The Financial Assurance and Accountability System (FAAS) is a tool for self-analysis that helps districts determine their financial status.

FAAS was developed cooperatively by the Illinois Financial Advisory Committee (IFAC), the Large Unit District Association (LUDA), the South Cook Organization for Public Education (SCOPE), Education Research and Development (ED-RED), Illinois State University (ISU), Southern Illinois University (SIU) and the Illinois State Board of Education (ISBE).

The following are answers to some of the most commonly asked questions about FAAS and how it operates.

**Q  How does the system work?**

The system classifies districts according to a ratio that measures operating fund balances against operating revenues. Based on this measure, districts are placed in one of five categories, or bands:

**Q  How is the fund-balance-to-revenue ratio calculated?**

The fund-balance-to-revenue ratio is calculated by combining the fund balances of the educational, operations and maintenance, transportation, municipal retirement/social security and working cash funds and dividing by the combined total revenues of the same five funds.

The ratio is determined from data collected on the Annual Financial Report (AFR) in the manner in which it is reported to the State Board; i.e., cash-basis accounting or Generally Accepted Accounting Principals (GAAP)-basis accounting.

**NOTE:** This ratio does not reflect infrastructure needs or the impact of long-term contractual agreements/obligations.
**What criteria are used to classify districts into a category?**

**Financial Recognition**
To be classified under Financial Recognition, districts must have a fund-balance-to-revenue ratio **greater than +10%**.

**Financial Technical Assistance**
Districts with a fund-balance-to-revenue ratio of **0 to +10%** will be classified in the Financial Technical Assistance category.

**Financial Watch List**
Districts placed on the Financial Watch List have one or more of the following:
- carry a fund-balance-to-revenue ratio of **less than 0%**,
- issued teachers’ orders or funding bonds to retire teachers’ orders in three of the last five years;
- issued second-year tax anticipation warrants/notes; and/or
- have expenditures for the aggregate totals of the educational, operations and maintenance, transportation, and working cash funds which exceed revenues and reserves for two consecutive years.

**Financial Certification**
Districts on the Financial Watch List are evaluated for certification under provisions of the School Code, Section 1A-8 if they have:
- appeared on the Financial Watch List for two or more years with a negative operating-fund balance ratio and a current-year ratio of negative 10% or less;
- issued teacher orders, or have issued funding bonds to retire teacher orders in three of the last five years;
- issued second-year tax anticipation warrants/notes; and
- carry an operating fund balance ratio for the current year of a negative 20% or less.

**Financial Oversight Panel**
A district certified as being “in financial difficulty” under the provisions of Section 1A-8 of the School Code may be recommended for a financial oversight panel and emergency financial assistance. Recommendations for Financial Oversight Panels will depend on the school district’s desire to petition for Emergency Financial Assistance or its failure to comply with its approved plan.

**When will we be notified of our classification?**
The full listing is available in March. However, your AFR will provide this information to you as soon as the Annual Financial Report is completed (see pages 1 and 2).
Q **What’s the importance of submitting the AFR by November 15?**

School districts that do not submit the Annual Financial Report in time to be included in the FAAS calculations will be placed on the Financial Watch List.

Q **My district falls into the category of Financial Recognition. Does this mean we do not have any problems?**

Not necessarily. If you derive significant funds through funding or working cash bonds, you may be masking future financial problems.

Infrastructure needs, long-term contractual obligations and the effect of tax caps should also be evaluated.

Q **My district falls into the category of Financial Technical Assistance. Does this mean we have problems?**

Not necessarily. You may have retired bonds, invested in your infrastructure, or taken other steps to improve your financial health. However, if you have not taken any of these measures and you see a downward trend in your fund-balance-to-revenue ratio you may need to take immediate action.

Q **Can a school district petition to be placed on the Financial Watch List?**

Yes, the district’s school board may petition the State Board to be placed on the Financial Watch List. Petitions are a narrative-type “motion” in which district personnel consider any or all of the following factors: (a) decline in financial position (as evidenced by the FAAS ratio) over the past three years; (b) reliance on long-term debt to fund current operations; (c) impact of tax caps/TIFs/farmland assessments; (d) major liabilities occurring after the end of the fiscal year; (e) decline in enrollment; and (f) inability to reorganize. Petitions are due by December 15.

Q **Can any school district request Technical Assistance?**

Yes. Staff from the Finance Center are available to work with all districts. If you would like to arrange a meeting with a financial consultant from the Illinois State Board of Education, contact the School Financial Management Services Division at 217/785-0583.