

Defining FHI | Schools

DESCRIPTIONS AND EXAMPLES OF THE INDICATORS

The Ohio Department of Education and Workforce and the Auditor of State's Office work together to determine fiscal watch and emergency designations. The agencies work with each affected school district to help prevent the financial condition from getting worse. Ohio school districts fall into fiscal watch or emergency only after an analysis is conducted by the Auditor's office.



Pursuant to Ohio Revised Code [§ 3316.03](#) the Ohio Department of Education and Workforce in consultation with the Auditor of State may declare a school district in fiscal caution for engaging in certain fiscal practices or budgetary conditions. In addition to these fiscal caution guidelines, the Auditor of State has developed Financial Health Indicators (FHI). FHI are a collection of financial information, percentages, and ratios gathered from annual financial statements filed by the local governments and their audit reports, which are useful in predicting financial stability.

The Auditor of State and the Ohio Department of Education and Workforce will use these FHI to recognize early signs of fiscal stress at specific school districts and, where requested, take a proactive approach to monitoring or assisting these school districts.

Sixteen FHI have been identified as useful in determining signs of fiscal stress for school districts. These are the same indicators used for evaluating cities and counties; however, it was determined that Indicator #10 is not applicable to school districts. The FHI are based on information derived from the annual financial statement data submitted to the Auditor of State by school districts and their audit reports.

From the financial statement data, our staff gathers information as it relates to:

Governmental Type Activities (GTA)

The financial information for Governmental Type Activities is from the governmentwide financial statements — Statement of Net Assets/Position and Statement of Activities.

General Fund and All Governmental Funds

General Fund and All Governmental Fund information is from the governmental fund type financial statements — Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

From the audit reports, the Auditor's staff gathers information as to whether the entity is complying with Ohio budgetary law and/or proper accounting methods.

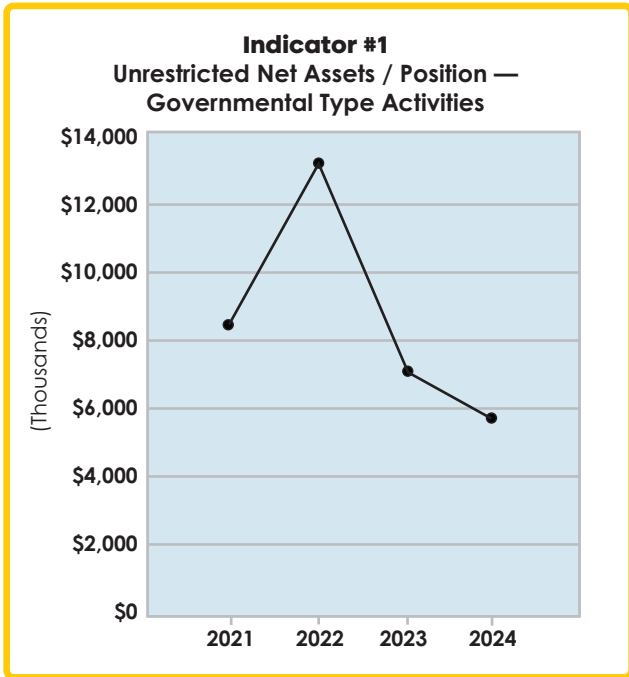
The Auditor of State has evaluated the FHI as useful in identifying fiscal stress in school districts that report financial statements prepared in conformity with Generally Accepted Accounting Principles (GAAP). For school districts that choose to present their financial statements on cash or modified cash basis of accounting, it has been determined that at least 14 of the FHI are useful in identifying fiscal stress.

The Auditor of State has determined that entities reporting on a **GAAP basis** have higher financial stress if they have at least six FHI with a "critical outlook" or if they have a combination of eight negative indicators, either "critical" and "cautionary. The higher the number of "critical" indicators, the higher the level of stress.

Using the same data, the Auditor of State determined entities reporting on a cash **or modified cash basis** of accounting are at an elevated risk of financial stress if they have at least four "critical" indicators or a combination of at least six "critical" and "cautionary" indicators. The stress is higher as the number of "critical" indicators increases.

The FHI, including the description, meaning, and importance of each indicator, are:

Indicator #1 Cautionary Outlook



Unrestricted Net Assets/Position of Governmental Type Activities (GTA)

- There are three major components to net assets/position (equity): Net investment in capital assets, restricted net assets/position, and unrestricted net assets/position.
- Unrestricted net assets/position represents the portion of net position that has no related liabilities or restriction as to use.
- Negative unrestricted net assets/position occurs primarily if liabilities exceed assets.

