Financial Analysis of Shawnee Public Schools Independent School District No. 93

This summary provides a comprehensive deep dive into the District's financial performance over the past 13–14 years (2010–2023). The analysis reviews the regulatory reporting framework, asset and liability trends, revenue and expenditure patterns, debt management, liquidity, and internal control considerations. Additionally, a summary of potential red flags is provided from a state auditor and CPA perspective.

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1. Reporting Framework & Audit Opinions

- **Regulatory Basis vs. GAAP:**
  All financial statements are prepared on a regulatory basis as prescribed by the Oklahoma State Department of Education rather than U.S. GAAP. Consequently, auditors consistently issue adverse opinions with respect to GAAP while affirming fair presentation on a regulatory basis. This uniform approach—from early reports (2010–2011, 2011–2012) to the most recent years (2021–2023)—ensures comparability over time.
- **Audit Oversight:**
  While early audits were performed by firms like Putnam & Company, Jenkins & Kemper have conducted audits from 2015 onward. Despite the change in audit firms, the consistent use of the regulatory model and the recurring GAAP adverse opinions highlight that the differences stem from the reporting model, not from financial mismanagement.

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2. Financial Position & Fund Structure

- **Assets:**
  The District's total assets have grown from approximately $55 million in 2015 to a peak of around $82 million in 2022 before moderating to about $74 million in 2023. Key asset components include:
  - **Cash and Equivalents:** Strong liquidity with recovering year-end cash balances.
  - **Property, Plant, and Equipment:** Significant investment in land, buildings, and equipment, with consistent depreciation recorded.
- **Liabilities:**
  Long-term liabilities, primarily bonds and capital leases, consistently represent a major portion of the balance sheet. For example, in recent years bonds payable have exceeded $10 million, with total long-term debt figures in the $17–$20 million range.
- **Fund Accounting Structure:**
  The District segregates resources using several funds:
  - **General Fund:** Core operating transactions.
  - **Special Revenue Funds:** Dedicated to building, co-op (when maintained), and child nutrition.

    - **Debt Service Funds:** Accumulate resources for debt repayment.
    - **Capital Projects Funds:** Finance major capital improvements.
- This structure aids compliance and detailed monitoring of restricted versus unrestricted resources.

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3. Revenue and Expenditure Trends

- **Revenue Composition:**
  Revenues are derived from local sources (property taxes), state funding, federal contributions, intermediate sources, and non-revenue receipts. Trends show gradual increases over time with state and federal funding playing a critical role, particularly in the 2021–2023 period.
- **Expenditure Patterns:**
    - **Instruction and Support Services:** Remain the largest expenditure categories, with instruction costs consistently exceeding $15 million annually and support services surpassing $10 million.
    - **Debt Service and Capital Expenditures:** Debt service costs are significant (ranging from $2.4 million to $3.2 million annually) and facilities acquisition expenses, while lower, are key for capital projects.
    - Variances between budgeted and actual spending are evident in several years, leading to the use of supplemental financing to bridge the gaps.

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4. Debt Management and Capital Financing

- **Long-Term Debt Levels:**
  The District consistently finances capital projects through bonds and capital leases. In recent years, the combined long-term debt has remained in the $17–$20 million range, demonstrating a steady reliance on debt for infrastructure improvements.
- **Debt Service Funds:**
  These funds are earmarked for covering interest and principal repayments. However, the balances in these funds are modest (e.g., typically in the $200,000 range), highlighting the need for careful cash flow management.
- **Supplemental Financing:**
  Supplemental sources—such as operating transfers, lapsed appropriations, and additional bond proceeds—are regularly utilized when operating revenues fall short, ensuring that essential services are maintained despite temporary shortfalls.

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5. Fund Balances & Liquidity

- **Cash Fund Balances:**
  Liquidity has varied; for instance, the General Fund's cash balance increased significantly by 2022 (with ending balances over $6.6 million) before moderating to around $5.9 million in 2023. Such fluctuations reflect spending cycles and debt service demands.
- **Restricted vs. Unassigned Balances:**
  The financial statements clearly differentiate between restricted funds (e.g., for debt service, capital projects, and child nutrition) and unassigned funds. The stability of unassigned balances (e.g., $5–$6 million in recent years) is crucial for operational flexibility.

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6. Internal Controls & Compliance

- **Internal Control Evaluations:**
  Annual audits include comprehensive assessments of internal controls. While minor recommendations are common—mainly for process improvements—the overall system is considered adequate to support accurate and compliant financial reporting.
- **State Compliance:**
  The District adheres strictly to the financial reporting provisions mandated by the Oklahoma State Department of Education, which bolsters transparency and accountability despite the regulatory reporting differences from GAAP.

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7. Key Observations & Outlook

- **Fiscal Stability:**
  The District demonstrates overall fiscal stability with growing total assets, diversified revenue sources, and a structured fund accounting system. However, ongoing reliance on long-term debt and periodic operating deficits underscore the need for continuous fiscal vigilance.
- **Budget Variances:**
  Recurring variances between budgeted and actual expenditures indicate potential areas for tighter financial controls and more realistic budgeting practices.
- **Forward-Looking Considerations:**
  Future planning should focus on optimizing debt service management, improving cash reserves in the face of capital expenditure cycles, and continually refining budget accuracy to prevent overreliance on supplemental financing.

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8. Red Flags and Areas of Concern

Based on the trends and numbers observed, several red flags require further attention:

- **Heavy Reliance on Long-Term Debt:**
  The District's substantial use of bonds and capital leases (with bonds payable often exceeding $10 million) could pressure future cash flows, particularly if revenue streams weaken or interest costs rise.
- **Recurring Operating Deficits:**
  Consistent periods of operating deficits—where expenditures exceed core operating revenues—have necessitated supplemental financing. Persistent deficits may signal structural weaknesses in revenue generation or spending control.
- **Significant Budget Variances:**
  Noticeable differences between budgeted and actual spending, especially in high-cost areas such as instruction and support services, may indicate overly optimistic budgeting or inadequate expenditure controls.
- **Fluctuating Liquidity:**
  Although the District has maintained overall liquidity, dips in cash and unassigned fund balances in some fiscal years raise concerns about short-term financial vulnerability, particularly when unexpected expenses arise.
- **Pressure on Debt Service Funds:**
  Modest balances in the Debt Service Fund (often below $300,000) may be insufficient if there are unexpected increases in debt service costs, highlighting the need for stronger cash buffers.

Conclusion

From the perspective of a state auditor and CPA, Shawnee Public Schools Independent School District No. 93 shows overall fiscal stability, underpinned by a diversified revenue base and a robust fund accounting system. However, key concerns—such as heavy reliance on long-term debt, recurring operating deficits, significant budget variances, and fluctuating liquidity—warrant closer scrutiny. Proactive measures in debt management, tighter budgeting controls, and strengthened liquidity reserves will be essential to safeguard the District's long-term financial health.