CHAPTER 6

School financing and budgets

Citizens of a school district expect efficiency in the operation of their schools, and they expect their board and administrators to stand accountable for use of the district's money. The community expects that its board will exercise the proper level of oversight to protect public assets and manage the school district effectively.

There is more to a board's role in fiscal management than oversight responsibilities. It is up to a board to set priorities that are reflected in the budget. How a district allocates its resources will determine how likely it is that it will realize its goals. In fact, how a district uses its resources sends a message to staff and constituents as to how serious a board is about its goals. The old adage about "putting your money where your mouth is" may be a tired one, but it applies directly in this area.

In this chapter, you'll learn the nuts and bolts of the educational finance structure. At the end of the chapter, read about the benefits of strong communication between your board and your auditor. You'll also learn 10 pitfalls to avoid when developing your budget.

THE BOARD'S RESPONSIBILITY

In a business enterprise, making money is the prime objective. The service, product or commodity is used as a means to this end. In public schools, however, the profit motive does not play a role. The principal responsibility of a board is to deliver a well-rounded education to district students. A board has the responsibility to manage district financial resources wisely for this purpose. If a board is to fulfill its primary responsibility, it may also need to take steps to secure adequate resources to finance the needed instruction in the district.

Community support for adequate financing of education programs often requires a board to exert leadership in promoting understanding of the district's needs. Because the state and federal governments are also involved in financing schools, boards must also communicate the needs of their schools to state and federal lawmakers.

Often school boards feel they have little control over budget decisions. Fundamental operating costs are long established and difficult to alter. Community groups, employee organizations and others have learned to exert political influence on the budget process. When money is tight, people defend their turf and protect their programs from cuts. When money is available for growth or improvement, the same people want a piece of the new resources as well. School boards often find themselves caught in the middle of these political tugs-of-war.

It is natural to want to be responsible to constituents, but school boards that have established clear goals and

TOP 10 THINGS YOU CAN DO WRONG IN DEVELOPING YOUR BUDGET

1. Forget to hold the public hearings required by law.
2. Use a fund balance you don't really have.
3. Use a one-time only revenue more than once.
4. Overlook something that is small now but will be big next year.
5. Overestimate revenue.
6. Underestimate cost increases.
7. Adopt a budget without an adequate contingency.
8. Forget to certify your mill levy to the county by the deadline.
9. Fail to adopt the budget.
10. Use an enrollment forecast from anyone who doesn't have to live with the adjustments if the forecast is too high.

Sources: Ken Hoover, former chief operating officer, Jefferson County Schools; Glenn Gustafson, chief financial officer and deputy superintendent, Colorado Springs District 11 priorities based on input from all the stakeholders will focus on making spending decisions that support the shared vision. Guidance from the National School Boards Association's "Key Work of School Boards Guidebook" ©2015 underscores the importance of aligning the board's vision for improved student achievement with available resources.

SOURCES OF REVENUE

The revenue in school district general funds comes from several sources. State revenues now account for approximately 62 percent of the total general fund operating revenues of Colorado school districts. Approximately 38 percent of school districts' general fund revenues comes from local sources. Local property taxes account for the major portion of the local revenues, with specific ownership taxes, delinquent taxes, penalties and interest and other local revenue comprising the remainder. The federal contribution to school finance is approximately 11 percent of school districts' total operating revenues, but most of the federal money flows to school districts through the state.

State aid, allocated annually through the Public School Finance Act, is the primary source of state revenue for school districts. Most of the remaining state revenue funds categorical programs, which include special education, career and technical education, English language proficiency, gifted education and transportation.

Federal revenue is generally provided for specific programs. Examples of these programs include vocational education, special education, compensation for the impact of federal facilities in the district and funding that provides assistance to districts for at-risk students. Use of federal revenues is strictly regulated by federal law.

PUBLIC SCHOOL FINANCE ACT OF 1994

The major allocation of state funds for financing schools comes through the Public School Finance Act of 1994. [C.R.S. § 22-54-101 et seq.] Under this act, state and local general fund revenues are distributed to school districts on a per pupil basis. Each district's per pupil funding amount includes a base per pupil amount and additional amounts based on characteristics, or "factors," applicable to the district, such as cost of living, the number of at-risk pupils in the district and the size of the district. This additional funding of the factors is designed to ensure that each school district has the resources to provide an adequate educational opportunity to every student regardless of local conditions.

