

Fiscal Health Analysis of Colorado School Districts

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Background

- Colorado Schools
 - 178 Districts
 - More than 800,000 children
 - More than \$3 billion in state funding
- Colorado Department of Education
 - Oversight of accreditation
 - 2003, added accounting and budget component

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Role of the Office of the State Auditor

- Local Government Audit Division
 - Local Government Audit Law
 - Collection of audits
 - School Districts – due in 6 months
 - Review of audits
 - Identify deficiencies
 - How can we proactively use the information?

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Fiscal Health Analysis

- Assess Areas of Risk
 - School Districts
 - General Fund
 - State funding
 - Local property taxes
 - Operations
 - Discretionary spending
 - Debt
 - Deficit fund balances
 - Exclude Proprietary Funds

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Financial Ratios and Trends

- Ratios
 - Integrate risk factors
 - Relationship of financial factors
- Trends
 - Three years
 - Eliminate anomalies
 - Inherent limitations
 - Annual analysis
 - Rolling three-year period

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Ratios

- Asset Sufficiency Ratio

$$\frac{\text{General fund total assets}}{\text{General fund total liabilities}}$$

- *Warning trend: A consistent deficit in assets' adequacy to meet obligations over the three-year period.*

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Ratios

- Debt Burden Ratio

$$\frac{\text{Total governmental revenue of fund(s) paying debt}}{\text{Total governmental debt payments}}$$

- *Warning trend: Annual revenues consistently below the annual debt payment for each of the three years.*

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Ratios

- Operating Reserve Ratio

$$\frac{\text{Fund balance of the general fund}}{\text{Total general fund expenditures net of transfers}}$$

- *Warning trend: A reserve that covers less than one week of future expenditures, which is the equivalent of .0192, or 1/52, for each of the three years.*

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Ratios

- Operating Margin Ratio

$$\frac{\text{General fund total revenue} - (\text{general fund total expenditures net of transfers})}{\text{General fund total revenues}}$$

- *Warning trend: A loss in reserves for each of the three years.*

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Ratios

- Deficit Fund Balance Ratio

$$\frac{\text{Total (absolute value) deficit fund balance(s)} - \text{positive fund balance of the general fund}}{\text{Total revenue in deficit fund balance(s)}}$$

- *Warning trend: The portion of annual revenue needed to cover the deficit fund balance is increasing over the three-year period.*

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Ratios

- Change in Fund Balance Ratio

Current year fund balance of the general fund – prior
year fund balance

Prior year fund balance of the general fund

- *Warning trend: Consistent decreases in reserves.*

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Evaluation of School Districts

- Memo and data to all districts
 - Verification of data
 - Explanation of process
 - Calculation of ratios
 - How to evaluate data

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Evaluation of School Districts

Some questions to consider:

How do your indicators compare to the averages (at the bottom of the spreadsheet)?

How do your indicators compare with school districts in your area?

How do your indicators compare with school districts of similar size?

Do you have any negative indicators?

If you have negative indicators:

Are the negative indicators for more than one ratio?

Do you understand the underlying cause?

Can you explain the reason?

What steps (if needed) are being taken to correct the negative indicators?

Evaluation of School Districts

State of Colorado Fiscal Health Analysis With Warning Trend Indicators For Fiscal Years 2006, 2007, and 2008	
Fiscal Health Ratio	Number of Districts with Indicator ¹
Ratio 1: Asset Sufficiency Ratio	2
Ratio 2: Debt Burden Ratio	7
Ratio 3: Operating Reserve Ratio	2
Ratio 4: Operating Margin Ratio	33
Ratio 5: Deficit Fund Balance Ratio	0
Ratio 6: Change in Fund Balance Ratio	17
Total Indicators	61
Total Districts With One or More Indicators	43
<small>Source: Analysis performed by the Office of the State Auditor, Local Government Audit Division, using data from audited financial statements submitted by school districts. ¹Some districts had indicators in more than one category.</small>	

Evaluation of School Districts

- 43 school districts: One or more indicators
 - 28: One warning indicator
 - 13: Two warning indicators
 - 1: Three warning indicators
 - 1: Four warning indicators

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Reporting

- Explanation of negative indicators
 - All districts with two warning indicators
 - Included as appendix in report
 - Detailed analysis of districts with three and four warning indicators
 - In body of report
 - Colorado Department of Education action steps
 - Superintendents at Legislative Audit Committee hearing

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Conclusions

- Fiscal Health Analysis
 - validated by CDE and districts
 - Provides discussion items for district Boards
 - Comparative data for schools
 - Standardized analysis
 - One more way to watch for potential problems

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Questions?

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