

# Report Highlights



## Fiscal Health Analysis

Colorado School Districts, Colorado Department of Education  
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C O L O R A D O

### Key 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 Findings

- This year's analysis reviewed the trends over the Fiscal Years Ending June 30, 2019, 2020, and 2021.
- In the previous year's analysis of the State's 178 school districts, for Fiscal Years 2018–2020, 20 districts missed one or more financial benchmarks. In the current year's analysis, 17 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:
  - 6 districts missed two benchmarks.
  - 11 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 six school districts missing two benchmarks provided explanations for the trends. For example:
  - One district reported that the missed benchmarks were due to limited staff resources combined with a large increase in COVID-19 funding which created difficulties. Additionally, an unexpected drop in state revenue due to an increase in the budget stabilization factor and a decline in pupil count resulted in the missed benchmarks.
  - One district saved and raised funds in order to build a new athletic facility.
  - Four districts spent down fund balance for retaining staff, safety upgrades, student needs, technology, 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.