SCHOOL FINANCE ACT IN 2015–16

In fiscal year 2015-16, the School Finance Act is expected to provide $6.2 billion in total program funding to school districts. The state will provide $4.1 billion, while local property and specific ownership taxes are expected to provide $2.1 billion.

Source: Legislative Council Staff

The total amount of funding received by a district under the School Finance Act – state aid and local property tax – is frequently referred to as "total program." The state and local sharing under the Finance Act is intended to offset vast disparities in local school districts' ability to raise money from local property tax.

Local tax rates against property are always computed in mills. A mill is one one-thousandth of a dollar of taxable value (.001). For example: One mill produces $1 in tax income for every $1,000 of the assessed (taxable) value of the property it is levied against. A mill levy is the rate of taxation based on dollars per thousand of taxable value. About 30 years ago, local taxes actually funded the bulk of total program funding. However, since that time, a complex interplay between several state statutory and constitutional tax and spending laws has significantly limited the amount of revenue generated by local property taxes.

The state aid provided to a school district is intended to make up the difference between the amount of the total program funding set by the Finance Act and the amount raised by local property taxes. State aid varies from district to district to ensure that each district, regardless of local property values, receives the total program funding set by the formula in the Finance Act.

It is not feasible in this workbook to detail the provisions of the Finance Act. Central concepts from the law include:

- The formula by which "factor funding" is calculated.
- A procedure to count pupils on Oct. 1 each school district budget year.
- Rules to govern funding special programs such as online education and concurrent enrollment of district students in college courses.
- An allowance for school districts with declining enrollment to average the last five years of enrollment to permit districts to plan and implement any cuts in staff and facilities.
- Authority for school districts to collect revenues in addition to the amounts specified in the School Finance Act, if local voters approve. Voter approval is subject to limitations on when the elections may be held, the language that must appear on the ballot and specified caps on the additional amounts that may be raised.

AMENDMENT 23 AND THE NEGATIVE FACTOR

In the 2000 election, Colorado voters made an important commitment to our public schools by passing Amendment 23 to amend Colorado's Constitution. Amendment 23 was intended to provide a stable and predictable funding base for Colorado school districts. [Colo. Const. Art. IX, Sec. 17.] Amendment 23 requires annual per pupil funding to increase from year to year at a rate no less than the rate of inflation. Similarly, the total funding for the categorical programs funded under the state Finance Act must also be increased each year by at least the rate of inflation.

IN BRIEF: AMENDMENT 23

Amendment 23 requires annual base per pupil funding to increase from year to year at a rate no less than the rate of inflation, and funding for categorical programs must increase each year by at least the rate of inflation.

In each of the last five the school years, the legislature has applied a new "negative factor" to the funding formula in the 1994 School Finance Act. The negative factor defunds part of the "factor funding" required by the funding formula in the 1994 Finance Act. The legislature took this step because falling state revenues as a result of the recent recession required the legislature to use school finance revenues to fund other parts of the state government. After the recession ended, the legislature has been unable to restore these cuts.

The negative factor is based on the belief that Amendment 23 requires the legislature to increase only the base per pupil amount by the rate of inflation each year, and does not require it to increase the per pupil amount determined by the factors. The factors in the Finance Act serve the purpose of providing each local school district the additional funds necessary to ensure every school district can provide an equivalent program for every student regardless of unusual local conditions, such as small size or a high number of at-risk students. Accordingly, by defunding the factors in the Finance Act funding formula, the negative factor effectively destroys the equity as determined by the school finance formula.

In the 2015-16 fiscal year, the negative factor is slightly more than $850 million. This amounts to approximately 15 percent of the funding most school districts in Colorado would receive under the School Finance Act if the negative factor were not applied. In round numbers, a district of 25,000 students loses in 2015-16 approximately $25 million to the negative factor, a district of 10,000 students loses approximately $10 million, and a district of 2,000 students loses $2 million.

