REPORT OF

THE

STATE AUDITOR

TREASURER'S OFFICE
INTEREST-FREE SCHOOL LOAN PROGRAM

PERFORMANCE AUDIT
AUGUST 2000

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August 18, 2000

Members of the Legislative Audit Committee:

This report contains the results of a compliance audit of the Interest-Free School Loan Program administered by the Treasurer's Office. The audit was conducted pursuant to Section 22-54-110 (4), C.R.S., which authorizes the State Auditor to conduct an audit of any school district receiving a loan pursuant to Section 22-54-110, C.R.S., and Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of state agencies. This report contains our findings and recommendations, and the responses of the Treasurer's Office.

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J. DAVID BARBA, CPA
State Auditor

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August 2000

Authority, Purpose, and Scope

This performance audit of the Interest-Free School Loan Program within the State Treasurer's Office was conducted pursuant to Section 22-54-110 (4), C.R.S., which authorizes the State Auditor to conduct an audit of any school district receiving a loan under Section 22-54-110, C.R.S., and Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of state agencies. We conducted the audit in accordance with generally accepted auditing standards. Our audit procedures included reviewing documentation, interviewing Department and school district staff, and analyzing data. The purpose of the audit was to evaluate the monitoring of interest-free loans by the State Treasurer's Office and information provided by school districts for accuracy and reasonableness. Audit work was performed between March and July 2000.

We wish to thank the staff of the Treasurer's Office and the school districts whom we contacted during the audit. The following summary provides highlights of the comments, recommendations, and agency responses contained in the report.

Background

Pursuant to Section 22-54-110, C.R.S., school districts may apply for interest-free loans from the Treasurer's Office to alleviate General Fund cash flow shortfalls. Once the district has demonstrated, to the satisfaction of the State Treasurer, that a General Fund cash deficit will exist for any month of the budget year, a loan will be made available.

During Fiscal Year 1999, 41 out of 176 school districts participated in the program, borrowing a total of about $284 million. During Fiscal Year 2000, 33 school districts borrowed a total of about $224 million. As part of our audit, we reviewed the five school districts that borrowed the most in Fiscal Years 1999 and 2000.

Improvements in Program Oversight Are Needed

The State Treasurer has the responsibility to approve all loans to school districts participating in the Interest-Free School Loan Program and establish reporting mechanisms to ensure that school districts are consistently and accurately reporting cash deficits. Loans are made to school districts on a short-term basis throughout the year and are required to be repaid in full by June 25 of the State's fiscal year.

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

We found inconsistencies and errors in some amounts reported on the loan requests at each of the school districts tested. We also noted that repayment schedules did not always comply with the law. As a result, the State lost more interest revenue than it should have. The estimated interest lost to the State resulting from all errors found for the five school districts reviewed was approximately $1.7 million in Fiscal Year 1999 and $1.6 million in Fiscal Year 2000.

We recommend that the Treasurer's Office continue to work with the school districts that participate in the Interest-Free School Loan Program to clarify the required reporting of General Fund cash flow deficits and the timetable for the loan repayment. In addition, we recommend that the Treasurer's Office require school districts to provide supporting documentation for amounts borrowed and repaid.

Statutory Requirements Need To Be Reviewed and Clarified as Necessary

During our audit, several school districts expressed concern regarding statutory requirements of the Interest-Free School Loan Program. Specific concerns related to the calculation of the loan payback and the use of available resources in the Capital Reserve and Insurance Reserve Funds.

According to Section 22-54-110 (2) (a), C.R.S., school districts are required to submit payments to the Treasurer's Office by the fifth day of April, May, and/or June. As part of the required calculation, school districts must take into account the next month's estimated receipts and disbursements. School districts have stated that a district may not have available cash at the end of a month in order to make the required payment. **We recommend that the Treasurer's Office work with the General Assembly to seek clarification of statutory provisions to change the due date of loan payments from the fifth to the fifteenth of each month.**

School districts are required by statute to utilize available cash and investments in the Capital Reserve and Insurance Reserve Funds. School districts have expressed concern with using available resources in these funds because these resources may be needed to cover cash deficits. Changing the statutory requirements has its pros and cons. On one hand, eliminating the requirement would be beneficial to school districts. On the other hand, it could increase the amount of borrowing by districts. **We recommend that the Treasurer's Office assess the impact of changing the requirements of utilizing available resources from the Capital Reserve and Insurance Reserve Funds. If it is determined that the change would be beneficial, the Treasurer's Office should work with the General Assembly to seek revision of statutory provisions.**

The Department has agreed to our recommendations. A summary of responses can be found in the Recommendation Locator.

Summary of Progress in Implementing the Prior Audit Recommendation

There was one recommendation in our Interest-Free School Loan Program Compliance Audit Report dated September 1996. We recommended that the Treasurer's Office continue to work with school districts to clarify the required reporting requirements and the terms and calculation of the loan repayments. School districts should be required to provide additional information to support their needs for these loans and their calculation and timing of repayment. That recommendation was partially implemented.

