Finance & Audit Committee
Wednesday, February 22, 2006
4:00 p.m.

(This meeting will begin at the conclusion of the previous session.)

Board Room, 4th Floor
100 N. First Street, Springfield, IL

Public Conference Call Access Number: 1-866-297-6391 (listen only); Confirmation # 1 3 8 2 0 5 3 4

AGENDA

1. Public Participation
2. Minutes of January Finance & Audit Committee Meeting of the Whole (pp. 2-3)
3. School Restructuring due to NCLB & Corrective Action Against Chronically Dysfunctional Districts (Jonathan Furr, Ginger Reynolds) (see memo in Board Operations Committee Packet p. 8)
4. Tracking and Reporting SBE Budgeted Programs to Assist School Districts (Linda Mitchell, Ronny Wickenhauser) (p. 4)
5. FY07 Budget Update (Linda Mitchell, Ronny Wickenhauser) (p. 5)
6. Discussion of Divernon Community Unit S.D. #13 Financial Plan (Debby Vespa) (Plenary pp. 158-164)
7. Update on School Financial Conditions (Linda Mitchell, Debby Vespa) (pp. 6-13)
8. Additional Items
9. Adjourn

* Items listed with an asterisk (*) will be discussed in committee and action may be taken in the plenary session.
1. PUBLIC PARTICIPATION
Chairman Geppert announced that five people wished to address the Committee.
- Linda Spencer spoke on gifted funding & intellectually-challenged students.
- Nancy Herzog from the University of Illinois spoke on gifted education.
- Representative Kathleen Ryg & Lydia Taylor of the Illinois After School Alliance spoke on the funding for after-school programs.
- Tom Bookler of Illinois Computing Educators spoke on the funding for technology in schools.

2. MINUTES OF THE DECEMBER FINANCE & AUDIT COMMITTEE MEETING
Chairman Geppert asked if there were any changes or corrections to the December meeting minutes. There were no objections & the minutes were placed on file.

3. QUARTERLY UPDATE OF FY04 A133 STATEWIDE & FY04 ANNUAL FINANCIAL COMPLIANCE FINDINGS
Deb Scheiter stated that the FY05 audit will not be out until mid-to-late spring. She reported that ISBE appeared before the Legislative Audit Commission. Ms. Scheiter discussed a Reading First finding that they were able to resolve after locating a former employee.

Linda Riley Mitchell reported that Human Resources is revising the personnel evaluation forms and they are making progress in assuring that they are turned in more promptly.

4. UPDATE ON REQUEST FOR PLANS FROM SCHOOL DISTRICTS CERTIFIED AS IN FINANCIAL DIFFICULTY
Ms. Mitchell stated that Harrisburg has submitted their financial plan. The plan is being reviewed, but it appears that it is complete and they have developed a plan that projects their situation is turning.
Deb Vespa noted that the agency will have to continue to monitor Harrisburg.

Ms. Vespa noted that the Divernon report would be delayed until the February meeting. Ms. Vespa stated that they would be meeting with the Superintendent to discuss their plan.

Ms. Mitchell discussed the Winthrop Harbour situation and suggested that the agency review them after March when they have a tax referendum. Ms. Vespa noted that their long-term debt is at its maximum.

5. FY07 BUDGET RECOMMENDATIONS
Chairman Geppert thanked everyone including the 130 people who came to testify in the seven hearings and four committee meetings since October. He also thanked the staff.

Ms. Mitchell began by providing some general background on the budget process. She noted that there is going to be more available this year than last at the state due to higher tax revenues as a result of economic growth. She reported that the total requested in the initial budget recommendation last year was $65 million. Ms. Mitchell stated that when the budget process concluded, increases in the budget totaled about $310 million. She pointed out that GSA at a $160 dollar increase in FY07 would cost about $280 million. Ms. Mitchell also indicated that the budget for the strategic plan is $4.4 million.
Chairman Geppert indicated that the Board would talk about increases and decreases rather than each component of the budget. He noted that in FY06 there were targeted initiatives totaling $25 million. In terms of the total amount, the total of increase is about $300 million to $350 million. He also noted that as of December the headcount of the agency was 496. In the proposal for personnel in the agency, the total increase recommended is $1.464 million. He noted that the agency has had more assessments this year than last. Mr. Wickenhauser explained that the agency spent Title VI funding for assessments. Most of the money is in contractual services.