Conversely, on a per pupil basis, a district that receives significant additional funding as a result of the factors will lose more money per pupil than a district which relies less heavily on factor funding to compensate for unique local conditions. For example, assuming two districts of about 20,000 students each, in which one has an 80 percent at-risk student population and one has a 20 percent at-risk student population, the negative factor will be approximately $40 per student higher in the district with a higher percentage of at-risk students, reducing overall funding in that district $800,000 compared to the district with the lower at-risk population. This happens because the total per pupil funding, after adjustments of the factors for local conditions, is higher in the district with 80 percent at-risk students and the negative factor is applied as a percentage of total per pupil funding.

In 2015, the Colorado Supreme Court rejected the school finance lawsuit *Dwyer v. Colorado*. The *Dwyer* plaintiffs, a group of school districts and parents, challenged the constitutionality of the legislature's implementation of Amendment 23 in the state constitution and the use of the "negative factor" mechanism.

While the plaintiffs argued the intent of Amendment 23 was to mandate minimum increases in education funding every year, the Supreme Court found those mandatory increases applied only to base funding, not to the factors in the school finance formula that are intended to equalize funding for districts based on size, at-risk populations, cost-of-living and personnel costs.

This means that the legislature has great discretion to annually determine any increase or decrease in education funding as long as the total allocations are at least the base amount from the prior year as adjusted for population growth and inflation.

GALLAGHER AND TABOR

In 1982, Colorado voters added the Gallagher Amendment to Colorado's Constitution to limit increases in residential property taxes. A decade later, voters added the Taxpayer's Bill of Rights (TABOR) to limit state and local taxes and revenues and to impose a broad array of additional limits on government and elections. The specific requirements of Gallagher and TABOR are too lengthy and too complex for this workbook, but here are some of the key effects of these two constitutional provisions on the funding of school finance:

- Since 1992, the interaction of these two constitutional provisions has deeply eroded the local property tax base of school finance. As a result of the unintended effects of this interaction, the state's local taxpayers now pay about 38 percent of the tab for school finance and the state's general fund pays about 62 percent. At the time TABOR was passed, the local contribution and the state contribution were roughly equal at 50 percent each. This shift has required the state to make up for more than $700 million of lost local revenue. This has put additional strains on the state's general operating budget.
- By state statute, the mill levies paid by different school districts had been standardized to be the same in nearly every school district in Colorado at the time TABOR was passed in 1992. Since 1992, the combined effects of TABOR and Gallagher have caused mill levies to fall in wealthy and rapidly growing school districts and to remain high in school districts with low growth and low property values. In addition, as a result of the TABOR and Gallagher, the state legislature no longer has the power to maintain a standard mill levy for all school districts.
- The total revenues collected by the state and local governments could not keep pace with the growth of the economy throughout the 1990s as a result of the restrictions in TABOR and Gallagher. Accordingly, the level of funding for school finance declined, in inflation-adjusted dollars, during the 1990s.

IN BRIEF: LOCAL VS. STATE FUNDING, PRE- AND POST-TABOR AND GALLAGHER

Since the late 1980s, state and local funding for K–12 education has flip-flopped.

Previously, the state's share was about 40 percent; now it accounts for about 60 percent.

The local share once was about 60 percent; now it's about 40 percent.

Bottom line: K–12 education accounts for the largest portion of General Fund spending, and the state is locked into back-filling for local shortfalls.

Source: Joint Budget Committee

EFFORTS TO REFORM COLORADO'S TAX STRUCTURE

As suggested previously, "Colorado's constitutional tax code" – the Gallagher Amendment, TABOR and Amendment 23 together – has caused significant financial challenges for the state. During recessions, these challenges are much greater. The recent "great recession" sharply cut the revenues of this state and nearly every other state in the nation. However, in Colorado, those revenue shortfalls pose special challenges because of the constitutional tax code and how it operates in this state.

CASB actively works with business groups, local government associations and other groups to find solutions for the problems Colorado now faces. CASB welcomes interest and participation from its members in all of these efforts.