RECOMMENDATION LOCATOR
Agency Addressed: Treasurer's Office

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	20	The Treasurer's Office should continue to work with the school districts that participate in the Interest-Free School Loan Program to clarify the required reporting of General Fund cash deficits and the proper calculation and timetable for the loan repayment. Specifically, the following needs to be clarified on the Department's instructions and communicated to participating school districts: a. The use of available balances in the Capital Reserve and Insurance Reserve Funds to alleviate cash flow deficits. b. The calculation of beginning cash balances and whether to include amounts due to/from other funds and the amount reserved for TABOR emergencies. c. The requirement to update the General Fund Cash Flow Worksheet to report actual amounts of revenue, expenditures, and cash available from other funds for preceding months.	Agree	8/16/00

RECOMMENDATION LOCATOR
Agency Addressed: Treasurer's Office

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
2	20	The Treasurer's Office should require participating school districts to provide as part of their loan request, worksheets showing: a. A comparison of actual to estimated receipts and disbursements including an explanation of any significant variances. b. The calculation of the amounts and timing of the loan payback. c. A reconciliation between the beginning cash balance as reported on the year-end audited financial statements and the worksheets.	Agree	8/16/00
3	23	The Treasurer's Office should work with the General Assembly to seek clarification of statutory provisions to change the due date of loan payments from the fifth to the fifteenth of each month.	Agree	5/1/01
4	24	The Treasurer's Office should assess the impact of changing the requirements of utilizing available resources from the Capital Reserve and Insurance Reserve Funds. If it is determined that the change would be beneficial, the Treasurer's Office should work with the General Assembly to seek revision of statutory provisions.	Agree	5/1/01

Interest-Free School Loan Program

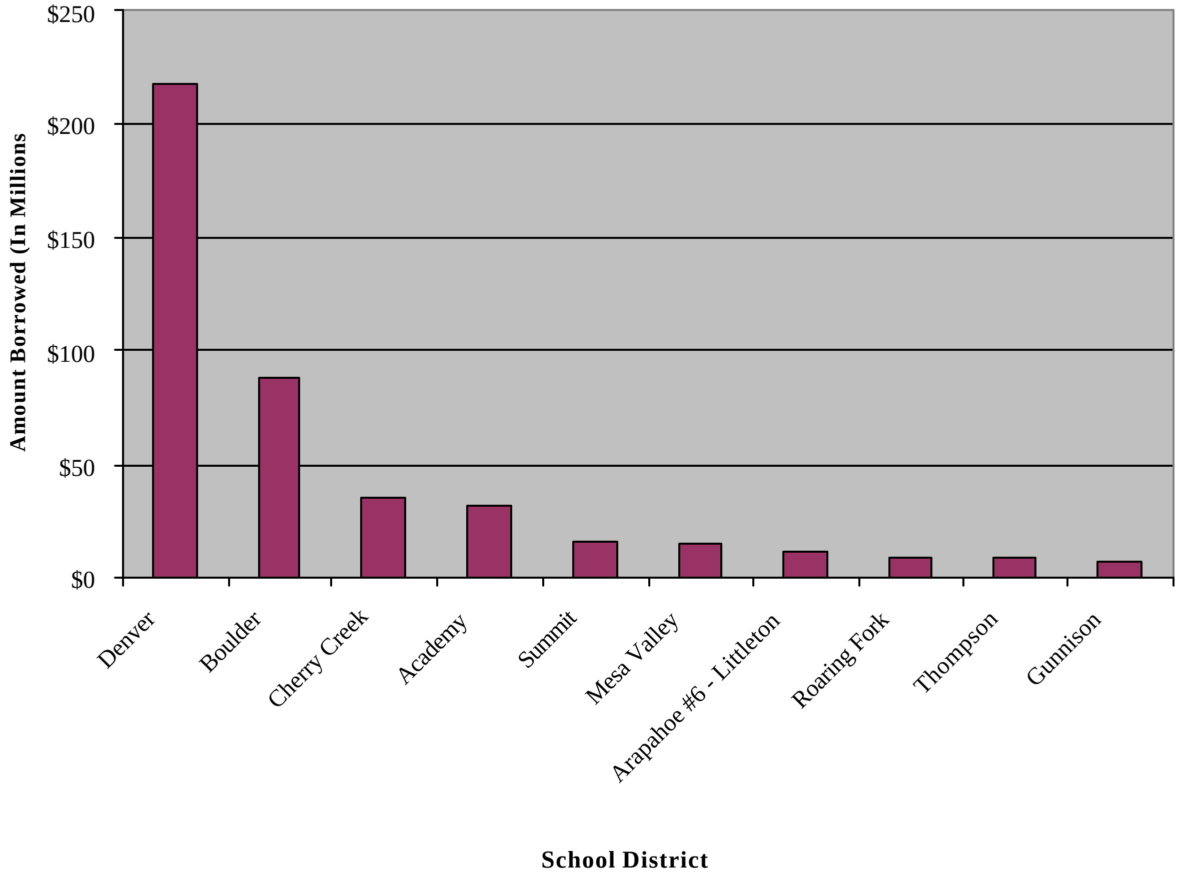
Chapter 1

Background

Pursuant to Section 22-54-110, C.R.S., school districts may apply for interest-free loans from the Treasurer's Office to alleviate General Fund cash flow shortfalls. Once the district has demonstrated, to the satisfaction of the State Treasurer, that a General Fund cash deficit will exist for any month of the budget year, a loan will be made available.

During Fiscal Year 1999, 41 out of 176 school districts participated in the Interest-Free School Loan Program, borrowing a total of about $284 million. During Fiscal Year 2000, 33 school districts borrowed a total of about $224 million. (See Appendix A for a listing of loans to school districts.) According to estimates provided by the Treasurer's Office, the Program cost the State about $7.4 million in lost interest revenue in Fiscal Year 1999 and about $6.3 million during Fiscal Year 2000.

Top 10 Borrowers Based on Total Amount Borrowed in Past Two Fiscal Years



Source: Office of the State Auditor's analysis of Treasurer's Office data.

The above chart shows the ten school districts that borrowed the largest amount in the past two years. Almost 87 percent of the total loans in Fiscal Years 1999 and 2000 combined were made to these ten school districts.