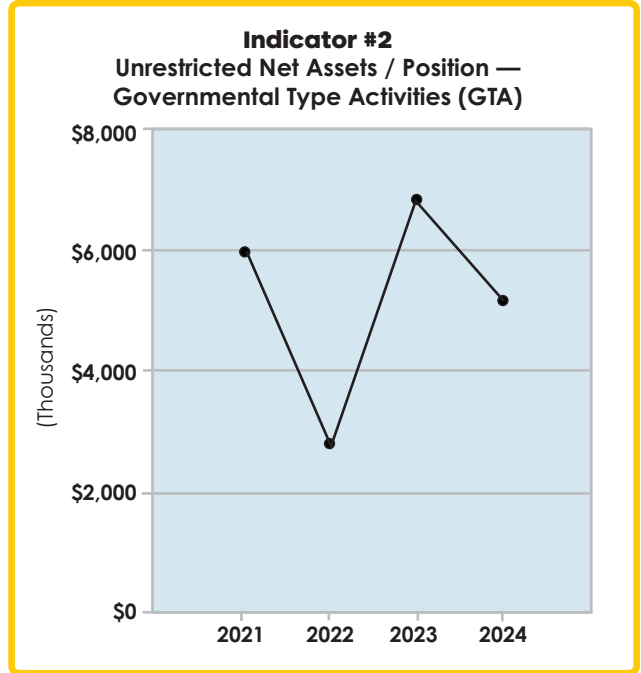
What it means: This indicator identifies when an entity has declining or negative unrestricted net assets/position.

Why it is important: This indicator identifies if net assets/position is available for unrestricted purposes. Although unrestricted net assets/position may not be in liquid form, it is important to have net assets/position available and unrestricted as to use. If an entity's unrestricted net assets/position is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

Critical Outlook — Zero or negative amounts

Cautionary Outlook — Decline between the current and prior year by more than 1%.

Indicator #2 Cautionary Outlook



Unassigned Fund Balance of the General Fund

- A component of equity
- There are five components of fund equity — nonspendable, restricted, committed, assigned, and unassigned. Unassigned fund balance is the portion of fund balance that has no related liabilities or has not otherwise been obligated.

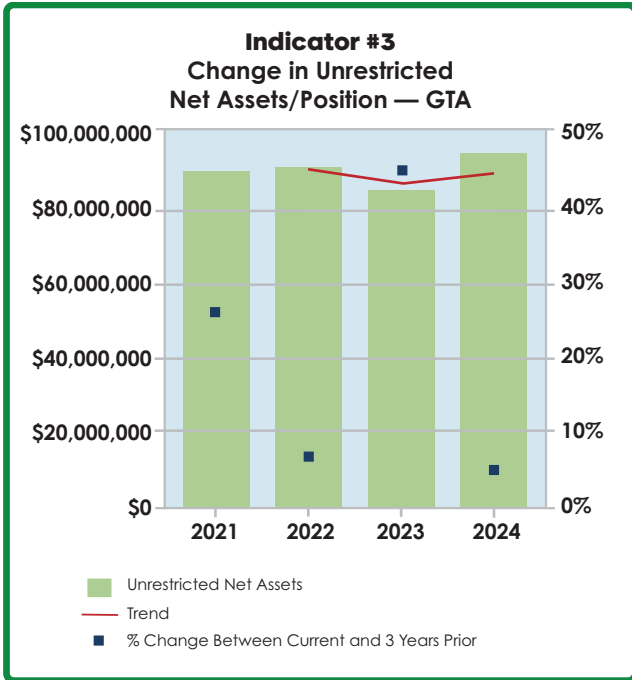
What it means: This indicator identifies when an entity has declining or negative unassigned fund balance.

Why it is important: This indicator identifies if fund balance is available for unrestricted purposes. Although unassigned fund balance may not be in liquid form, it is important to have fund balance available without restrictions as to use. If an entity's unassigned fund balance is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

Critical Outlook — Zero or negative amounts

Cautionary Outlook — Decline between the current and prior year by more than 1%.