SCHOOL BUILDINGS AND GROUNDS

A significant portion of the education dollar is spent on the construction, maintenance and operation of school facilities. A board is responsible for providing adequate educational facilities, keeping them in the proper state of repair and operating them in a manner that ensures the learning experience of students takes place in clean and comfortable surroundings.

Colorado law authorizes boards of education to determine the location of public schools and erect necessary buildings and structures. Major construction projects are generally financed by the sale of bonds, but boards sometimes finance lesser projects using capital reserve funds or other funding arrangements.

IN BRIEF: BONDED INDEBTEDNESS

Bonded indebtedness may be incurred only to:

- Acquire or purchase buildings or grounds
- Remodel or add to any school building
- Construct school buildings
- Equip or furnish buildings
- Improve school grounds
- Fund floating indebtedness
- Acquire, construct or improve a capital asset
- Support charter school capital construction or the charter schools' land and facilities needs. [C.R.S. § 22-42-101.]

Creating bonded indebtedness must be approved at an election, which can only be held in November each year. The process of incurring bonded indebtedness is complex and will require the assistance of competent fiscal agents and bond counsel.

FUNDING OF CAPITAL CONSTRUCTION PROJECTS

Traditionally, school districts have funded school capital construction through the issuance of general obligation bonds, paid back through property tax revenues with only limited assistance from the state. General obligation bonds may be issued only if approved by voters in the school district. Low assessed property values in some districts limit the ability of those school districts to keep up with the capital needs in the district.

The state struggled for several years to find ways to meet the capital needs of school districts unable to meet those needs with local mill levies. In 2008, the state legislature adopted legislation known as "Building Excellent Schools Today" (BEST). The BEST legislation was designed to use the growth in the Public School Fund – money and resources that reside in a state trust fund originally created as a result of federal lands dedicated to Colorado's public schools when Colorado became a state – to create resources for school construction. The money utilized under the BEST legislation is generated from interest earnings, lease payments and mineral royalties earned on the school trust lands and other investments. It is not tax revenue. By using these funds, the state has been able to create a pot of hundreds of millions of dollars to address high-priority school capital construction needs. Under BEST, school districts are expected to bear part of the costs for these construction projects, according to the ability of local taxpayers and the school district.

Districts with the most immediate health and safety needs as a result of the poor condition of their buildings are the top priorities for supplemental assistance from the state. The state program has distributed $800 million to high-needs school districts around the state. At this time only limited funds are available through BEST, but additional funds may be available at some time in the future.

Most school districts still must rely primarily on traditional sources of funding for school construction or other creative local solutions to meet their needs.

PLANNING FOR NEW BUILDINGS

The most successful school facility and community master planning is achieved by early and frequent communication between school districts and other local government leaders. Sharing information such as enrollment trends, proposed residential areas or developments and other factors affecting the number of students and future need for school capacity will help avoid conflicts.

State law requires school boards to consult with the local planning commission prior to acquiring a school site. A board must advise the commission in writing of the site's location and confirm that the proposed site will "conform to the adopted plan of the community insofar as is feasible." State law also requires the board to consult with the Colorado Geological Survey regarding potential swelling soil, mine subsidence and other geologic hazards to determine suitability of the site for the proposed use.

After site selection and before construction of any structure or building on the site, a board must submit a site development plan to the planning commission for review. As long as the district follows the required planning commission review process, the board has the ultimate authority to determine the location of its public schools and erect the necessary buildings and structures. All buildings and structures must be constructed in conformance with the state, not local, standards of the Colorado Department of Public Safety.

CHARTER SCHOOL FUNDING

Charter schools authorized by a local school board are funded from the local school district's budget. The exact level of funding will be set in the authorizing contract between the local board and the charter school. However, funding levels for a charter school are tightly regulated by statute. In general, a charter school will receive for each student 100 percent of the school district's per pupil funding, less amounts negotiated to be retained by the school district for administrative costs for services provided by the district to the charter school. In most cases, those administrative costs cannot exceed 5 percent of the per pupil funding received by the charter school. There are special rules for online charter schools.