As part of our audit we reviewed the five school districts that borrowed the most in Fiscal Years 1999 and 2000. As shown on the chart on the following page, these districts accounted for about 77 percent of the dollar value of the loans for these two fiscal years. The following table shows the loan amounts for Fiscal Years 1999 and 2000 for the five school districts reviewed.

Total Loans for Districts Reviewed as a Percentage of All Interest-Free School Loans Issued

	Fiscal Year 1999		Fiscal Year 2000	
School District	**Total Borrowed**	**Percent of Total**	**Total Borrowed**	**Percent of Total**
Denver	$111,642,000	39.3	$106,531,968	47.6
Boulder	46,490,243	16.4	41,782,709	18.7
Cherry Creek	34,657,216	12.2	-	-
Academy	17,918,997	6.3	14,996,000	6.7
Summit	7,400,000	2.6	8,900,000	4.0
Total Reviewed	**$218,108,456**	**76.8**	**$172,210,677**	**77.0**
Total All Loans	$284,253,801	100.0	$223,608,146	100.0

Source: Office of the State Auditor's analysis of Treasurer's Office data.

School Districts Borrow to Cover Cash Flow Needs

School districts receive their General Fund revenue from two primary sources:

- State equalization
- Property taxes

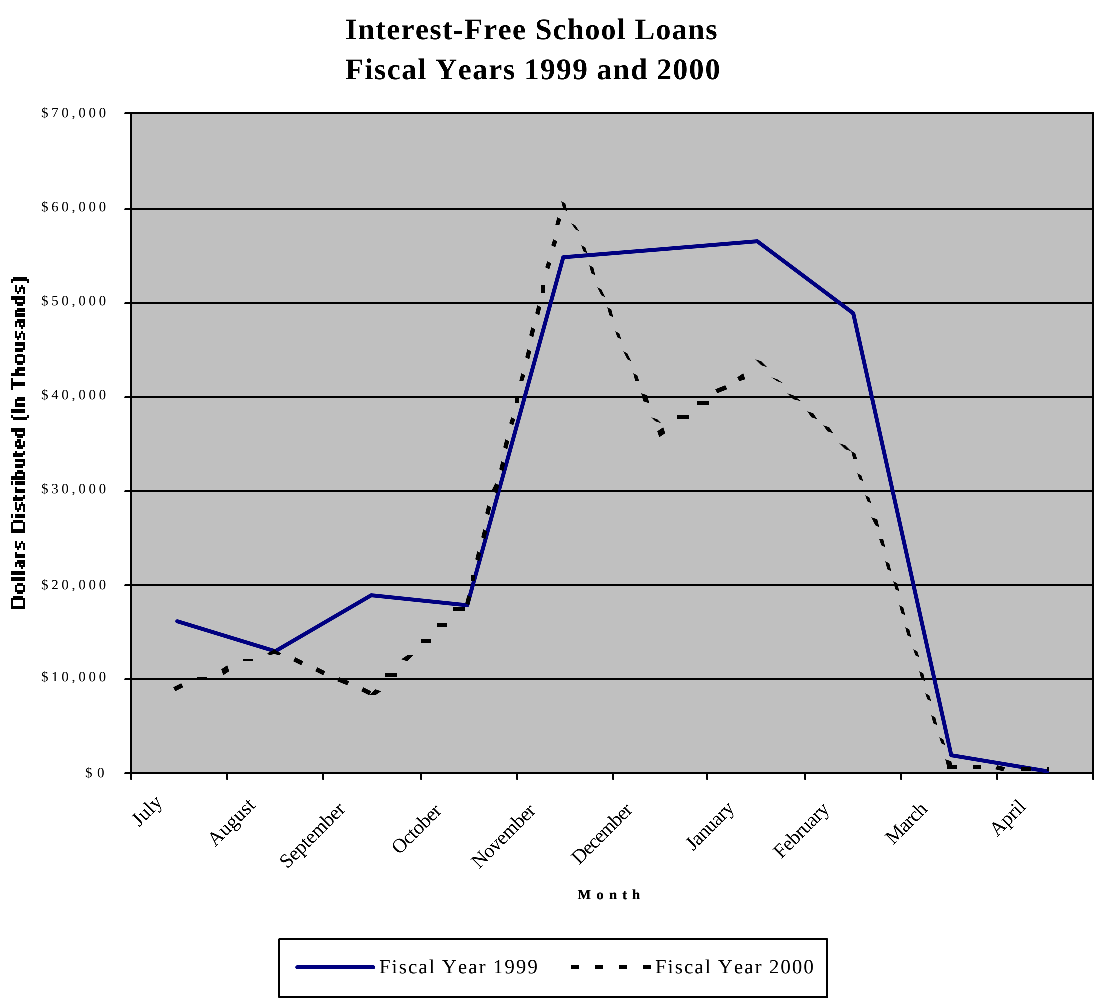
Under the School Finance Act, school districts receive revenue from the State. This revenue is referred to as "state equalization" because the funds are intended to "equalize" the per pupil revenue available to school districts. Property taxes have historically served as the primary source of school district funding in Colorado. Equalization is necessary because some school districts have a higher property tax base, whereas other districts are less property tax-reliant. The School Finance Act, therefore, provides every school

district, regardless of its property base, equitable resources to fund K-12 education. State equalization payments are received in monthly installments.
Property taxes are paid in either two payments (February 28 and June 15), or in one payment (April 30). In the past about half of the taxes were received by school districts in early May, one quarter were received in early March, and one quarter were received in late June. The majority of property taxes were received in one payment. More recently, the trend has been for school districts to receive property tax payments in two installments, shifting the timing of receipts.