Indicator #3 Positive Outlook



Change in Unrestricted Net Assets/Position for GTA

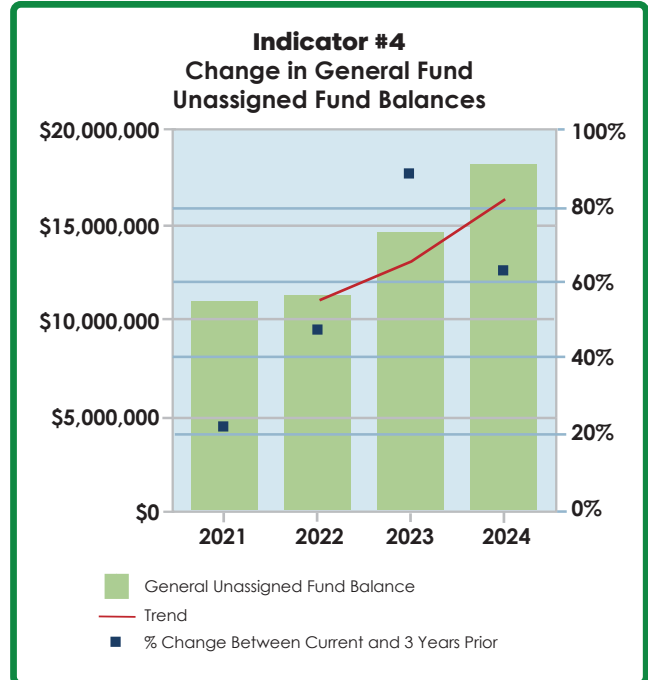
What it means: This indicator identifies changes (increases or decreases) in unrestricted net assets/position from the prior year to the current year and will be useful in identifying school districts whose unrestricted net assets/position is deteriorating.

Why it is important: A declining unrestricted net assets/position can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unrestricted net assets/position as well as how rapidly it is deteriorating.

Critical Outlook — The current period and at least two of the previous three periods reflecting a zero or negative amount OR a rapidly declining trend defined as a decline in each of the last three periods with a drop of greater than 20%.

Cautionary Outlook — Declining trend defined as a decline in each of the last three periods with a drop of 10% to 20%.

Indicator #4 Positive Outlook



Change in General Fund Unassigned Fund Balance

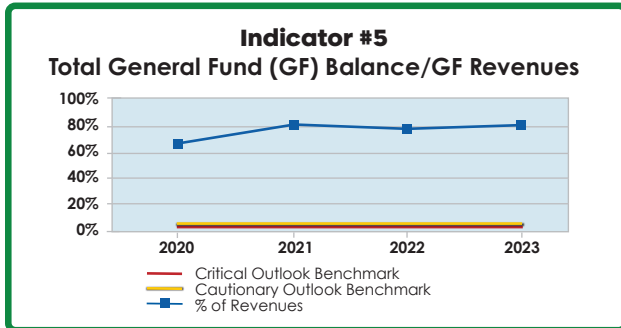
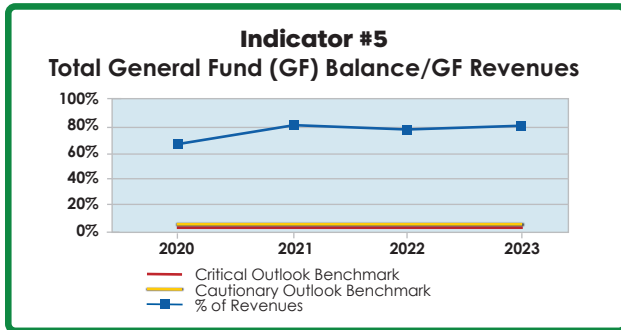
What it means: This indicator identifies changes (increases or decreases) in unassigned fund balance from the prior year to the current year and is useful in identifying local governments whose unassigned fund balance is deteriorating.

Why it is important: A declining unassigned fund balance can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating unassigned fund balance as well as how rapidly it is deteriorating.

Critical Outlook — The current period and at least two of the previous three periods reflecting a zero or negative amount OR a rapidly declining trend defined as a decline in each of the last three periods with a drop of greater than 20%.

Cautionary Outlook — Declining trend defined as a decline in each of the last three periods with a drop of 10% to 20%.

Indicator #5 Positive Outlook



Total General Fund (GF) Balance / GF Revenues

What it means: This indicator identifies reserves available in the General Fund. The larger the reserve the better the entity is able to absorb, in the short term, the impact of sudden revenue loss or significant increases in operating costs and begin planning financial adjustments.

