

REPORT HIGHLIGHTS



FISCAL HEALTH ANALYSIS
INFORMATIONAL REPORT, JULY 2014

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 three 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 2011, 2012, and 2013.
- In the current year's analysis of the State's 178 school districts, 76 missed one or more benchmarks. In the Fiscal Year 2012 analysis, 48 districts missed one or more benchmarks.
 - ▶ 1 district missed three benchmarks, no districts missed three in the Fiscal Year 2012 analysis
 - ▶ 19 districts missed two benchmarks, 9 districts missed two in the Fiscal Year 2012 analysis.
 - ▶ 56 districts missed one benchmark, 39 districts missed one in the Fiscal Year 2012 analysis.
- Most missed benchmarks occurred with:
 - ▶ 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 school districts' reserves over a three-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. Missing the benchmark for this indicator identifies when a school district's general fund has reached the lowest point in four years.
- All 20 school districts missing two or more benchmarks provided explanations for the trends such as the spend down of fund balance due to reductions in state funding. For example:
 - ▶ Sixteen school districts reported that they have experienced the effects of the reductions in state school finance funding.
 - ▶ Twelve school districts indicated that they have experienced increases in the cost of maintenance, repairs, and construction in order to maintain or improve facilities.
 - ▶ Several school districts reported they had used fund balance over the three-year period in order to provide matching funds for BEST program grants which helps school districts fund capital and facility maintenance projects.
 - ▶ At least 4 school districts reported significant reductions in student enrollment resulting in reduced state funding.

BACKGROUND

- The Fiscal Health Analysis performed by the Office of the State Auditor provides a set of financial indicators for each school district.
- The analysis examines the most current rolling three-year period for which audited financial statements are available.
- Financial indicators 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 three-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.