

REPORT HIGHLIGHTS

FISCAL HEALTH ANALYSIS INFORMATIONAL REPORT, AUGUST 2016



COLORADO SCHOOL DISTRICTS COLORADO DEPARTMENT OF EDUCATION

CONCERN

Colorado school districts and the Colorado Department of Education should review the fiscal health analysis and, if any benchmarks are missed over the 3-year period, determine the cause and take action, as appropriate.

KEY FACTS AND FINDINGS

- This year's analysis reviewed the trends over the Fiscal Years Ending June 30, 2013, 2014, and 2015.
- In the previous year's analysis of the State's 178 school districts, for Fiscal Years 2012-2014, 70 districts missed one or more benchmarks. In the current year's analysis, 36 missed one or more financial benchmarks.
 - ▶ 1 district missed three benchmarks:
 - Silverton 1 (San Juan County)
 - ▶ 11 districts missed two benchmarks.
 - ▶ 24 districts missed one benchmark.
- Most missed benchmarks occurred with the following two ratios:
 - ▶ The ratio calculating the amount added to the reserves for every \$1 in revenue, or the operating margin. The operating margin ratio identifies growth or decline in a school district's reserves over a 3-year period. Missing the benchmark for this indicator identifies when a district may be deliberately spending down fund balance to supplement operations or when there is a reduction in state funding without a corresponding decrease in expenditures.
 - ▶ The ratio calculating the change in general fund balance from previous to current years. A missed benchmark for this indicator identifies declines from the previous year and when a school district's general fund has reached the lowest point in 4 years.
- All 12 school districts missing two or more benchmarks provided explanations for the trends. For example:
 - ▶ Most school districts reported that they have experienced the effects of the reductions in State school finance funding.
 - ▶ Some school districts indicated they spent down fund balance for school remodeling or technology purchases.
 - ▶ Several school districts reported reductions in property tax revenue due to decreases in assessed valuation.

BACKGROUND

- The Fiscal Health Analysis performed by the Office of the State Auditor provides a set of ratios, together with the associated benchmarks to evaluate financial indicators for each school district.
- The analysis examines the most current rolling 3-year period for which audited financial statements are available.
- Financial indicators from missed benchmarks can warn of financial stress that may require examination and remedial action by the appropriate parties.
- The Fiscal Health Analysis uses five ratios to assess a school district's financial health. These ratios look at the districts' following financial indicators:
 - ▶ The adequacy to meet obligations over the 3-year period.
 - ▶ The revenue coverage of debt service payments.
 - ▶ The reserves available to cover future expenses.
 - ▶ The amount added to the reserves for every \$1 in revenue.
 - ▶ The increase or decrease to the reserves in the general fund.