

# FINANCIAL ASSESSMENT

Take the temperature of your district's finance  
by examining underlying fiscal forces

Roger Price & David Carlson

The goal of a school district master plan is to provide the district with long-term, fiscally responsible plans that focus upon the achievement of the district's student education goals. Therefore, a thorough and honest review of the district's current financial state is crucial.

This kind of evaluation is rarely possible during time-sensitive budget deliberations. The financial assessment should strive for comprehensiveness and sophistication, seeking to take the temperature of a district's finances by examining underlying fiscal forces. The assessment should assist a public body to better understand the nature of its revenues and expenditures, as well as its long-term and current budget solvency. It should also examine the district's cash position and how revenues and expenditures influence service levels.

## **■ PART 1: Understanding the Current Financial State**

The data available and collected in a financial assessment is used to assess underlying financial forces with regard to four types of solvency.

**[A] Financial solvency** is defined as the ability to generate enough revenues over a normal budgetary period to meet expenditures and not incur deficits. A financial assessment should include a full documentation of internal and external factors that affect the district's finances.

These factors include:

**Revenues ...** Operating Revenues, Local Tax Revenues, and Intergovernmental Revenue (such as Open Enrollment, and Cooperative Agreements):

- Enrollment (history and projections)
- Revenue limit authority (per member)
- General and categorical state aid (past, current and future eligibility; trends and per member)
- Mill rate (history)
- Fees (per member)
- Shared cost (per member)
- Levy (per member)
- Open enrollment (trends)

**Expenditures ...** Operating Expenditures, Employees, and Fringe Benefits:

- General fund expenses (per member)
- Other funds expenses
- Cost per member by major categories
- Staffing levels (ratios)
- Average salaries (adjusted by years of service)
- Staff workload
- Fringe benefit cost per employee

**[B] Long-range solvency** examines the future costs of current fiscal decisions.

- Accumulated unpaid vacation, sick pay, and other benefits
- Retiree insurance obligations
- Long-term debt (principal and interest payment schedule)
- Pension liability (funded and unfunded)

**[C] Service-level solvency** is the ability to provide services at the level and quality that are required for the welfare of the community and that its citizens desire.

- Capital improvements (history and plans)
- Technology infrastructure
- Repairs and maintenance (history and plans)

**[D] Cash solvency** refers to the ability to pay bills and meet payroll.

- Liquidity (cash flow)
- Equity (point in time)
- Fund balance policies
- Credit rating
- Audit findings

The assessment will draw on a broad range of material to assess the district's fiscal health including: existing demographic (enrollment) data and projections; operational budget and levy projections; capital improvement plan; technology improvement plan; maintenance investment plan; analysis of debt; and, identified and articulated roles of legal (bond counsel) and financial advisors.

In addition, major data sources available include a school district's financial records and documents, such as its annual financial report and the annual budget; other financial records of the district; fiscal and enrollment data; as well as more general information reported to and available on the Department of Public Instruction website; reports produced by the Wisconsin Legislative Audit Bureau and Legislative Fiscal Bureau K-12

**The WASB Can Help!** Completing a financial assessment is an involved process with many moving parts. Consultants from the WASB's Organizational Consulting Services can help districts complete in-depth financial assessments along with a host of other services. For more information, visit [wasb.org](http://wasb.org) or contact Louis Birchbauer at 414-218-2805 or [lrbirchbauer@wasb.org](mailto:lrbirchbauer@wasb.org).

## Special Series

**This is the second in a series** of special articles addressing issues related to school referendums, which play a crucial role for Wisconsin school districts.

### Look for upcoming articles on:

*Facility Assessments*  
*Advice from Referendum Professionals*

finances during the past decade; the Wisconsin Taxpayers Alliance; and, a variety of secondary sources and organizational websites.

Evaluating a district's financial condition is a complex process. Not only are there a large number of factors to evaluate, but many of them are also difficult to isolate and quantify. For example, Fund 10 balance is only one piece of the district's assets and liabilities picture. A perceived healthy Fund 10 balance may mask an onerous pension liability obligation.

Relationships between the factors add to the complexity. Some are more important than others, but often this cannot be determined until all the factors have been assembled — no single piece of information is conclusive.

### **PART 2: Building Trust in Your Community Around Financial Issues**

Understanding your district's financial state is a major step in moving the board, district leadership, and community to a shared understanding and commitment to best educate its children. Understanding how the community perceives the district is also important. This is particularly the case in numerous districts where revenue limit authority is no longer the issue, it is what the local taxpayer can afford to provide. Long before the question of whether or not to go to referendum for operations or facilities is considered, significant effort is necessary to build a positive working relationship and hopefully trust throughout the school community.

Community trust is built on how the community feels ITS money is being used. What you say and what you do must match. What you know about the current and prospective state of the district's finances must be shared. This effort builds on the belief that intelligent people, given enough time and information, will reach the same conclusion.

As board members there are a number of best practice steps/ actions/efforts that can assist in building trust in the community:

- Have a plan to “listen back” to your community; the community understands that it will not always be accommodated, but expects to be listened to.
- Hold regular listening/learning and brainstorming sessions beyond the routine and usual business of a board meeting.
- Understand that public relations is part of the board's business.
- Maintain a strategic or long-range plan developed with transparent involvement of all of the stakeholders.
- Hire staff who can communicate effectively with the board and the community.

- Require the auditor to meet with the board to both celebrate successes and understand challenges.
- Demystify the black box of school finance.
- Assure that every major project has a communications plan.
- Have an open book policy on school finances.
- Hold finance workshops for the community.
- Link expenditures to programs for kids.
- Use current technology to make available the district's financial information.
- Create a plan to communicate with key stakeholders.

When considering the prospect of building trust, in particular around the finances of the district, remember — it's hard to turn on, but easy to turn off, and it's not what you do, but how you do it. ■

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## PLANNING with Strategic Thinking

**It's a district's obligation** to its school community to conduct an objective assessment and analysis of **what you know** about your district. This includes the full understanding of educational trends, student performance data and the current state of the district's program structure, finances, and facilities.

It's also imperative to have a clear understanding of **what you believe**, and most importantly, having a clear ear to what your community believes are their expectations.

Inclusive processes around listening, accumulating data/information and communicating lead to collaborative strategic thinking. This information then assists in forming a comprehensive master plan for the future. The results are long term — fiscally responsible planning for educational, operational, financial, and facilities in the future.

Only then can the district move forward together with shared goals and objectives that assure excellence in education and that all students achieve success. □

