



Toolkit for Boards of Education Financial Health & Other Questions

Financial Health Questions

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Financial Health Indicators

It is not only enough to review and understand the financial statements of a school district, but to also know if the district is actually fiscally fit. This can be determined by looking at certain metrics within the financial statements, looking at these metrics over time and comparing metrics to other school districts in the province.

Statement of Financial Position Metrics

- ❑ **Changes in Net Assets (Net Debt)** – Understand how this is increasing or decreasing over time. Also, remember that a Net Debt position does not necessarily mean financial difficulty, but it is important to understand the meaning behind the numbers. Amortization of Tangible Capital Assets could be responsible for a Net Debt position.
- ❑ **Liquidity** – is measured by taking Financial Assets that are current in nature, less Liabilities that are current in nature. A liquidity ratio of greater than one is desirable. This means that the district has the ability to pay current liabilities as they are due. A liquidity ratio of less than one indicates that the district may have to borrow to meet short term obligations. Liquidity = flexibility. A higher liquidity ratio means that the district has the ability to better respond to rapidly changing circumstances.
- ❑ **Cash Asset Ratio** – is calculated by adding Cash and Cash Equivalents and dividing by total Current Liabilities. The Office of the Comptroller General of BC indicates that the optimal ratio is greater than 1.
- ❑ **Accumulated Surplus from Operations and Expenditures** – is a measure that takes Accumulated Surplus from

Operations (ASO), which is the school district's accumulated revenue in excess of expenses over time, and is compared to expenditures to determine the district's ability to react to emergent situations and the ability to fund special initiatives. Should the Accumulated Surplus from Operations include School Generated Funds, the School Generated Funds could be deducted prior to making this calculation.

Looking at a school district's financial health metrics over time will help you determine if the district is heading in a financial pattern that may put the district at risk of achieving its strategic priorities in the future. We want to make sure we are taking care of today's students.

- ❑ **Working Capital Per Student** – Working capital is the amount of money available after discharging all of the district's liabilities and is calculated by taking financial assets less liabilities. Working capital allows the district to meet emergent needs and new initiatives. Working capital is compared to student enrolment to determine the amount of funds available per student that could be spent in the future.

- ❑ **Changes in Capital Assets** – Compare the net book value to historical cost of capital assets. School district's build new school facilities and purchase vehicles and equipment. The cost of these items when built or purchased is called the historical cost. These capital assets are depreciated (amortized) over their useful lives. For example, a maintenance truck purchased is considered to have a useful life of 10 years; therefore the value will be amortized over a ten year period. It is expected that a vehicle will likely have

to be replaced after ten years (although it may still remain in service for an additional 5 years). The percentage of Net Value to Historical Cost illustrates how new a district's assets are. A relatively high % indicates newer assets, whereas a lower % indicates older assets. The concern with a low ratio is that capital assets may not be replaced on a regular basis, which may be an indication of potential health and safety issues, or a significant cost in the future to replace capital assets.

- ❑ **Capital Reserves per Student** – School districts put money into capital reserves for the future replacement of capital assets. Capital Reserves per student indicates the amount of capital reserves on a per student basis.

Statement of Operations Metrics

A review of annual operations:

- ❑ **Changes in Revenue over time** – a review of how revenue has decreased or increased in the last 5 years.
- ❑ **Changes in Expenditures over time** – a review of how expenditures have decreased or increased in the last 5 years.
- ❑ **Changes in yearly surplus (deficit) from operations** – has the district had large swings, has this been deliberate or has there been special circumstances leading to these variations from year to year.
- ❑ **Changes in the % of operational costs** – review of the % of operational costs spent on salaries and benefits and how fixed versus variable costs have changed in areas such as Operations and Maintenance and Student Transportation.

The above metrics should be reviewed as part of the year-end financial statements.

Questions to ask about financial information

There are a number of questions that could be asked about financial information that is presented here. Some of these questions will be related to exercising fiduciary duty, related to the financial health of the school district, and other questions will relate to understanding the numbers presented in the financial statements.



Year-End Financial Statements

Statement of Financial Position

- ✓ Why is there a significant decrease in the school district's cash position from the previous year?
 - ✓ Is restricted surplus fully supported by financial assets?
 - ✓ Why is there an accumulated operating deficit? Is there a plan to extinguish the deficit within one year? What is the plan?
 - ✓ Why does the school district have Net Debt? Is there a long term concern to the operation of the school district?
 - ✓ Are there adequate operating, special purpose and capital funds for future projects and services, or will borrowing be required (either short term or long term)?
- ✓ What is included in Local Capital? What plans are in place for these funds?
 - ✓ Are there sufficient resources to replace tangible capital assets nearing the end of their useful life?
 - ✓ Why is Deferred Revenue such a large dollar value? What does Deferred Revenue consist of?
 - ✓ Why is Unearned Revenue such a large dollar value? What does Unearned Revenue consist of? How does Unearned Revenue differ from Deferred Revenue?
 - ✓ What is in the Accumulated Surplus, and what portion of the surplus is 'unrestricted'?