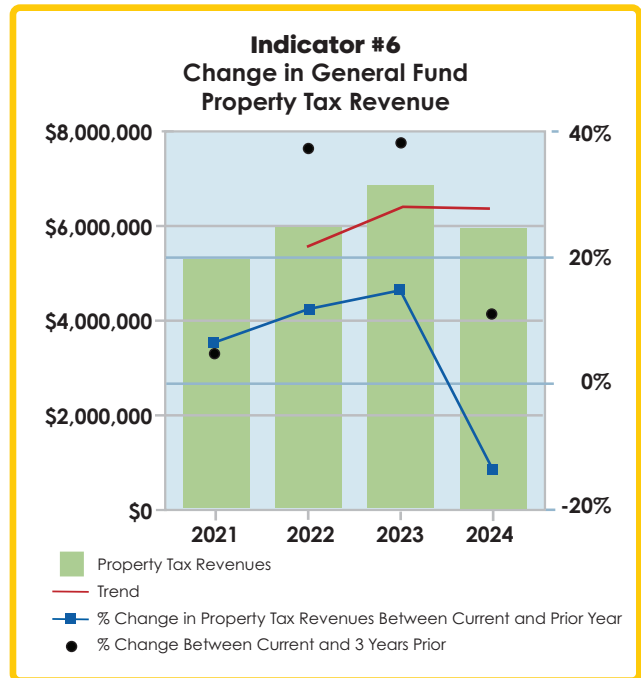
This indicator is calculated by taking the total General Fund balance divided by total General Fund revenues. This will determine the percentage of total General Fund revenues (or the current year budget) that has been reserved or available for carry over to the following year.

Why it is important: This indicator identifies a low reserve of fund balance even if Indicators 1 through 4 do not indicate negative unrestricted net assets/ position or unassigned fund balance.

Critical Outlook — Negative percentage, very low percentage ($< 1/24$ or 4%), OR if fund balance is less than a two-month carryover (17%), a rapidly declining trend defined as a drop of 10% or greater over a three year period.

Cautionary Outlook — Low percentage ($< 1/12$ th or 8%) OR if fund balance is less than a two-month carry-over (17%), a declining trend defined as a drop of 5%-10% over a three year period, OR if the fund balance represents less than 6 months (50%) of current year revenues, a decline in each of the last three periods.

Indicator #6 Cautionary Outlook



Decline in General Fund Property Tax Revenue

What it means: This indicator reflects the percentage change from year to year for property tax revenue.

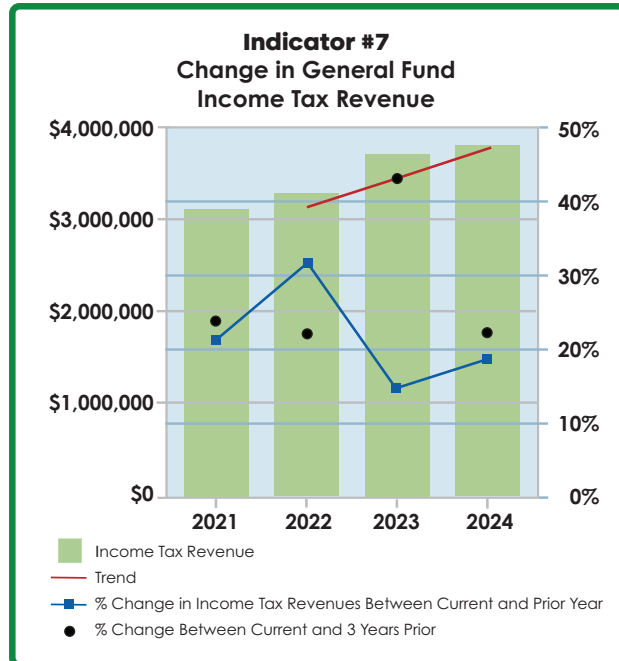
Why it is important: This indicator reflects declines in property tax revenue and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It will also reflect the need for additional sources of revenue to maintain stability.

Critical Outlook — If property tax revenues represent 7-20% of total General Fund revenues, a trend of declining tax revenue over the last three years in excess of 20% OR if property tax revenues represent greater than 20% of total revenues, a trend of declining tax revenue over the last 3 years in excess of 10%.

Cautionary Outlook — Decrease in tax revenue from the current to the prior year by more than 1%.