Chairman Geppert began the discussion by proposing the following increases in the major categories of the budget:

- GSA and Mandated Categoricals $296.2 million
- Strategic Plan $4.4 million
- Early Childhood $30.0 million
- Personal Services and Related $1.464 million

Chairman Geppert also proposed the following items for increases in targeted initiatives:

- Agricultural Education $500,000
- Alternative Learning Regional Safe Schools $500,000
- Bilingual Education $2,735,000
- Career & Technical Education $500,000
- Blind & Dyslexic $350,000
- Consolidation Studies $150,000
- Materials Center $1,000,000
- Parental Participation Project $100,000
- ROE Services Line $1,000,000
- Technology for Success $2,000,000
- Grow Your Own Teachers $1,500,000
- Truancy Alternative Optional Education $500,000
- Phillip J. Rock Center $165,000
- Community and Residential Services Authority $52,300

Discussion ensued on Chairman Geppert’s proposal. Brenda Holmes questioned the funding for Blind and Dyslexic and for the Parental Participation Pilot Project. Ms. Holmes made a motion that all items except those two be voted on and approved. The motion carried. A separate vote was taken on funding for the Blind and Dyslexic and for the Parental Participation Pilot Project. It was noted by Nicole Wills and Ronny Wickenhauser that the Parental Participation Pilot Project was a legislative mandate that should be funded. The motion on funding both items carried. Mr. Wickenhauser asked for clarification on whether CRSA was included in Ms. Holmes original motion and she indicated that she intended for it to be, but inadvertently left it out. A motion was made to fund an increase for CRSA and it passed. Jesse Ruiz asked for $100,000 to be added for Autism. An additional $1,000,000 was added for Arts and Foreign Language. Both items were voted on and it was agreed that they would be added to the budget.

Mr. Wickenhauser was directed to complete the schedule of these additions to the budget and to prepare it for distribution at the plenary Board meeting the next day.

6. Adjournment.
A motion to adjourn was made and seconded. It passed unanimously.
TO: Finance & Audit Committee

FROM: Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: Tracking & Reporting SBE Budget Programs to Assist School Districts

Materials: None

Staff Contact(s): Ronny Wickenhauser, Division Administrator, Budget and Financial Management and Debbie Vespa, Division Administrator, School Business and Support

Purpose of Agenda Item
To provide a forum for discussing alternatives in evaluating school district performance. One objective would be to examine the link between funding and achievement of educational outcomes.

Relationship to/Implications for the State Board’s Strategic Plan
This agenda item has linkages to many of the State Board’s goals and underlying initiatives.

Expected Outcome(s) of Agenda Item
This agenda item is for informational purposes.

Background Information
At prior Board meetings, there has been a discussion of integrating ISBE support of districts and programs to fairly weigh results and target resources across the agency with effective focus and impact. The Board Finance and Audit Committee has requested time to engage in a discussion of alternatives in developing a scorecard to track and report Federal and State programs and funding provided to the districts.

Various existing reports are used to track financial and educational program results. The object is to combine them into a scorecard to monitor performance.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
N/A

Pros and Cons of Various Actions
N/A

Superintendent’s Recommendation
N/A

Next Steps
Staff will take direction from the Board over the next few months to develop a report format that marries financial and programmatic results in a simple scorecard.
TO: Finance & Audit Committee

FROM: Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: FY07 Budget Update

Materials: Handouts will be provided at the committee meeting. It is anticipated that they will include:
- Comparison of ISBE’s FY07 Budget Request to the Governor’s FY07 Budget Request
- Updated General State Aid calculations
- Schedule of appropriation hearings

Staff Contact(s): Ronny Wickenhauser, Division Administrator, Budget and Financial Management

Purpose of Agenda Item
To provide an update on the FY07 budget.

Relationship to/Implications for the State Board’s Strategic Plan
This agenda item has linkages to many of the State Board’s goals and underlying initiatives.