The following chart shows the Interest-Free School Loans made to school districts in Fiscal Years 1999 and 2000. As can be seen in the chart, school districts borrow during the months of July through April.

Change in the Appropriation Process Led to the Need for the Program

The need for an Interest-Free School Loan Program arose after the General Assembly changed the appropriations process so school districts were on the same budget year as the State. The General Assembly mandated that the fiscal year for all school districts be converted from a calendar year to a fiscal year ending June 30. During the transitional year, which occurred between January and June 1992, the State required school districts to first utilize property tax receipts to fund expenditures. The State deferred making



Source: Office of the State Auditor's analysis of Treasurer's Office data.

equalization payments if the district's property tax receipts were sufficient to cover expenditures. In addition, the State required those districts to use property tax balances, referred to as "property tax carryforwards," to partially offset those districts' equalization payments in the following fiscal year.

Because some school districts now receive the majority of their revenue near the end of the fiscal year, and expenditures are relatively stable throughout the year, cash flow problems sometimes occur for several months before property taxes are received. Cash flow problems are greatest for school districts that are more heavily reliant on property tax and specific ownership tax revenue than on equalization payments. Of the 176 school districts, the average of the school districts' revenue from property and specific ownership taxes was approximately 43 percent. As the following table illustrates, four of the five school districts we reviewed received more than 50 percent of their revenue from property and specific ownership taxes.

Property Tax Reliance of School Districts Reviewed During Fiscal Year 1999

Rank (a)	School District	General Fund Total Revenue	Percent Property Tax Revenue
1	Summit	$ 12,233,005	98.81
13	Boulder	$123,162,338	77.40
30	Denver	$340,095,695	60.10
39	Cherry Creek	$188,387,459	53.05
91	Academy	$ 69,806,490	33.80

Source: Office of the State Auditor's analysis of Legislative Council data.
(a) Ranked by percentage of property tax revenue to total revenue of a total of 176 school districts in Colorado.

School districts have experienced a loss of interest earnings on property tax investments due to the timing change of school districts' budget year. Before the transitional year, many school districts were able to take advantage of the cash flow timing by investing property tax and equalization payments until they were needed to cover expenditures. However, under the new budget year, school districts are not able to earn interest on those balances due to the timing of revenue inflows. As noted in a previous audit, interest revenue allocated to the General Fund for six school districts declined by an average of 52 percent, or by an annual total of almost $4 million, between the last full fiscal year before the transitional year and Fiscal Year 1995.

During our current audit we compared the interest income reported between the full fiscal year before the transitional year and Fiscal Year 1999. As the following table illustrates, interest revenue allocated to the General Fund for the five school districts reviewed declined by an average of 39 percent, or by an annual total of almost $2.2 million.

School Districts' General Fund
Interest Revenue
at 6-30-99 Compared With 12-31-91

School District	Interest Revenue for the 12 Months Ended: 12-31-91	6-30-99	Dollar Change	Percent Change
Denver	$2,888,464	$1,636,182	($1,252,282)	(43)
Boulder	1,007,149	499,766	(507,383)	(50)
Cherry Creek	1,347,545	821,159	(526,386)	(39)
Summit	255,641	107,651	(147,990)	(58)
Academy	34,764	309,191	274,427	789
TOTAL	$5,533,563	$3,373,949	($2,159,614)	(39)

Source: Office of the State Auditor's analysis of school districts' 12-31-91 and 6-30-99 audited financial statements.

School districts continue to emphasize the need for the State's Interest-Free School Loan Program. We contacted ten school districts and each of them expressed satisfaction with the Program. All school districts stated that loans are utilized to cover operating expenses and payroll. School district personnel informed us that the Program was easy to use and that they believe the Program meets the needs of covering General Fund cash flow deficits.

School Districts Complied With the Intent of the Statute

Statutes prohibit loans from being used by a district for items eligible for payment from the contingency reserve, for covering a foreseeable level of uncollectible property taxes, or for the simultaneous purchase and sale of a security in order to profit from price disparity. Statutes authorize imposition of a penalty on any district using a loan in a manner contrary to provisions of the statute. During our audit we found no evidence of noncompliance for the districts we reviewed. However, as discussed in Chapter 2, we found other errors that must be addressed.

Administration of the Interest-Free School Loan Program

Chapter 2

Background

Under Section 22-54-110, C.R.S., the State Treasurer has the responsibility to approve all loans to school districts participating in the Interest-Free School Loan Program. The State Treasurer also has the authority to determine the methodology used in calculating General Fund cash deficits and in establishing reporting mechanisms necessary to ensure that school districts are consistently and accurately reporting cash deficits.

We conducted an audit of the Interest-Free School Loan Program in September 1996. During the prior audit, we noted several areas where improvements could be made in the administration of the Program. We recommended that the Treasurer's Office work with school districts to clarify the required reporting of General Fund cash deficits and the proper calculation and timetable for the loan repayment.

In general, we found that the school districts we reviewed demonstrated a need for the loans and understood the intent of the Program. We noted that the Treasurer's Office updated the General Fund Cash Flow Worksheet requirements and enhanced its instructions. However, we found inconsistencies and errors in some amounts reported on the loan requests at each of the school districts. In some cases this resulted in the district's borrowing state funds sooner than needed or borrowing more than was needed to meet the district's true cash flow needs. In addition, we found that repayment schedules did not always comply with the law. As a result, the State lost interest on moneys that were used for interest-free loans when these loans could have been repaid.