- ✓ Why does the Statement of Financial Position not balance?
- ✓ Are there any investments that may be at risk of losing their value? Are our investments invested in accordance with our investment policy?
- ✓ What is included in Accounts Receivable? Are there significant amounts owed to the school district that may be at risk?
- ✓ Is the school district involved in any litigation or potential litigation that may have an impact on future operations?
- ✓ Is there a plan in place for the use of Accumulated Operating Surplus? Are there future operating implications to take into consideration?
- ✓ What is Public Sector Accounting Standards (PSAS) and how are these different from prior accounting standards used in the financial statements?

Statement of Operations

- ✓ Why is there a significant variance to budget in revenues and/or expenditures for this year?
- ✓ What is Other Revenue and rentals and leases revenue comprised of?
- ✓ Is spending on Administration reasonable given the nature of the school district, and how does spending compare to other school districts?
- ✓ Are there any contractual obligations that may impact future operations?
- ✓ What is the amount of School Generated Funds (SGF)? How has the reporting of SGF changed and why?

Auditor Communication

- ✓ What is a "clean" audit opinion and is the Audit Report a clean opinion? If not, and is a qualified opinion, what steps is management taking to avoid the qualification in future years?
- ✓ Are there any issues or concerns in the Auditor's Management Letter that need to be mitigated or addressed? How is management planning to address these issues and concerns?
- ✓ What is your assessment of the internal control systems in place?
- ✓ Have all audit recommendations been addressed by management and if not, why not?

Quarterly Updates

- ✓ What is the explanation of significant variances?
- ✓ Are there variances that are beyond the school district's control? (i.e. in year funding adjustments?)
- ✓ What assumptions are projections to year-end based upon? Are they realistic?
- ✓ Is there need for action related to the school district's operations to address any variances or projections to year-end?
- ✓ What budget information is being used for comparative purposes and why?
- ✓ What is the status of capital projects? Are these projects on time and within budget? Are there unsupported costs that the school district needs to cover and if so from what source of funds?

Financial Health Indicators

- ✓ Does our Statement of Operations metrics indicate a decline in financial health that needs to be addressed? Do we have a plan in place to improve the financial health of the school district?
- ✓ How are we planning for the replacement of capital assets? What is the status of our capital reserves?
- ✓ Is there a concern with a continuous declining trend in Accumulated Surplus from Operations? If we have a continuous increasing trend in Accumulated Surplus from Operations, is there a plan in place to utilize these funds?
- ✓ How does our district compare to the financial health of other similar districts?

Questions that Audit Committees (or Boards of Education) should be asking

Listed below are some questions that an audit committee (or a Board of Education) should be asking to ensure they are appropriately providing fulsome fiscal oversight for the school district.

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Suggested questions to ask your Auditor

1. What were the objectives of your audit?
2. Which areas did you emphasize in your audit? Why?
3. To what extent did you assess the school district's system of internal control?
4. How did any recent actions by the school district, such as restructurings, changes of strategy, changes in financing arrangements, or other unusual transactions, affect your audit or your report?
5. How did your audit address the district's computer systems and applications?
6. How did you coordinate your work with the district's staff?
7. Did you visit any district location other than the central office this year? If so, how did you determine which locations to visit and when?
8. What are your responsibilities with regard to detecting material errors, fraud and illegal acts?
9. Did the actual scope of the audit differ from pre-audit plans? Why?
10. Did management impede, restrict or limit the scope of the audit in any way?
11. Did management cooperate during the course of the audit and were you provided with appropriate access to management?

Questions to ask your Management team

1. How does the school district invest excess funds, and what is its investment philosophy regarding yield and risk?
2. How does the average age of accounts receivable at year-end compare with the preceding year?
3. How is the allowance for doubtful accounts determined? Is the collectibles of any large individual amount in question?
4. Are any significant or unusual amounts due from officers or employees of the school district?
5. How does the net book value of assets compare to historical cost? Is there a workable plan in place to replace aging assets?
6. What is our risk profile as an organization? What is the school district doing to mitigate any risks?

Questions to ask either the Auditor and/or Management team

1. What are the school district's financial reporting requirements, and what is the expected timetable for meeting them?
2. Did any accounting policies change significantly this year? What was the effect of the change?
3. Do significant accounting policies continue to be appropriate? Are the assumptions underlying them still valid?
4. Were there any disagreements between management and the auditors on accounting methods or principles? Were they satisfactorily resolved?
5. How do management and the auditor assess materiality of potential misstatements?