Expected Outcome(s) of Agenda Item
This agenda item is for informational purposes.

Background Information
The State Board of Education made an FY07 budget request at its January meeting.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
N/A

Pros and Cons of Various Actions
N/A

Superintendent’s Recommendation
N/A

Next Steps
Staff will continue to provide updates on the progress of the FY07 budget to the Finance and Audit Committee.
TO: Finance & Audit Committee

FROM: Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: Update on School District Financial Condition -- Update on School Districts Annual Financial Reports (AFRs)

Materials: None

Staff Contact(s): Debby Vespa

Purpose of Agenda Item
To update and discuss with the Finance and Audit Committee districts’ submittal of their Annual Financial Reports (AFRs)

Relationship to/Implications for the State Board’s Strategic Plan
The agenda item is linked to Goal 3, Priority II – Develop a suite of services and interventions for assisting Illinois’ most chronically fiscally distressed school districts (along with their Financial Oversight Panels and School Finance Authorities) to resolve their financial crises.

Expected Outcome(s) of Agenda Item
No expected outcomes.

Background Information
Each year school districts are required to submit their AFR to the Illinois State Board of Education. AFRs depict the financial position of the districts as of June 30. The fiscal year 2005 annual financial reports were statutorily due to ISBE by November 15, 2005 unless they received approval from their respective Regional Superintendent for an extension until December 15, 2005. With the receipt of the AFRs, ISBE can begin to assess the financial condition of the districts and report financial data to USDE.

As of February 10, 2006 we have received 875 of 881 AFRs at ISBE. Chicago School District 299’s AFR is not statutorily due until February 15, 2006 and they have begun to communicate information to ISBE and are on target for submittal. We continue to work with districts that have outstanding AFRs and anticipate we should receive a few more during the week of February 13, 2005. School Business and Support Services will be required to close the file for receipt of AFRs within the next week as to finalize a prepare the date to allow for presentation of the Financial Watch List to the State Board at their March meeting. School districts with outstanding AFRs at the time the file is closed will be placed on the Financial Watch List. This has been communicated to the respective District Superintendents and their audit firms.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
Policy Implications: None
Budget Implications: None
Legislative Action: None
Communication: None
**Pros and Cons of Various Actions**
None

**Superintendent’s Recommendation**
No recommendations are necessary.

**Next Steps**
ISBE Staff will continue work with school districts to obtain all the annual financial reports prior to the closing of the file. Data analysis will be conducted and the Financial Watch List will be finalized.
TO: Finance & Audit Committee

FROM: Linda Riley Mitchell, Chief Financial Officer

Agenda Topic: Update on School District Financial Condition -- Update on Financial Watch List

Materials: The School District Financial Profile Brochure

Staff Contact(s): Debby Vespa

Purpose of Agenda Item
To update and review with the Finance and Audit Committee approval process of the Financial Watch List.

Relationship to/Implications for the State Board’s Strategic Plan
The agenda item is linked to Goal 3, Priority II – Develop a suite of services and interventions for assisting Illinois’ most chronically fiscally distressed school districts (along with their Financial Oversight Panels and School Finance Authorities) to resolve their financial crises.

Expected Outcome(s) of Agenda Item
No expected outcomes at this month’s meeting.

Background Information
Each year within the Annual Financial Reports districts’ Financial Profile scores are calculated and, dependent upon the calculated score districts’ are placed within one of four financial assessment categories: Financial Recognition, Financial Review, Financial Early Warning, or Financial Watch. In March of each year, the State Board approves the Financial Watch List.

School Business and Support Services are reviewing and finalizing the Financial Profile scores calculations with school districts and anticipate they will be bring the Financial Watch List before the State Board at their March meeting for their approval.

Analysis and Implications for Policy, Budget, Legislative Action and Communications
Policy Implications: None
Budget Implications: None
Legislative Action: None
Communication: None

Pros and Cons of Various Actions
None
**Superintendent’s Recommendation**
No recommendations are necessary.