Improvements in Program Oversight Are Needed

According to statute, a school district may participate in the Program during any month of the budget year that it demonstrates, to the satisfaction of the State Treasurer, that a loan is needed. The Treasurer's Office developed a General Fund Cash Flow Worksheet to be used by school districts to determine cash flow deficits. The Treasurer's Office also provided detailed instructions to school districts on how to complete the worksheet. School districts are required to complete a worksheet for any month in which a loan is requested. The worksheets list the beginning cash balance in the district's General Fund, anticipated cash receipts, anticipated cash disbursements, and cash available from other funds. If the worksheet indicates that a loan is needed for a given month, the loan is approved.

As stated in Chapter 1, we reviewed five school districts that borrowed about 77 percent of the loans for Fiscal Years 1999 and 2000. We asked each school district to provide supporting documentation for the amounts reported on the Cash Flow Worksheets. If errors were found, we recalculated the cash deficits based on the actual financial data provided by the school districts. We found the following errors and inconsistencies in calculating the cash deficits for the districts reviewed:

- Two school districts did not update the General Fund Cash Flow Worksheets to provide actual receipts, disbursements, and available cash from other funds. In fact, one district submitted the same worksheet for the months that loans were requested in both Fiscal Year 1999 and Fiscal Year 2000. According to the Treasurer's Office instructions, worksheets should be updated for each application to include actual amounts for preceding months.

- One district could not provide supporting documentation for amounts reported on the General Fund Cash Flow Worksheets in Fiscal Year 1999. That district experienced staff turnover, and the new staff could not locate all of the predecessor's schedules. Without proper supporting documentation, it was difficult to determine whether the Cash Flow Worksheets submitted were accurate.

- One district did not include available cash amounts from their Capital Reserve and Insurance Reserve Funds on their General Fund Cash Flow Worksheets. Amounts in these funds are required to be utilized before a district requests loans from the Treasurer's Office.

- School districts' estimated revenue and expenditures varied significantly from actual amounts. The Treasurer's Office requires that the General Fund Cash Flow Worksheet be submitted by the third day of the month that a cash flow deficit is anticipated. Therefore, school districts must estimate that month's receipts and disbursements. Poor estimation procedures can result in school districts' borrowing more money than needed.

- Two of the five districts did not submit a reconciliation between cash balances from their audited financial statements to the amount reported on the General Fund Cash Flow Worksheet. The Treasurer's Office requires school districts to provide these reconciliations; however, most school districts do not submit this reconciliation, and the Treasurer's Office does not follow up to ensure that they are received. Providing these reconciliations as part of the loan request will help ensure that the correct beginning balances are used.

- Confusion continues to exist regarding the deduction of cash reserved for TABOR emergencies on the General Fund Cash Flow Worksheets. In a prior audit it was noted that school districts did not consistently deduct this amount from submitted worksheets. The Treasurer's Office clarified its instructions regarding this deduction; however, school districts are still not consistently deducting this amount in their calculation. Consistent reporting of the TABOR reserve will help ensure that it is properly deducted.

- School districts are not consistently reporting the beginning cash balance on submitted General Fund Cash Flow Worksheets. As noted above, two of the five districts did not submit a reconciliation between cash balances. The other three districts included varying items, such as due to and due from other funds. Consistent reporting of the beginning cash balance will help ensure that the correct beginning balances are used.

The errors noted above resulted in school districts borrowing more funds than necessary. We estimated the lost interest to the State using the Treasurer's Office's average interest on pooled cash of 6.02 percent for Fiscal Year 1999 and 5.95 percent for Fiscal Year 2000. The estimated interest lost to the State as a result of errors in calculating cash deficits for the five school districts reviewed was about $1.32 million in Fiscal Year 1999 and about $1.28 million in Fiscal Year 2000.

Loan Payments Were Not Made In Accordance With Statutory Requirements

Statutes require school districts to begin repaying loan amounts in the months of April, May, and June if resources are available. All loans must be repaid in full by June 25 of the State's fiscal year. In a prior audit, we found that school districts did not fully understand the timetable for the loan payback as defined in statute. The Treasurer's Office clarified the payback calculation in the instructions that were provided to participating school districts. While the timeliness of payments has improved, we continue to find that school districts are not in accordance with statutory requirements.

We reviewed the timing and amounts of loan repayments for the five districts. We asked the district to provide documentation for how they determined the timetable and amount of progress payments. We recalculated the loan payback using the district's supporting documentation. We also did a recalculation and used actual financial information to determine the amounts of payments that could have been made. Overall, we found that all of the school districts could have made larger payments sooner than they did in both Fiscal Years 1999 and 2000. The estimated interest lost to the State as a result of the late repayments for the five school districts reviewed was approximately $389,000 in Fiscal Year 1999 and $344,000 in Fiscal Year 2000.

For example, two districts did not include available resources from other funds in the calculation of the payback, specifically the Capital Reserve and Insurance Reserve Funds. Section 22-54-110 (2) (b) (I), C.R.S., further defines "available resources" as follows:

> *Available resources means any available cash and investments in district funds which can be used to alleviate general fund cash shortfalls including, but not limited to, the district's capital reserve fund and any fund or account within the general fund established solely for the management of risk-related activities.*

In a previous audit two school districts out of six reviewed did not include these resources as part of their payback. Errors occurred because the instructions were not clear about including these available resources in the calculation. Since the previous audit, the Treasurer's Office has enhanced its instructions, showing an example of a payback utilizing these other resources. Even though the instructions were clarified, two out of the five districts did not include available resources from other funds in their calculation, and the Treasurer's Office did not detect and correct the problem.

