions for fiscal years 2023-2024, 2024-2025, and 2025-2026 as of February 28, 2026. The audit methodology included analyzing financial statements and state reports, reviewing financial transactions, and interviewing staff.

Criteria

The audit was based upon standards and policies as outlined in the following:

- District Board Policy CEA (Legal) *Annual Operating Budget Financial Exigency*
- District Board Policy CEA (Local) *Annual Operating Budget*

Risk Rating

Auditors rated the issues identified in this engagement using professional judgment according to the following definitions.

Risk Level	Definition
Priority	The issue presents risks that, if not addressed, could critically affect the District’s reputation or its ability to meet its goals and objectives. Immediate action involving senior leadership is required to address the concern and reduce the potential impact.
High	The issue presents risks that, if not addressed, could substantially affect the District’s reputation or its ability to meet its goals and objectives. Prompt action involving campus or departmental management is essential to address the concern and reduce the potential impact to the District.
Medium	The issue presents risks that, if not addressed, could moderately affect the achievement of an operational objective. These issues have a localized impact, and action is needed by campus or department management or supervisors to address the concerns.
Low	The issue identified does not present significant risks or effects to the campus or department audited.

Audit Standards

We performed this audit in conformance with The Institute of Internal Auditors’ *Global Internal Audit Standards*. Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards define condition that provide organizational independence for internal auditors and facilitate our ability to carry out our responsibilities in an unbiased manner. Our office is independent per those standards. The standards also require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our internal review processes indicate that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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