Indicator #7 NA / Positive Outlook

Indicator #7
Change in General Fund Income Tax Revenue
Not Applicable



Decline in General Fund Tax Revenue

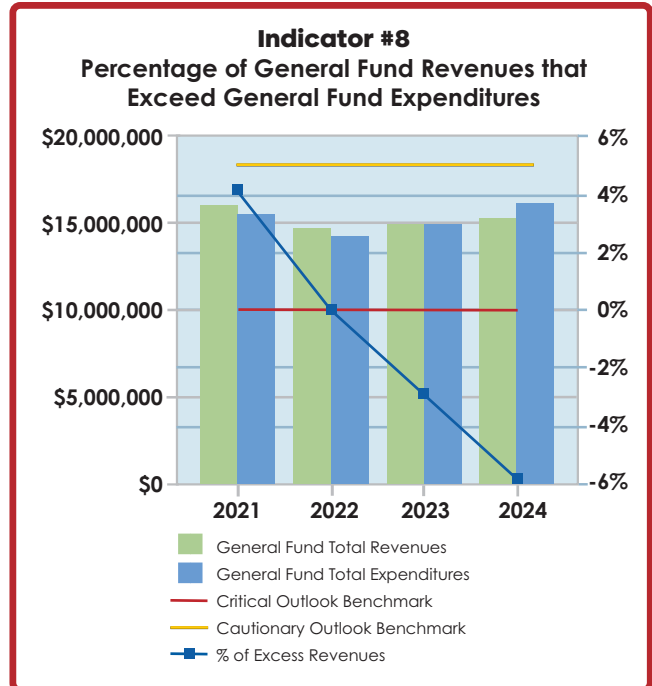
What it means: This indicator reflects the percentage change from year to year for income tax revenue. This indicator will be black if the district does not have an income tax.

Why it is important: This indicator reflects declines in these revenue types and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It will also reflect the need for additional sources of revenue to maintain stability.

Critical Outlook — If income tax revenues represent 7-20% of total General Fund revenues, a trend of declining tax revenue over a three year period in excess of 20% OR if income tax revenues represent greater than 20% of total general fund revenues, a trend of declining tax revenue over the last 3 years in excess of 10%.

Cautionary Outlook — Decrease in tax revenue from the current to the prior year by more than 1%.

Indicator #8 Critical Outlook



Percentage of General Fund Revenues that Exceed General Fund Expenditures

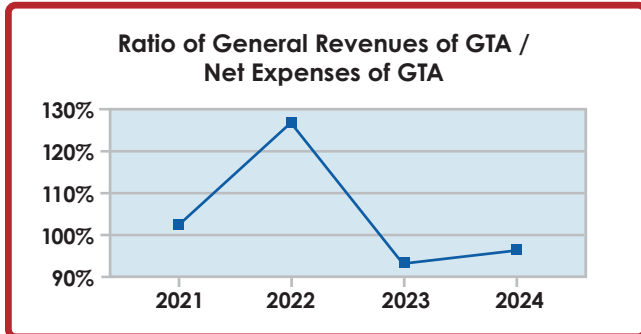
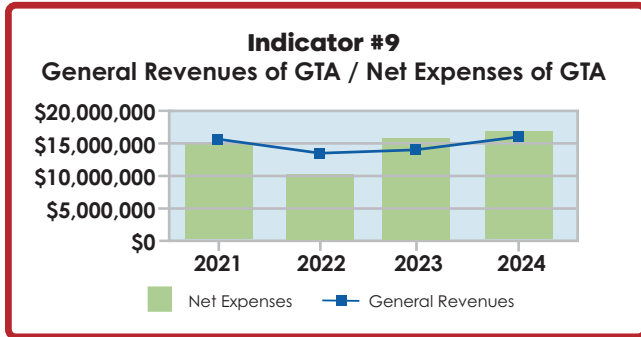
What it means: This indicator is calculated as total General Fund revenues less total General Fund expenditures, divided by total General Fund revenues. It will provide an indication of operating deficits and the size of the operating deficit compared to the current year budget. An operating deficit is the difference between revenues and expenditures. If expenditures exceed revenues, an operating deficit exists.

Why it is important: This indicator is important because it reflects if an operating deficit exists but also emphasizes the size of the deficit as compared to the current year's budget. This is an indication of the shortage in the current budget. A trend of operating deficits indicates potential financial hardship.