**Next Steps**
Data review will be finalized and the Financial Watch List will be brought forth before the State Board for their approval at the March 2005 Board meeting.
The School District
Financial Profile

Illinois State Board of Education

March 2005
Pursuant to the authority provided by Section 1A-8 of the School Code, the Illinois State Board of Education (ISBE) has developed the “School District Financial Profile” to help monitor the finances of school districts and identify which are in or are moving toward financial difficulty. This system has replaced the “Financial Watch List and Financial Assurance and Accountability System (FAAS)” that had been used for the assessment of a school district’s financial health. The major change in methodology is the FAAS utilized only one financial indicator – the Fund Balance to Revenue Ratio. The Profile includes that indicator plus four additional measures to expand our capability to accomplish a truer risk assessment. The five indicators are individually scored and weighted in order to arrive at a Total Profile Score and applicable designation.

The School District Financial Profile has been developed with the invaluable assistance of school superintendents, school business administrators, financial advisors, lawyers, and bond brokers throughout the state as well as major interest groups such as IASBO, IASA, ED-RED and LUDA. Influenced by their feedback, we have been able to make significant enhancements in systematically analyzing/monitoring finances of all Illinois public school districts.

The following provides a detailed explanation of each indicator. It is the Total Profile Score that we believe best determines a district’s financial strengths or weaknesses. This document will also lead you through the four applicable designations, Financial Recognition, Financial Review, Financial Early Warning, and Financial Watch.

Financial Profile Indicators:

1. **Fund Balance to Revenue Ratio** – This indicator reflects the overall financial strength of the district. It is the result of dividing the ending fund balances by the revenues for the four operating and negative IMRF/SS funds. Operating Funds are the Educational, Operations and Maintenance, Transportation and Working Cash Funds.

2. **Expenditure to Revenue Ratio** – This indicator identifies how much is expended for each dollar received. It is computed by dividing total expenditures for the Educational, Operations and Maintenance, and Transportation Funds by the revenues for those same funds plus Working Cash. The calculation also takes into account remaining balances of these funds at the end of the year if a district is scoring low for their Expenditure to Revenue Ratio. This is especially beneficial to districts that have saved for projects and are now incurring the expenditures for them or who have healthy fund balances even after spending a portion of their savings.

3. **Days Cash on Hand** – This indicator provides a projected estimate of the number of days a district could meet operating expenditures provided no additional revenues were received. It is computed by dividing the total expenditures of the Educational, Operations and Maintenance, and Transportation Funds by 360 days to obtain an average expenditure per day. Then the total cash on hand and investments for the same funds plus working Cash are divided by the average expenditures per day. As with the Fund Balance to Revenue Ratio and the Expenditure to Revenue Ratio, the Working Cash Fund has now been incorporated into the calculation.

4. **Percent of Short-Term Borrowing Ability Remaining** – Districts often incur short-term debt due to several factors (i.e., delays in receipt of local revenues, etc.). For this indicator, the sum of unpaid Tax Anticipation Warrants is divided by 85% of the Equalized Assessed Valuation (EAV)
multiplied by the sum of the tax rates for the Educational, Operations and Maintenance, and Transportation Funds.

5. **Percent of Long-Term Debt Margin Remaining** – A district often incurs long-term debt for major expenditures such as buildings and equipment. This total is derived by the product of the district’s EAV multiplied by its maximum general obligation debt limitation, reduced by any outstanding long-term debt.

**Total Profile Score:**

Each indicator is scored in order to obtain a district’s overall *School District Financial Profile* Score. This overall score is computed for the most current year’s financial data.

Each indicator is calculated and the results are slotted into a category of a four, three, two, or one with four being the highest and best category possible. Each indicator is weighted and the weighted indicators’ scores are summed to obtain a district’s overall “Total Profile Score”.