Points of focus:

- Quantitative factors
 - Considerations relating to individual vs. aggregate misstatements – key line items
 - Consideration of whether authoritative literature exists supporting the accounting in question
6. Were significant adjustments made to the financial statements as a result of the audit?
 7. Does the school district have in place the appropriate financial accounting and reporting processes necessary to allow the Board of Education and senior staff to plan appropriately?
 8. In connection with the auditor's summary of uncorrected audit misstatements, are there significant matters we should discuss?

Points of focus:

- Nature and magnitude of items and how they arose
- Types of differences (i.e. known or “hard” errors vs. differences in estimates between management and auditor)
- Noticeable trends, such as recurring items from year to year, bias to overstatement, understatement
- Areas of disagreement, such as where management considers it's accounting to be correct and in accordance with GAAP and specific accounting policies communicated by Government
- Intentional misstatements
- Management's rationale for not recording (e.g. high cost to correct)
- Management's and auditor's rationales

for concluding items are immaterial

- Items with potential to be material in the future
- Management's plans to eliminate or minimize items and misstatements
- Unresolved recommendations from the audit or internal control weaknesses

9. How do the financial statements and underlying accounting compare with the prior year in terms of consistency?

10. Have there been major business transactions or events requiring significant accounting judgements as to financial statement accounting and disclosure?

Points of focus:

- Unusual or complex transactions
- Litigation – asserted and un-asserted claims
- Non-compliance with laws and regulations

- Related party transactions
11. Were other significant accounting decisions made in the current year? Are alternative accounting practices being proposed or considered that should be brought to the committee's attention?

Points of focus:

- Significant reserves established or reversed
- Large or unusual deferral of costs or accrual of liabilities
- Decisions regarding the proper classification of items, such as operating vs. non-operating, ongoing vs. discontinued operations
- Gross vs. net presentations on the statement of operations
- Adjustments related to prior periods
- Changes in accounting policy, such as for revenue recognition

- Changes in accounting methods
- Changes in accounting estimates or underlying assumptions

12. Were there serious problems in preparing the financial statements?

Points of focus:

- Internal control problems
- Systems problems
- Insufficient staff or staff turnover in the financial function

13. How does the school district communicate with the general public? What does it do to ensure the quality of these communications?

14. Have outside parties voiced concern about the school district's accounting practices?

15. Are there any other matters that should be disclosed regarding the quality of financial reporting?

20 QUESTIONS FOR BOARDS OF EDUCATION TO ASK ABOUT BUDGET DEVELOPMENT AND EXPENDITURE MONITORING

This is a summary of good practice principles and elements of budgeting and expenditure monitoring. Boards of Education may find this useful as a self-assessment tool to gauge the level of its practices, and areas where improvements may be needed.



Questions	Answers and Follow-up
Developing and communicating strategic plans	
<ol style="list-style-type: none"> 1. Is our school district effectively monitoring the needs of the community and changes in our environment? 2. How well have we identified our opportunities and challenges in delivering on our mission? 3. Have we developed the right blend of goals and strategies to be successful? 4. Are we engaging our stakeholders effectively in our strategic planning efforts? 5. Have we properly approved, communicated and adopted our Strategic Plan? 	

Developing appropriate budgets	
<ol style="list-style-type: none"> 6. Do we have a sound process for preparing and adopting our annual budget, including stakeholder consultations? 7. Have we developed detailed operational plans and evaluated our financial risks and mitigation strategies? 8. Have we made and communicated our required budgeting decisions? 9. Has management demonstrated that our budget is a consolidation of all approved responsibility centre budgets? 	

Monitoring and reporting on budget performance	
<ol style="list-style-type: none"> 10. Are we clear about the roles and responsibilities for the budgeting process? 11. Can we demonstrate that management and finance staff have received adequate training, are competent, and set up to succeed? Is their performance appropriately monitored? 	

<p>12. Are we getting timely, reliable information on spending compared to plans?</p> <p>13. Are we getting timely and reliable information on actual and forecasted costs, including spending pressure points?</p> <p>14. Are we getting budget reports in advance of meetings that help us monitor management's financial performance?</p> <p>15. Are we set up to make timely decisions to adjust operational and capital spending plans as required?</p> <p>16. Are we effectively engaging and communicating with our stakeholders about our budget performance and rationale for changes?</p>	
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Effective spending controls	
<p>17. Can management demonstrate to us that controls in place for information provided on actual costs is accurate, and reflects the most recent transactions?</p> <p>18. Do we have confidence that the controls over expenditures, especially areas with the highest budgetary impact, such as salaries, are adequate and effective?</p> <p>19. Are we comfortable with the current checks and balances to limit expenditure authorities, with the right balance of control and flexibility?</p> <p>20. Can management demonstrate to us that there is adequate segregation of duties in the district to reduce the chance of fraud and errors?</p>	

List of Common Terms

Accounts Payable – includes amounts owing to external parties for goods and services where a liability exists, but has not yet been paid. Accrued liabilities are also included where payment for goods or services is not required until future reporting periods.