Critical Outlook — Negative percentage

Cautionary Outlook — Low percentage (<1/20th or 5%)

Indicator #9 Critical Outlook



General Revenues of GTA / Net Expenses of GTA

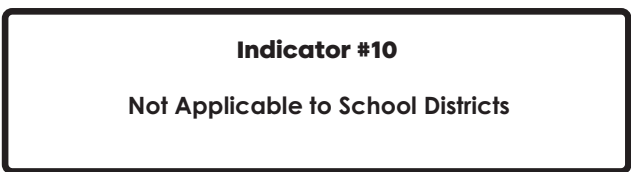
What it means: The ratio of this indicator reflects coverage of net expenses by general revenues. This indicator determines if, on a government-wide basis, expenses are exceeding revenues. For example, local taxes, unrestricted revenues (e.g. investment earnings) and unrestricted grants should be sufficient to meet expenses not covered by program revenues. Net expense is total expense less program revenues. Program revenues include charges for services (e.g. fees and fines), operating grants and capital grants.

Why it is important: This indicator is important to be aware if a shortage in revenues to cover expenses exists. A declining trend would indicate fiscal stress.

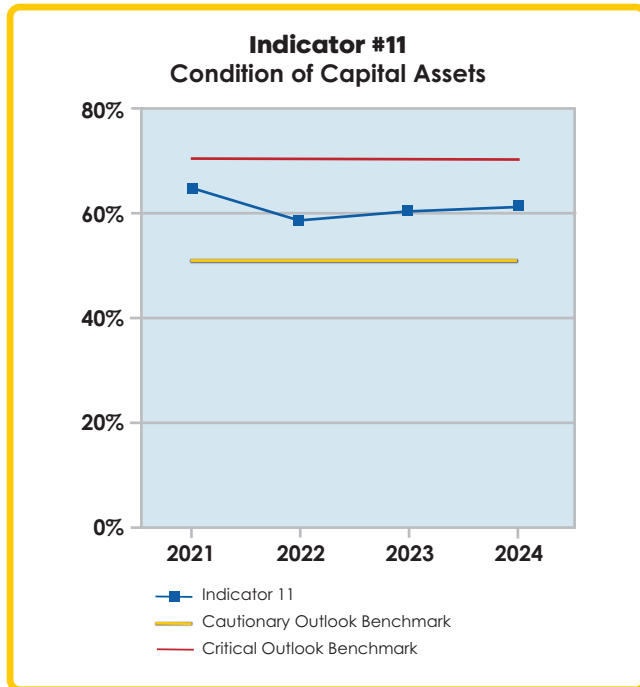
Critical Outlook — Ratio less than 100%

Cautionary Outlook — Declining trend of at least three years

Indicator #10



Indicator #11 Cautionary Outlook



Condition of Capital Assets*

What it means: This indicator is accumulated depreciation as a percentage of depreciable capital assets. This indicator will identify situations in which repair or replacement of the local government's assets will be necessary. A high percentage indicates assets replacement is imminent and the entity may be delaying replacement of assets or significant repairs for cash flow purposes.

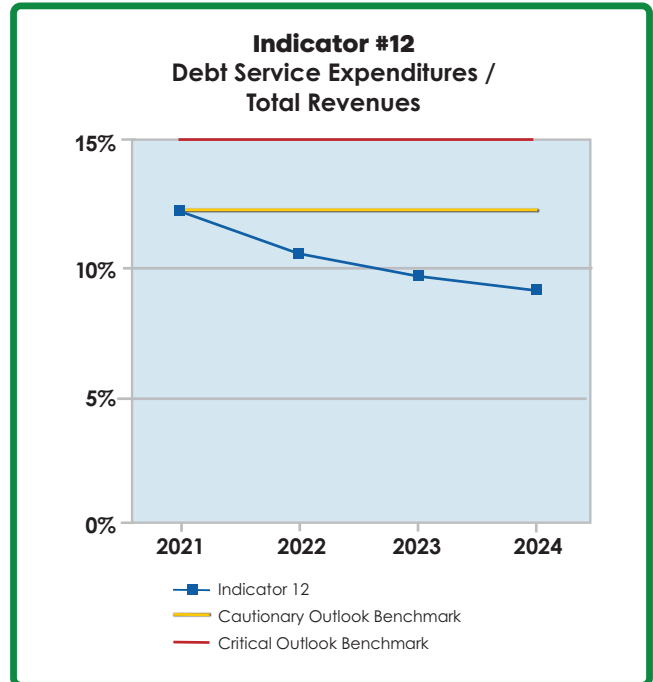
Why it is important: When entities delay improving or replacing assets in order to maintain cash flows for other purposes, improvements and replacements become absolutely necessary and may contribute to financial hardship on an already strained budget.