**Fund Balance to Revenue Ratio (has a weighting of 35%)**
- Category 4: Greater or equal to 25% [lowest risk]
- Category 3: Less than 25% but greater or equal to 10%
- Category 2: Less than 10% but greater or equal to 0%
- Category 1: Less than 0% [highest risk]

**Expenditures to Revenue Ratio (EXRV) (has a weighting of 35%)**
- Category 4: District is spending $1.00 or less for every dollar they are receiving [lowest risk]
- Category 3: District is spending more than $1.00 to $1.10 for every dollar they receive
- Category 2: District is spending more than $1.10 to $1.20 for every dollar they receive
- Category 1: District is spending more than $1.20 for every dollar they receive [highest risk]

If the resulting calculation places a district in category 1 or 2, and the Fund Balance to Revenue Ratio (FBRR) is a category 4 then the following calculation is completed:

- (FBRR - .1) divided by (EXRV – 1.0)
- If the result is greater than 2, then the Expenditures Revenue score is assigned a 3
- If the result is greater than 1 but less than 2, then the Expenditure Revenue score is assigned a 2

**Days Cash on Hand (has a weighting of 10%)**
- Category 4: At least 180 days cash on hand [lowest risk]
- Category 3: Less than 180 days cash on hand to at least 90 days cash on hand
- Category 2: Less than 90 days cash on hand to at least 30 days cash on hand
- Category 1: Less than 30 days cash on hand [highest risk]

**Percentage of Short-Term Borrowing and Long-Term Borrowing Remaining (Short-term and Long-term borrowing each has a weighting of 10%)**
- Category 4: Greater than or equal to 75% debt margin remaining [lowest risk]
- Category 3: Less than 75% but at least 50% debt margin remaining
Category 2  Less than 50% but at least 25% debt margin remaining
Category 1  Less than 25% debt margin remaining [highest risk]

The Total Profile Score is the sum of the five weighted scores. The highest score a district may receive is a 4.00 and the lowest score is 1.00.

Your School District Financial Profile Designation:

If a district receives a score of **3.54 - 4.00**, they are in the highest category of financial strength - **Financial Recognition**. These districts require little or no review or involvement by ISBE unless requested by the district.

If a district receives a score of **3.08 - 3.53**, they are in the next highest financial health category of **Financial Review**. Districts in this category will be given a limited review by ISBE, but they will be monitored for potential downward trends. Staff will be assessing the next year’s school budget for negative trends.

If a district receives a score of **2.62 - 3.07**, they are placed in the category of **Financial Early Warning**. ISBE will be monitoring these districts closely and offering proactive technical assistance (e.g., financial projections and cash flow analysis, etc.) These districts will also be reviewed to determine whether they meet the criteria set forth in Article 1A-8 of the **School Code** to be certified in financial difficulty and possibly qualify for a Financial Oversight Panel.

If a district receives a score of **1.00 - 2.61**, they are in the highest risk category of **Financial Watch**. As with the Financial Early Warning districts, ISBE will be monitoring these districts very closely and offering them technical assistance including, but not limited to, financial projections, cash flow analysis, budgeting, personnel inventories, and enrollment projections. These districts will also be reviewed to determine whether they meet criteria set forth in Article 1A-8 of the **School Code** to be certified in financial difficulty and qualify for a Financial Oversight Panel.

Your comments regarding your district’s finances are an integral part of the profile. While the Profile is generated from the District’s Annual Financial Report (AFR), there are often extenuating circumstances outside of the School Administration’s control which have a financial impact on the district. It is within the Comments portion of the Profile that districts are afforded the opportunity to verbally and publicly convey what has transpired in their district which may have or will impact their Total Profile Score. This will allow for the explanation of significant local financial issues such as cash versus accrual accounting implications and timing of revenue receipts versus expenditures incurred for unique circumstances such as school construction projects. In this capacity, the Profile can be implemented as a communication vehicle for a district’s constituents.

We will present Total Profile Scores with the applicable School District comments at our April Board Meeting. Your Profile and Comments will then be listed on our website, [www.isbe.net/sfms/p/profile.htm](http://www.isbe.net/sfms/p/profile.htm) and posted individually on our application, [http://webappsnet1.isbe.net/finprofile/profile.aspx](http://webappsnet1.isbe.net/finprofile/profile.aspx).

For further questions regarding **The School District Financial Profile**, contact Lou Ferratier or Ken Wargo of the School Business and Support Division at the Illinois State Board of Education at (217) 785-8779 or by email at [lferrati@isbe.net](mailto:lferrati@isbe.net) or [kwargo@isbe.net](mailto:kwargo@isbe.net).