If a school district collects additional operating revenues from a mill levy approved by local voters, the board may elect to permit its charter schools to share in those revenues. In addition, each time the school district decides to submit to local voters a request to approve either a mill levy for additional operating revenues or a bond issue for school district capital needs, the board must include charter schools in the district in the planning process. The board is not required to include charter schools in a revenue or bond question submitted to the voters, but if it does not include charter schools it must provide to the charter schools the reasons for its denial.

DISTRICT FUNDS

Colorado law requires that district money be deposited and disbursed through specified funds. The funds described below are specified in law. [C.R.S. § 22-45-103.]

GENERAL FUND

Expenditures for day-to-day district operations are accounted for in the general fund. This includes all transactions not accounted for in another fund. Although the law provides that expenditures for certain purposes may be made out of other district funds, money may be expended out of the general fund for any purpose for which the board is authorized to expend money. In other words, money in the general fund may be budgeted and spent for any lawful purpose.

BOND REDEMPTION FUND

The revenue for satisfying bonded indebtedness obligations, both principal and interest, is deposited in the bond redemption fund. The fund may include subsidiary accounts for each obligation of bonded indebtedness.

In this fund, the revenue from each separate tax levy is held in trust to satisfy the obligations of bonded indebtedness for which the levy is made. Revenue remaining in an account after all obligations have been satisfied shall be transferred to another account in the fund that still has outstanding obligations. If all obligations of the bond redemption fund have been satisfied, the board may transfer the balance in the fund to the general fund.

The board must select a third-party custodian to administer this fund, unless the county treasurer maintains the accounts and funds of the school district. This third-party custodian is responsible for making payments from the bond redemption fund, for administering the fund and for investing the money as provided by law and upon the direction of the school district.

CAPITAL RESERVE FUND

The board determines the amount to be maintained in its capital reserve fund. [C.R.S. § 22-45-103; 22-54-105.] Money received from gifts, donations and tuition receipts also may be deposited in this fund. The money in this fund may be accumulated from year to year and used when needed. Expenditures are limited to long-range capital outlay expenditures and may be made only for the following purposes:

- Acquiring land, making improvements, constructing structures or adding to existing structures and acquiring equipment and furnishings
- Alterations and improvements to existing structures
- Acquiring school buses or other equipment
- Any installment purchase agreement or lease agreement with an option to purchase for a period not to exceed 20 years and any lease agreement without an option to purchase
- Any software licensing agreement
- Acquiring computer equipment

The board, through adoption of an appropriate resolution, must authorize expenditures from the fund. The law requires that the resolution set forth in detail the purpose of the expenditure and the estimated total cost and location of the project. It is advised that boards look closely at the detailed provisions of the law before authorizing capital reserve fund expenditures.

Unencumbered money in this fund may be transferred to a fund or account within the general fund by action of the board.

SPECIAL BUILDING AND TECHNOLOGY FUND

A board can call a special election to ask the voters for authority to set a mill levy for a special building fund. The levy must not exceed 10 mills in any year or exceed three years in duration.

Expenditures from the special building fund are limited to acquiring land; acquiring or constructing structures; maintaining structures to enhance their function, protect their value and extend their economic life; and the purchase and installation of instructional and informational technology, including expenditures for software and staff training related to the new technology.

TRANSPORTATION FUND

The revenues from a voter-approved transportation tax or fee imposed to pay excess transportation costs must be deposited in the transportation fund. Expenditures in the fund are limited to payment of transportation costs. Any money remaining in the fund at the end of any fiscal year must remain in the fund and be used to reduce the levy for transportation costs in future years.

FULL-DAY KINDERGARTEN FUND

The revenues from a tax levy for the purpose of paying excess full-day kindergarten program costs shall be deposited in the district's full-day kindergarten fund. Expenditures for the fund are limited to payment of excess full-day kindergarten program costs, as authorized in the district's budget.

THE BUDGET

The annual budget is the financial plan for the operation of the school system. It provides the framework for both expenditures and revenues for the year and future years and translates into financial terms the district's educational programs and objectives of the district. Colorado school districts are required to operate on a July 1–June 30 fiscal year. Board members should become familiar with state law relating to school district budgets. [C.R.S. § 22-44-101 et seq.]