Overall, the errors found during our review meant that the State lost more interest revenue than it would have if all the school districts had calculated their cash deficits and paid the loans back in accordance with statute. The estimated interest lost to the State resulting from all errors found for the five school districts reviewed was approximately $1.7 million in Fiscal Year 1999 and $1.6 million in Fiscal Year 2000.

Improvements in the Administration of the Interest-Free School Loan Program Are Needed

Improvements must be made in the administration of the Interest-Free School Loan Program so that amounts reported on the worksheets and the calculation of the repayments are consistent and accurate. We believe that this could best be accomplished through a joint effort between the Treasurer's Office and the school districts participating in the Program. A joint effort will ensure that all interested parties can be certain that the proper calculation of cash deficits and resources available for repayment of the loan is understood. Ultimately, the State Treasurer is responsible. According to Section 24-54-110 (1) (a), C.R.S., "the state treasurer shall determine the methodology for the calculation of cash deficits and establish reporting mechanisms necessary to ensure consistent and accurate reporting of cash deficits." Therefore, in cases where there is a disagreement on reporting, the State Treasurer should make the final decision.

We believe that, at a minimum, the following should continue to be clarified and communicated to school districts:

- How to accurately calculate loan paybacks. In particular, the timetable and including available amounts in other funds should be clearly defined.

- That actual receipts, expenditures, and available cash in other funds should be reported as soon as financial information is available.

- How to report the portion of the General Fund cash balance that is reserved for TABOR emergencies and therefore, is not an available resource to the school district.

- How to accurately report the beginning cash balance on the General Fund Cash Flow Worksheet. In particular, whether to include amounts due to and/or due from other funds.

In addition, no procedures have been established for comparing estimated receipts and disbursements to actual amounts. Such a comparison is important because the estimated amounts are the basis for loan requests. If actual amounts differ significantly from estimated amounts, the variance should be explained by the school district.

Finally, the Treasurer's Office should require all school districts that received a loan under the Program to provide the appropriate supporting documentation for amounts borrowed and repaid. This will allow the Treasurer's Office to ensure consistent and accurate reporting of cash deficits.

Recommendation No. 1:

The Treasurer's Office should continue to work with the school districts that participate in the Interest-Free School Loan Program to clarify the required reporting of General Fund cash deficits and the proper calculation and timetable for the loan repayment. Specifically, the following needs to be clarified on the Department's instructions and communicated to participating school districts:

a. The use of available balances in the Capital Reserve and Insurance Reserve Funds to alleviate cash flow deficits.

b. The calculation of beginning cash balances and whether to include amounts due to/from other funds and the amount reserved for TABOR emergencies.

c. The requirement to update the General Fund Cash Flow Worksheet to report actual amounts of revenue, expenditures, and cash available from other funds for preceding months.

Treasurer's Office Response:

Agree. The Treasury has rewritten its instructions to better communicate these requirements to the participating districts. The Treasury has also modified the worksheets the districts must submit to ensure the appropriate items are incorporated in the calculations. The new instructions and worksheets were mailed to the districts on August 16, 2000. Implementation date: August 16, 2000.

Recommendation No. 2:

The Treasurer's Office should require participating school districts to provide as part of their loan request, worksheets showing:

a. A comparison of actual to estimated receipts and disbursements including an explanation of any significant variances.

b. The calculation of the amounts and timing of the loan payback.

c. A reconciliation between the beginning cash balance as reported on the year-end audited financial statements and the worksheets.

Treasurer's Office Response:

Agree. The new worksheets sent to the districts require them to specifically provide an update of actual versus estimated receipts and disbursements, reiterate the required timing of repayments, and request a reconciliation of the beginning cash balance. Implementation date: August 16, 2000.

Statutory Requirements Need to Be Reviewed and Clarified as Necessary

During our audit several school districts expressed concern regarding statutory requirements of the Interest-Free School Loan Program. Specific concerns related to the calculation of the loan payback and the use of available resources in the Capital Reserve and Insurance Reserve Funds.

Clarification of the Statutory Requirements of the Loan Payback Statute Is Necessary

As discussed earlier, the loan payback calculation is defined in statute. Section 22-54-110 (2) (a), C.R.S., outlines the calculation of the loan payback as follows:

> *For the months of March, April, and May of each budget year, any district receiving a loan under the provisions of this section shall begin to repay such loan if the district's available resources, as of the last day of the month, increased by the next month's revenue exceed the next month's expenditures plus a cash reserve.* ***The excess resources must be remitted to the state treasurer by the close of the business on the fifth business day of the following month. (Emphasis added)***

The statute requires that school districts submit payments to the Treasurer's Office by the fifth day of April, May, and June. As part of the required calculation, school districts must take into account the next month's receipts and disbursements. In order to meet the statutory deadlines, calculations must be done at the end of a month in order to determine the amount of money that will be remitted to the State. Therefore, districts must estimate the next month's receipts and disbursements. School districts have stated that although the calculation might indicate that a larger payment can be made, at the end of a month a district might not have the available cash in order to make the payment.

The following is a hypothetical example of a loan repayment. The example illustrates the methodology of calculating loan repayments that are set forth in statute and the Treasurer's Office instructions.

Hypothetical Repayment of School Loan by School District X

General Fund cash on hand as of March 31		$77,000
Plus:	Other available funds	6,000
	Estimated next month's receipts	42,000
Less:	Estimated next month's disbursements	(28,000)
	8 percent reserve factor	(10,000)
Amount due Treasurer's Office by April 5		$87,000

Note: The reserve factor is 8 percent of the school district's average monthly disbursements.

As can be seen in the hypothetical example, the district should have paid $87,000 to the Treasurer's Office by April 5. However, the district only had $77,000 cash on hand at the end of March, which is less than the required payment amount.

