

REPORT HIGHLIGHTS



FISCAL HEALTH ANALYSIS
INFORMATIONAL REPORT, AUGUST 2021

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, 2018, 2019, and 2020.
- In the previous year's analysis of the State's 178 school districts, for Fiscal Years 2017–2019, 32 districts missed one or more financial benchmarks. In the current year's analysis, 20 districts missed one or more financial benchmarks. The decrease from the prior year was primarily in the districts that missed one benchmark. In this year's analysis:
 - ▶ 5 districts missed two benchmarks.
 - ▶ 15 districts missed one benchmark.
- Most missed benchmarks occurred with the following two ratios:
 - ▶ The Operating Margin Ratio: the ratio calculating the amount added to the reserves for every \$1 in revenue, or the operating margin. This ratio identifies growth or decline in a school district's reserves over a 3-year period. A missed benchmark for this indicator may indicate a district is deliberately spending down fund balance to supplement operations or there is a reduction in state funding without a corresponding decrease in expenditures.
 - ▶ The Debt Burden Ratio: the ratio indicating whether a school district's annual revenue will cover its annual debt payments, including principal and interest. A missed benchmark for this ratio may indicate that a district does not have enough revenue in its funds paying debt service to cover those debt service expenditures and must use fund balance to make up the difference.
- All five school districts missing two benchmarks provided explanations for the trends. For example:
 - ▶ One district reported that the missed benchmarks was due to the timing of local grant activity and shortfalls in the Student Activities Funds.
 - ▶ One district had higher than expected enrollment, received additional funding and implemented a strategic spend down of fund balance.
 - ▶ One district spent down its fund balance for retaining staff, curriculum, safety upgrades, student needs, and building maintenance.

BACKGROUND

- The Fiscal Health Analysis performed by the Office of the State Auditor provides a set of ratios and associated benchmarks by which to evaluate the financial health of 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 six ratios to assess the following financial indicators:
 - ▶ The adequacy of assets to meet obligations.
 - ▶ 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 existence of a net deficit fund balance.
 - ▶ The increase or decrease to the reserves in the general fund.