Accounts Receivable – funds owing to the school district.

Accumulated re-measurement gains and losses – the change in value of assets due to current exchange rates or fair market value.

Accumulated Surplus – the accumulated surplus is the primary indicator of the financial resources that the school district has available to provide future services. It consists of both cash and non-cash components. It is achieved by spending less than the revenue it earns.

Accumulated Surplus from Operations – both unrestricted and restricted operating surplus funds.

Amortization – the systematic allocation to expenses of the historical cost of a tangible capital asset over its useful life.

Unspent Deferred Capital Revenue and Local Capital – funds set aside for

future capital purchases to be funded by the school district.

Cash and Cash Equivalents – cash and short term investments (held less than three months) that have insignificant risk for change in value.

Work in Progress – tangible capital assets under construction at the end of the fiscal year that have not been put into service, such as new school facilities.

Debt – includes debt incurred directly by the district. Debt includes short term borrowing or lines of credit to meet current operating expenditures, debentures, capital loans, mortgages, and capital leases.

Deferred Revenue – includes funds received from external parties for capital or operating purposes that are restricted for a particular use.

Employee Future Benefit Liabilities – includes post-employment benefits, compensated absences (such as accrued sick, holiday and banked time leave) and termination benefits.

Endowments – cash or investments held in which the principal may not be expended as stipulated by the contributor.

Financial Assets – these are comprised of cash or items that will eventually be turned into cash and be used to discharge the district’s liabilities or provide resources for future programs and services.

Liabilities – amounts owing by the school district.

Net Financial Assets (Net Debt) – Net Financial Assets represents the financial resources available after discharging the school district’s liabilities. In many cases a school district will show a Net Debt position on the statement of financial position. A net debt position does not necessarily mean the school district is in financial difficulty.

Non-Financial Assets – represents assets that are used in the operation of the school district for the provision of services and are not readily converted to cash resources.

Notes to the Financial Statements – provides additional required information to assist users of the financial statements in understanding the basis of preparation of the financial statements and further enhance the understanding of the financial position of the school district.

Other Non-Financial Assets – other assets that are not readily convertible to cash such as inventories held for consumption (ie. supplies).

Portfolio Investments – Investments that are held for longer than 3 months. May include equity or debt instruments.

Prepaid Expenses – goods and services that have been purchased for a subsequent financial period and are not readily converted to cash resources.

Public Sector Accounting Standards (PSAS) – is a set of financial reporting standards to ensure consistency of reporting across government entities. The SUCH sector (Schools, Universities, Colleges, and Hospitals) are required to report financial information under these standards.

Statement of Operations – reports on revenues, expenses and the results of the fiscal year. This statement includes budget figures, current year and prior year(s) results.

Schedule of Capital Operations – this schedule provides information on externally restricted capital revenue provided to the school district for the acquisition of tangible capital assets where there is an obligation of the school district to acquire and use the asset for a substantial portion of its life.

Schedule of Changes in Accumulated Surplus (Deficit) – this schedule provides information about the school district’s activities that resulted in an increase or decrease in accumulated

surplus. It breaks down all the components of the accumulated surplus.

Statement of Cash Flows – this statement identifies where cash came from and where it is used. It highlights operating, capital, financing and investing transactions that impacted the cash of the school district.

Statement of Changes in Net Financial Assets (Debt) – this statement presents information to understand the changes in financial assets and liabilities.

Statement of Financial Position – is a statement that reports on the financial and non-financial assets that the school district owns or controls, liabilities which are amounts owed by the school district, and the accumulated surplus which remains after the assets have been used to meet the liabilities.

Schedule of Operating Operations – this schedule provides a summary of revenues and expenses allocated to programs by type and expenditures by type for each program area.

Statement of Remeasurement Gains and Losses – this statement provides the changes in value of financial assets and liabilities due to the remeasurement of their value to current exchange rates or fair value.

Schedule of Special Purpose Operations – this schedule provides a

summary of revenues and expenses allocated to programs where the revenues received are a “restricted contribution”. Restricted contribution means a contribution that is subject to a legislative or contractual stipulation or restriction as to its use other than a contribution or part of a contribution that is of, or for the purpose of acquiring, land.

Tangible Capital Assets – is the cost of assets less accumulated amortization of assets. This represents the assets’ net book value to the school district.