On the basis of statutory requirements, we determined that one district should have repaid its entire loan amount by May 5, 1999. This district made a progress payment on April 5, and the remainder of the loan amount was not repaid until June 7. District personnel pointed out that although the statutory calculation showed that the district should have made a payment by the May 5 deadline, at the end of April this district did not have a sufficient cash balance.

The Treasurer's Office believes that the intent of the statute was for the districts to begin repaying their loans as soon as they begin receiving property tax receipts. The first of these payments should be received from counties around March 10. As is shown in the above example, districts may not have available resources at the end of a month to make the required payment by the due date. Therefore, the Treasurer's Office should consider seeking statutory changes to make the due date for loan payments on the fifteenth of each month.

Recommendation No. 3:

The Treasurer's Office should work with the General Assembly to seek clarification of statutory provisions to change the due date of loan payments from the fifth to the fifteenth of each month.

Treasurer's Office Response:

Agree. The Treasury will support a change to this aspect of the program's authorizing statute. Implementation date: May 1, 2001.

Concern Exists Regarding the Use of Available Resources From Other Funds

During our audit several school districts expressed concern with using available cash in their Capital Reserve and Insurance Reserve Funds. This issue was also raised by districts during our prior audit. School districts had expressed concern that using the available resources in the Capital Reserve and Insurance Reserve Funds may cause the funds to experience cash deficits. Statutory requirements state that the Interest-Free School Loan Program be utilized only for General Fund cash deficits. Therefore, if borrowing from these funds causes those funds to experience a cash deficit, school districts are not able to request loans for these deficits.

As mentioned previously, Section 22-54-110, C.R.S., requires that school districts utilize "available cash and investments in district funds which can be used to alleviate general fund cash shortfalls including, but not limited to, the district's capital reserve fund and any fund or account within the general fund established solely for the management of risk-related activities." According to the Treasurer's Office instructions, funds that should be used include the Capital Reserve and Insurance Reserve Funds. The Capital Reserve Fund is used to account for ongoing capital needs, such as building additions and equipment purchases. The Insurance Reserve Fund is used by school districts to account for risk-related activities, such as worker compensation claims.

We noted previously that one district did not include available resources in the Capital Reserve and Insurance Reserve Funds when completing the General Fund Cash Flow Worksheets. According to district personnel, these funds were not included, because the district was concerned about possible cash deficits in these funds. Personnel were specifically concerned with borrowing from the Insurance Reserve Fund, since the fund is used to pay employee benefit claims. Borrowing money from this fund could result in a negative cash balance, creating a problem if a large employee claim were to be filed.

Eliminating the requirement that districts include the Capital Reserve and Insurance Reserve Funds is understandable from the school district's perspective. From the State's perspective, a change in the statute could increase the amount of interest-free borrowing by districts and, therefore, the amount of state interest. We believe it would be beneficial for the Treasurer's Office to work with school districts to obtain a full understanding of issues surrounding the use of reserves and the cost/benefit to the State and districts. As part of its efforts in this regard, the Treasurer's Office could explore alternative borrowing options such as Tax Anticipation Notes (TANS). We contacted five school districts that have issued TANS instead of utilizing the Interest-Free School Loan Program. Four of these districts stated that one of the primary reasons for issuing TANS instead of utilizing the Program was due to the requirement of including available resources from the Capital Reserve and Insurance Reserve Funds. Once all borrowing options are explored, the Treasurer's Office should consider clarifying or amending the statutes.

Recommendation No. 4:

The Treasurer's Office should assess the impact of changing the requirements of utilizing available resources from the Capital Reserve and Insurance Reserve Funds. If it is determined that the change would be beneficial, the Treasurer's Office should work with the General Assembly to seek revision of statutory provisions.

Treasurer's Office Response:

Agree. The Department mailed a survey to all the State's school districts on August 16, 2000, asking them to state how the recommended changes would alter their district's participation in the program. The Treasury will summarize the results of this survey paying particular attention to the potential fiscal impact of such a change so that the General Assembly may determine if the costs of such a change are acceptable. Implementation date: May 1, 2001.

Disposition of Prior Audit Recommendations

The following recommendation is from the *Interest-Free School Loan Program Compliance Audit* dated September 1996. The recommendation number shown below was used in the 1996 Report.

	Recommendation	Disposition
1	The Treasurer's Office should continue to work with the school districts that participate in the Interest-Free School Loan Program to clarify the required reporting of General Fund cash deficits and the proper calculation and timetable for the repayment. At a minimum, the following documentation should be required of the school districts: a. A comparison of actual to estimated receipts and disbursements including an explanation of any significant variances. b. Documentation of the calculation of the amounts and timing of the payback. c. A reconciliation of variances between beginning cash balances on the audited financial statements and the worksheets.	Partially implemented. The Treasurer's Office did provide each participating school district with a copy of the updated worksheet and improved instructions with a repayment example that includes use of other available resources. However, the Treasurer's Office still does not require supporting documentation from participating school districts. See current year Recommendation No. 2.