BUDGET ADOPTION PROCESS

Generally, a board delegates to the superintendent overall responsibility for annual budget preparation, budget presentation and budget administration. As part of this responsibility, the superintendent should provide a budget preparation calendar that ensures the district meets all the deadlines established by law. The budget must be presented in a summary format that is understandable by a layperson. Many school districts choose to include staff and community input in the budget preparation process.

As part of the process, each school-level accountability committee must make recommendations to the principal relative to priorities for expenditures of district funds by the school. The information from school-level committees is shared with the district accountability committee. All of this information is taken into consideration on a district-wide basis as the budget is prepared.

It is a board's responsibility to review the proposed budget in open session, make such changes as it may deem necessary and adopt a budget and appropriation resolution prior to the end of the fiscal year. After adoption of the budget, a board may review and change the budget with respect to both revenues and expenditures at any time prior to Jan. 31 of the fiscal year for which the budget was adopted. If money for a specific purpose other than property taxes becomes available to meet a contingency after Jan. 31, a board may adopt a supplemental budget for expenditures not to exceed that amount. Once adopted, the budget becomes the plan and legal authority for receiving and spending money.

APPEAL FOR REVENUE INCREASE

Total program funding received by a school district may not exceed the amount of total program funding allowed under the Finance Act unless a board holds a successful election to seek additional funds in November, either in conjunction with the general election or the regular school biennial election.

The maximum amount of additional local property tax revenue that can be requested from the voters cannot exceed 25 percent of the district's total program funding for the first budget year in which the additional revenues will be collected, or $200,000, whichever is greater. In 2015, legislation passed allowing small rural districts to seek additional local property tax revenues in an amount not to exceed 30 percent of the district's total program funding, or $200,000, whichever is greater. Districts are advised to seek legal counsel about the specific procedures that must be followed in conducting the election and the requirements under the Fair Campaign Practices Act pertaining to this election.

CASH FLOW LOAN PROGRAM

Upon application by a school district and approval by the state treasurer, any school district may participate in an interest-free loan program. The program is designed to mitigate the impact of collecting property taxes at the end of the fiscal year rather than at the beginning. This law allows the state treasurer to issue tax and revenue anticipation notes for school districts. Payments of principal on the notes will be made from property taxes as those revenues are received by the school district.

FINANCIAL ACCOUNTING AND REPORTS

The board may decide to have the district's money received and disbursed through the office of the county treasurer, or it may elect to have district money received by the county treasurer paid over to the treasurer of the district. The law requires the county treasurer to provide an itemized statement of account not later than the 10th day of each month.

FINANCIAL ACCOUNTING

The law requires school district financial records to be kept in accordance with generally accepted principles of governmental accounting. Appropriate entries from the adopted budget are made in the records for the respective funds.

A board has the responsibility to oversee the district's fiscal affairs. State law requires that a board receive a quarterly financial report for the general fund and on any other funds in accordance with the board's request. More frequent reports can be requested so a board can fulfill its trustee responsibilities. The quarterly report must include several comparisons so a board can review the current state of revenues and expenditures. All financial and audit reports are public records.

Since 2010, the Public School Financial Transparency Act has required school districts to post financial information online in downloadable format and to link to CDE's website where additional district reports may be found. [C.R.S. § 22- 44-301 et seq.]

AUDITS

The Local Government Audit Law requires a board to provide for an annual audit of the district's financial statements for each fiscal year. [C.R.S. § 29-1-603.] The audit must be conducted in accordance with generally accepted auditing standards by a certified public accountant licensed to practice in Colorado.

The auditor must ensure that a school district is complying with the Financial Policies and Procedures Handbook adopted by the State Board of Education. The audit report shall contain a report of receipts and expenditures of each fund.

The audit report must be filed with the state auditor in accordance with the timeline set out in state law.

CREATING DEBT

A board is authorized to borrow money on a short-term basis with repayment to be made within six months. [C.R.S. § 22-40-107.] Limits on the amount to be borrowed and interest rates are defined by statute.

