Agenda Topic: Financial Assurance and Accountability System (FAAS)

Materials: Attached Materials on FAAS

Staff Contact: Gary Ey
Charles Schmitt

Purpose of Agenda Item

• To provide the State Board of Education and public a general status report on the overall financial health of Illinois K-12 public school districts; and

• To identify the school districts placed on the 2001 Financial Watch, Financially Certified School District, and Financial Oversight Panel Lists plus those districts that were removed from the prior year’s Financial Watch List.

Expected Outcome(s) of Agenda Item

• Board and public awareness of the general financial health of all school districts;

• Board understanding of factors that impact upon the financial health of school districts; including brief presentations from two school districts on the challenges they have experienced in providing a standards based education; and


Background Information

The State Board of Education enhanced several years ago its Financial Watch monitoring process by establishing a comprehensive and proactive Financial Assurance and Accountability System (FAAS).
FAAS provides an overall assessment of the financial condition of school districts. It is grounded on a ratio analysis of fund balances to revenues as documented by each district’s independently audited financial statements.

Staff examination of the relevant financial data results in identification of school districts where the financial condition appears to be healthy and therefore provides an external and objective validation for those communities. The process also identifies school districts that are or have a potential to be in financial difficulty and allows the State Board of Education to take a proactive role in working with such districts to improve their financial condition before intervention is necessary.

FAAS assigns each school district to one of five eligibility bands based upon its individual financial conditions. During the March Board meeting, staff will provide a general report on the financial health of school districts, as determined by an analysis of the 1999-00 audited school district Annual Financial Reports. Staff will also present a detailed report that identifies the districts in the three lowest bands: Financial Watch, Financial Certification and Financial Oversight Panel.

The State Board will be asked to formally adopt the official 2001 Financial Watch, Financial Certification and Financial Oversight Panel Lists plus endorse the strategic methodology for continually improving the FAAS process.

**Analysis and Implications for Policy, Budget, Legislative Action and Communications**

**Policy Implications:**

After the 2001 FAAS lists are adopted, Board and staff need to assess the financial factors to determine whether there are specific policy issues that may require legislative, budgetary or administrative action.

Among the policy issues to be considered are the implications of financial conditions with no practical solutions that are acceptable to local boards of education. The fact that FAAS primarily relies on one basic measure of financial viability remains a systemic shortcoming. To address the latter issue, this policy analysis will include a review of the criteria and data used for assigning school districts to the five designation categories, with the goal of determining whether additional and/or different information is required. Staff are working with a variety of stakeholders to develop an even more comprehensive accountability and reporting system.

**Budget Implications:**
Staff analysis will document state, local and federal funding for all districts on the three adopted lists. These districts’ unique financial needs may warrant additional funding considerations including emergency grants and loans from the state.

Legislative Implications:

Staff will note during their presentation pending legislative proposals which will be beneficial to districts in financial difficulty.

Pros and Cons of Various Actions

N/A

Superintendent’s Recommendation

The State Board of Education should:

- Receive a general status report on the overall financial health of school districts as determined by the analysis of the 1999-00 independently audited school district Annual Financial Reports.


Next Steps

- Staff will be providing technical assistance and assessing Financial Watch Districts for possible future recommendation for certification.

- Provide a mid-year update to the Board on the development of a prototype Financial Report Card to be used in 2002.