Appendix

Appendix A
Interest-Free Loans to School Districts
Fiscal Years 1999 and 2000

School District	County	Amount Borrowed Fiscal Year 1999	Amount Borrowed Fiscal Year 2000
Academy 20	El Paso	$17,918,997	$14,996,000
Adams Arapahoe 28J	Arapahoe	5,247,089	-
Arapahoe #6 - Littleton	Arapahoe	5,043,000	7,000,000
Bennett 29J	Adams	600,000	677,651
Boulder Valley RE-2	Boulder	46,490,243	41,782,709
Branson Reorganized 82	Las Animas	39,125	-
Buena Vista R-31	Chaffee	258,000	-
Burlington RE-6J	Kit Carson	70,778	-
Cherry Creek 5	Arapahoe	34,657,216	-
Cheyenne County RE-5	Cheyenne	85,270	-
Clear Creek RE-1	Clear Creek	890,244	803,450
Cripple Creek RE-1	Teller	784,060	635,824
Delta County 50(J)	Delta	-	790,800
Denver County 1	Denver	111,642,000	106,531,968
Durango 9-R	La Plata	3,550,000	3,050,000
Eagle County RE-50	Eagle	2,498,527	2,912,082
East Grand 2	Grand	-	559,352
Fort Morgan RE-3	Morgan	1,724,197	1,818,526
Gilpin County RE-1	Gilpin	255,000	426,000
Gunnison Watershed RE1J	Gunnison	3,375,000	3,380,000
Hayden RE-1	Routt	686,561	505,453
Lake County R-1	Lake	920,000	1,000,000
Las Animas RE-1	Bent	-	103,013
Logan Valley RE-1	Logan	1,349,000	715,000
Mesa County Valley 51	Mesa	9,641,470	4,961,357
Moffat County 1	Moffat	2,516,352	1,889,867
Montrose County RE-1J	Montrose	1,395,468	988,398
Park County RE-2	Park	1,752,691	1,665,800
Platte Canyon 1	Park	80,671	-
Pueblo County Rural 70	Pueblo	2,429,640	1,636,104

Total Borrowed Both Fiscal Years	Property Tax Revenue Fiscal Year 1999	Property and Specific Ownership Tax Reliance Fiscal Year 1999	FTE Pupil Count October 1999
$32,914,997	$21,153,844	33.80%	16,142.0
5,247,089	34,394,924	28.29%	28,136.0
12,043,000	26,410,022	40.01%	15,802.5
1,277,651	1,679,610	37.04%	950.5
88,272,952	88,028,170	77.40%	25,978.0
39,125	257,371	59.46%	47.0
258,000	1,839,717	46.65%	991.0
70,778	1,347,800	38.26%	847.0
34,657,216	90,350,409	53.05%	39,808.0
85,270	855,824	46.41%	301.0
1,693,694	4,612,497	73.43%	1,307.5
1,419,884	1,892,358	66.95%	564.5
790,800	5,418,536	26.13%	4,455.0
218,173,968	185,818,144	60.10%	65,568.5
6,600,000	14,350,236	70.30%	4,731.0
5,410,609	19,048,526	98.64%	4,273.5
559,352	4,817,579	87.88%	1,254.0
3,542,723	995,886	30.32%	3,046.0
681,000	6,475,867	47.89%	386.0
6,755,000	1,923,806	86.36%	1,644.5
1,192,014	1,953,829	69.91%	512.5
1,920,000	785,209	34.94%	1,214.5
103,013	3,595,277	23.62%	715.0
2,064,000	22,865,495	31.36%	2,718.0
14,602,827	9,652,623	30.51%	18,519.5
4,406,219	6,456,253	83.98%	2,479.0
2,383,866	4,162,422	30.38%	5,086.0
3,418,491	2,474,823	93.76%	552.5
80,671	2,083,675	30.95%	1,483.5
4,065,744	8,640,057	34.24%	6,558.0

Appendix A
Interest-Free Loans to School Districts
Fiscal Years 1999 and 2000

School District	County	Amount Borrowed Fiscal Year 1999	Amount Borrowed Fiscal Year 2000
Roaring Fork RE-1	Garfield	4,606,764	4,515,503
Salida R-32	Chaffee	800,000	500,000
Sargent RE-33J	Rio Grande	450,000	450,000
Sierra Grande R-30	Costilla	48,538	-
South Routt RE-3	Routt	618,000	695,000
St Vrain Valley RE-1J	Boulder	5,077,969	-
Summit RE-1	Summit	7,400,000	8,900,000
Thompson R-2J	Larimer	3,634,287	4,214,165
Weld Gilcrest RE-1	Weld	3,044,274	2,738,432
Weld Platte Valley RE-7	Weld	239,000	465,833
Weld Windsor RE-4	Weld	1,331,000	1,524,000
West End RE-2	Montrose	358,359	-
West Grand 1-JT	Grand	544,369	775,859
West Yuma County RJ-1	Yuma	200,642	-
TOTAL		**$284,253,801**	**$223,608,146**

Source: Office of the State Auditor's compilation of Treasurer's Office, Department of Education, and Legislative Council data.

Note: This Appendix only includes districts that borrowed from the Interest-Free School Loan Program.

Total Borrowed Both Fiscal Years	Property Tax Revenue Fiscal Year 1999	Property and Specific Ownership Tax Reliance Fiscal Year 1999	FTE Pupil Count October 1999
9,122,267	15,021,754	71.01%	4,673.0
1,300,000	1,999,667	36.95%	1,227.0
900,000	866,931	42.30%	418.5
48,538	1,346,366	65.75%	301.0
1,313,000	1,877,889	77.95%	451.0
5,077,969	32,760,458	43.51%	17,473.0
16,300,000	11,074,979	98.81%	2,474.0
7,848,452	20,510,089	36.12%	13,832.0
5,782,706	4,546,956	54.24%	1,864.5
704,833	3,124,071	64.06%	1,066.5
2,855,000	6,027,023	63.28%	2,359.5
358,359	1,013,154	39.88%	458.5
1,320,228	1,861,650	66.46%	515.5
200,642	231,339	51.46%	1,016.0
$507,861,947	**$676,603,115**		

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