The Colorado Constitution provides that a political subdivision (which includes a school district) cannot incur any multiple-year fiscal obligations or contract a general obligation debt by loan in any form unless the debt is approved by the voters. Generally, debt is not created by an obligation that can be met out of current district revenues (within one year's budget) or by an obligation that does not obligate payments out of future revenues. Under Colorado law, discretionary or contingent obligations in future years do not constitute debt.

INSTALLMENT PURCHASE

State law requires the district to submit any installment purchase or lease agreement to a vote of the people when the repayment obligations in the agreement extend beyond one year. This same restriction applies to expenditures from the capital reserve fund for an installment purchase or lease agreement with an option to purchase for a period exceeding one year and not to exceed 20 years.

However, Colorado courts have held that the election requirement does not apply to these types of agreements, even though the terms may be greater than one year, if the district's obligation to make payments under the agreement is subject to annual appropriation by the board of the funds necessary to pay those amounts. These are, in the courts' view, discretionary or contingent obligations.

BONDED INDEBTEDNESS

Bonded indebtedness may be incurred only (1) to acquire or purchase buildings or grounds; (2) to remodel or add to any school building; (3) to construct school buildings; (4) to equip or furnish buildings; (5) to improve school grounds; (6) to fund floating indebtedness; (7) to acquire, construct or improve a capital asset; or (8) to support charter school capital construction or charter school land and facilities needs. [C.R.S. § 22-42-101.] The proposition to create bonded indebtedness must be approved at an election, which can only be held in November each year.

The process of incurring bonded indebtedness is complex and will require the assistance of competent fiscal agents and bond counsel.

THE BOARD'S RELATIONSHIP WITH ITS AUDITOR

COMMUNICATION IS KEY

Strong lines of communication between a school board and the auditor it has hired can be the cornerstone to a strong foundation for ensuring taxpayers that their funds are being well cared for.

The overall responsibility for the review of the financial affairs and reporting to the public at large is one of the most important roles of a school board. Colorado statutes require that the governing body of every school district in the state shall provide an annual audit of the financial affairs and transactions of all funds and activities of the school district. The audit must be completed not later than five months after the close of the fiscal year and, in fact, school boards may at their own discretion require more frequent intervals for audits, whether they are comprehensive in nature or on specific programs.

The audit serves several important purposes. It attests to the accuracy of the financial reporting and fiscal status of a district. It also provides an opportunity for a board and staff to find new and improved ways of doing business.

After reviewing a district's records and verifying the accuracy of the financial numbers for the prior year's activity, the work of a board and its auditor is just beginning. The next steps should include:

- A presentation of the results of the audit to the board in public session. This can involve a frank conversation with the auditor either at a public board meeting or at a public work session. Discussion topics would include areas that are being managed well, as well as concerns or areas where the district might benefit from additional improvements. To generate a good dialogue with the auditor means that each board member should review the management letter to the board of education and the audit document itself. Being prepared for this important discussion means being prepared to ask good questions.
- A discussion with the staff on what the next steps will be to address any issues presented by the auditor
- Formal acceptance of the annual fiscal year audit during a regular board meeting
- Perhaps the most important function a board can perform in relation to the audit is asking good questions during the auditor's presentation to the board. Questions from the board to its auditor need not be technical, and, in fact, often serve the public, fellow board members and the staff better by being of a more practical nature. Questions posed to the auditor could include:
  - How would you describe the overall financial condition of the district?
  - How strong are the overall fiscal management and internal controls within the district?
  - In the course of your audit, were there any material issues that came to the forefront and need to be addressed?
  - In comparison to your clients in other organizations, how would you describe the staff's management of financial records and work in preparing the annual financial statements for the auditor's review?
  - Based on previous audits of the district, what improvements have you observed in either the internal controls of the district's financial management system or the district's financial reporting?
  - What opportunities does the district have to improve its financial record keeping?

The strength of a school district will be reinforced by both supporting the work of the auditor and helping to bring important questions and answers on how well the district is operating. By doing so, a board has the opportunity to build trust and reinforce the public's faith in the board's stewardship of taxpayer funds.

Source: Scott Murphy, former superintendent, Littleton Public Schools