Critical Outlook — Ratio greater than 70%

Cautionary Outlook — Ratio between 50% – 70%

*This FHI is applicable only to school districts reporting on a GAAP basis of accounting

Indicator #12 Positive Outlook



Debt Service Expenditures / Total Revenues

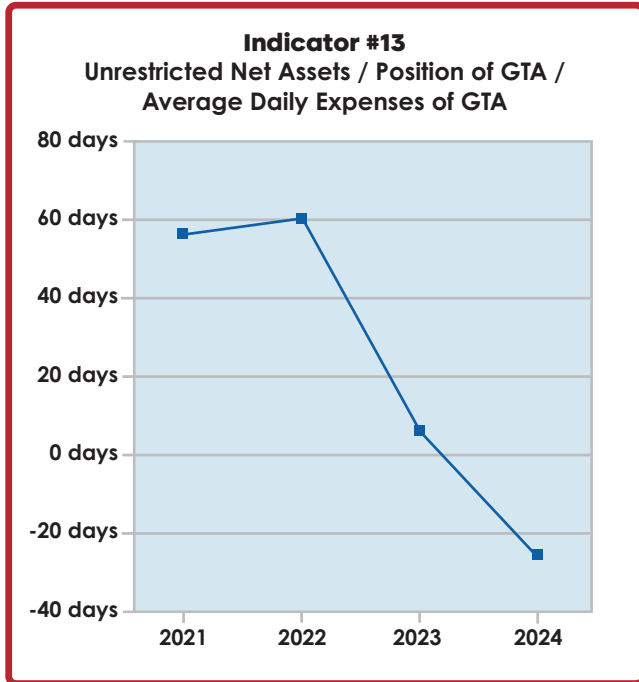
What it means: This indicator is total debt service expenditures divided by total revenues (for all governmental funds). This indicator identifies the percentage of the budget used/needed for repayment of debt.

Why it is important: Higher debt service expenditures to total revenues is unfavorable since the entity spends more of its current budget on debt repayment. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for asset repair/replacement or meeting current service demands.

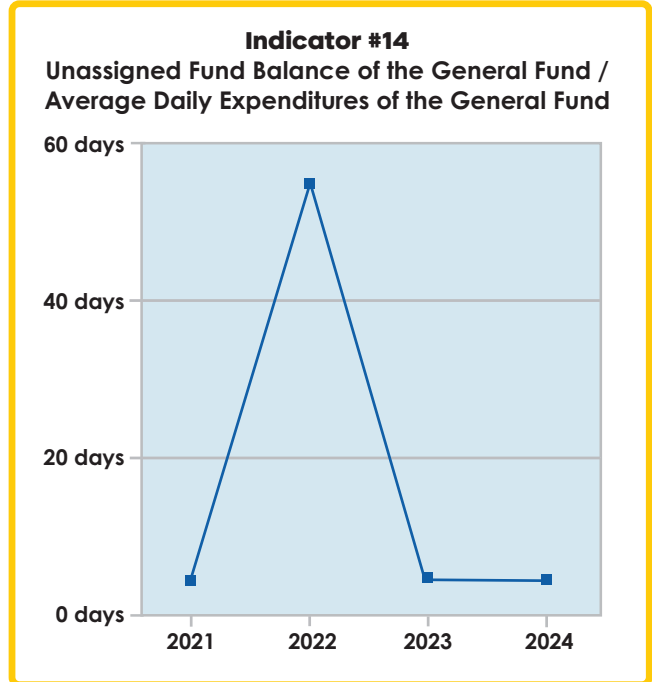
Critical Outlook — Ratio greater than 15%

Cautionary Outlook — Ratio between 12% – 15%

Indicator #13 Critical Outlook



Indicator #14 Cautionary Outlook



Average Daily Expenses or Expenditures Ratio (Indicators 13, 14, & 15):

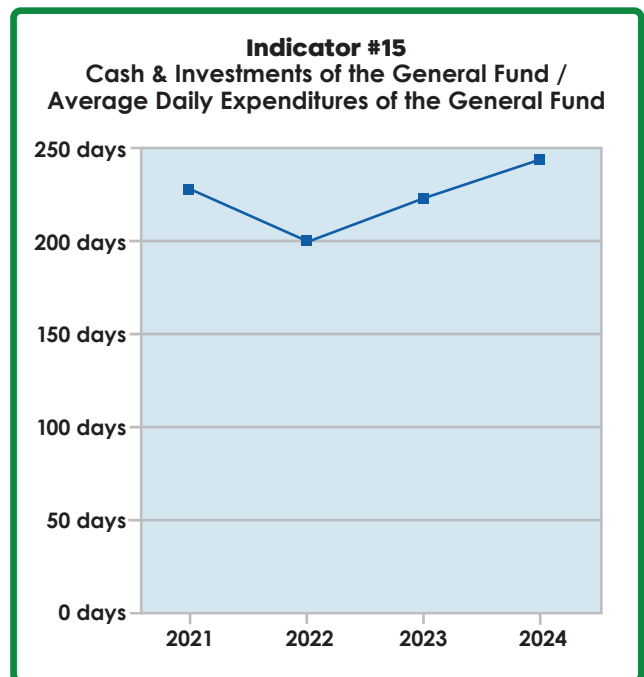
What they mean: Indicators 13, 14, and 15 identify the number of days the school district's unrestricted net assets/position, unassigned fund balance, and cash and investments will sustain the entity. The indicators are based on the daily average expenses/expenditures.

Why it is important: These indicators are important because they identify the number days the entity may operate using their unrestricted net assets/position, unassigned fund balance, and cash and investments. The fewer days the entity can operate, the more financial stress they are under. It provides an early indication of an entity's need to adjust their financial/expenditure planning.

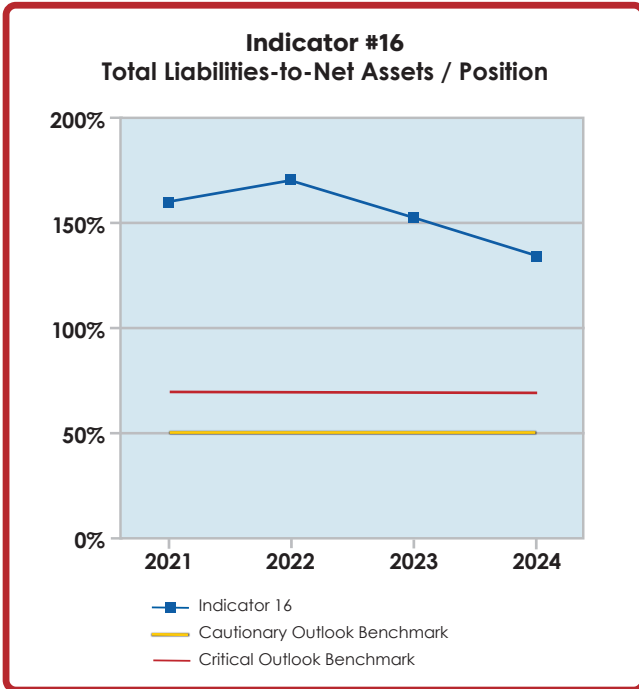
Critical Outlook — Zero days or below

Cautionary Outlook — Less than 30 days

Indicator #15 Positive Outlook



Indicator #16 Positive Outlook



Total Liabilities-to-Net Assets/ Position*

What it means: This indicator is the ratio of total liabilities of GTA divided by total net assets/position of GTA and indicates the percentage of every dollar of resources, available for providing public services, that is owed by the entity.

Why it is important: This indicator identifies entities that are over-extended in terms of the percentage of every dollar which is owed to others.

Critical Outlook — Negative ratio (representing negative net assets) OR ratio greater than 70%

Cautionary Outlook — Ratio between 50% – 70%

* This FHI is only applicable to school districts reporting on a GAAP basis of accounting.

Indicator #17 Positive Outlook

Indicator #17 Budgetary Non-Compliance and/or Unreconciled / Unauditable Financial Records?

Audited Year End	Applicable
2024	Yes
2023	Yes

Budgetary Non-Compliance and/or Unreconciled/Unauditable Financial Records

What it means: This indicator identifies if an entity's recent audit reports include budgetary non-compliance and/or unreconciled/unauditable financial records. The Indicator 17 determination is based on the current and prior two (2) audited years.

Why it is important: This indicator will reflect if an entity is not complying with Ohio budgetary law and/or proper accounting methods. Maintaining accurate, reconciled accounting records and adherence to Ohio budgetary law is a significant factor in maintaining fiscal stability.

Critical Outlook — Direct and material audit finding(s) described above for the current and prior two audit years.

Cautionary Outlook — Direct and material audit finding(s) described above for the current audited year.