INTERNAL MONITORING REPORT
June 16, 2021

POLICY:	**2.3 Financial Planning and Budgeting**
POLICY CATEGORY:	**Operating Limitations**
PERIOD MONITORED:	**Projected Revenues/Expenditures for Fiscal Years 2021-2022, 2022-2023, and 2023-2024**

This is my monitoring report on the Board of Education's Operating Limitations Policy "Financial Planning and Budgeting." I certify that the information contained in this report is true and complete and presented in accordance with the routine monitoring report schedule. This report will monitor the policy starting at its more detailed provisions and end with the global provision.

Chris Gdowski, Superintendent
June 11, 2021

1. **POLICY PROHIBITION WORDING:** *Shall not fail to include credible projections of revenues, carryover funds and expenses, separation of capital and operational items, and disclosure of planning assumptions for the organization as a whole, for each school and operating unit, and for each fund.*

INTERPRETATION:

I interpret "*Shall not fail to include credible projections of revenues, carryover funds and expenses*" to mean:

Revenues: Revenue estimates are based on the Colorado Department of Education's (CDE) and other state agencies' projections, the District Planning Department's student count projections, current legislation impacting the School Finance Act, and historical trends for specific ownership taxes. Student count projections are also based upon detailed analyses of anticipated enrollment at each school in the district for the upcoming school year and future school years.

Expenditures: Projected district expenditures include anticipated adjustments for compensation; benefits (including PERA); inflation for goods and services, staffing and program changes, and budget realignment.

Carryover: Carryover projections are estimated by compiling year-end projections for both current year revenues and expenditures.

DATA REPORTED: The table shows three-year projections using the criteria in the interpretation above. The revenue projections assume base per pupil revenue increases by 2% each year, the budget stabilization factor is bought down each year at an average of 2% to offset the impact of continued declining enrollment, and the at-risk funding allocated in FY21-22 is recurring in future years. The district will continue to see declines in student enrollment and will take advantage of five year averaging to calculate Total Program funding.

Increases in expenditures assume salary adjustments for a step and step equivalent, health insurance premium adjustments of 5% each year, no changes in the PERA contribution (currently 20.9%), staffing adjustments associated with enrollment and programmatic changes, and contractual increases in annual software license renewals.

Adjustments to Transfers Out assume enrollment in district approved charter schools remains constant and per pupil revenue allocations adjust with increase in base and reduction in the budget stabilization factor. All other funds are assumed to be self-sustaining and no additional transfers from the General Fund are required.

TABOR and Contingency Reserve increases are calculated on revenue received from both Total Program and all voter approved mill levy overrides. The increases are in line with inflation increases associated with the 2018 approved mill levy override (5C), consumer price index adjustments to base per pupil funding and the continued buy down of the negative factor.

The Multiyear Commitments, retirement stipends for certified and classified staff, are projected to remain constant during the reporting period.

The reduction in the Designated Reserve in projected fiscal years is due to the inclusion of over $5.2M of at-risk funding being included in expenditures and the reduction of dedicated support funds associated with new school expansions.

Data for both projection years is determined by analyzing activity in the prior three to five fiscal years and adjusting for major anomalies, like reduced funding associated with the COVID-19 pandemic. Historical performance is not a guarantee of future results, and the district's largest funding source, Total Program, is driven by legislative decisions of the Colorado General Assembly.

General Fund	2021-2022 Budget	2022-2023 Projection	2023-2024 Projection
Beginning Fund Balance	$ 63,580,440	$ 64,401,624	$ 54,454,271
Revenue	$ 414,960,290	$ 418,014,615	$ 424,284,834
Expenditures	$ 355,773,519	$ 364,590,058	$ 368,235,959
Total Transfers Out to Other Funds and Charter Schools	$ 58,365,587	$ 59,357,802	$ 60,366,885
Revenue Over/(Under) Expenditures and Transfers	$ 821,184	$ (5,933,245)	$ (4,318,009)
Ending Fund Balance	$ 64,401,624	$ 58,468,379	$ 50,136,262
TABOR & Multiyear Commitments	$ 20,782,018	$ 20,966,646	$ 21,077,096
Contingency Reserve - 3% per Board Policy	$ 10,860,448	$ 11,045,076	$ 11,232,842
Encumbrances & Carryover	$ -	$ -	$ -
Designated Reserve	$ 7,101,363	$ 1,842,559	$ 921,280
School Carryforward	$ -	$ -	$ -
Colorado Preschool Program (CPP) Assigned Fund Balance	$ -	$ -	$ -
Designated Override Reserve	$ 19,772,034	$ 16,437,755	$ 12,456,017
Unassigned Fund Balance	$ 5,885,761	$ 8,176,344	$ 4,449,027

COMPLIANCE: I report compliance.

INTERPRETATION:

The phrase "*Shall not fail to include…separation of capital and operational items…*" to mean:

Capital items, including land, buildings, improvements to buildings, and equipment having a unit value of greater than $5,000, are maintained in accounts separate from operational items. This is reasonable as the district utilizes the Colorado Department of Education standard chart of accounts, which clearly identify the proper accounts for expenditures of capital and operational items.

DATA REPORTED: Separation of capital and operational items is maintained in accordance with Colorado Department of Education reporting requirements, using appropriate account codes in the Capital Reserve and Building Fund for capital items and in the General Fund for operational items.

Separation of these items is verified through external independent audits and approved electronic submission of accounts and expenditures to the Colorado Department of Education.

COMPLIANCE: I report compliance.

INTERPRETATION:

The phrase "*Shall not fail to include… disclosure of planning assumptions for the organization as a whole…*" does not require further interpretation.

DATA REPORTED:

All fiscal years include the use of one time federal funds or fund balance to offset General Fund revenue shortfalls. The 2021-2022 budget utilizes $2.3M of ESSER I, $$1.4M of ESSER II, and $14.2M of ESSER III funds to meet the educational needs of students. These dollars support the increased school based staffing, summer enrichment program, online programming and additional social emotional staff in buildings. The 2022-2023 projection utilizes $6.7M of ESSER III and $5.9M of fund balance to offset the projected shortfall in Total Program revenue needed to adopt K-5 literacy curriculum, maintain additional social emotional support in schools, and provide salary increases to all staff. Additionally the 2023-2024 projection utilizes $4.2 of ESSER III and an additional $4.2M of fund balance, to allow for educational support in a declining enrollment environment and salary increases for all staff.

The projections for 2022-2023 and 2023-2024 are based upon the following assumptions:

> a) Funded pupil count for district schools decreasing in 2022-2023 by 603 pupils, and decreasing in 2023-2024 by an additional 202 pupils; enrollment for district managed charter schools is remaining constant across both fiscal years; b) Annual health insurance increases of 5%; c) Inflation increase in each of the next two fiscal years of 2.0% each year, and an average buy down of the budget stabilization factor of 2% to offset the impact of continued declining enrollment d) Step and lane increases granted for classified and certified staff and an annual compensation increase for administrators equivalent to a certified/classified step increase; e) Additional increases to staff compensation are not included in the assumption; f) in both fiscal years expenditures were adjusted to create a balanced budget.

COMPLIANCE: I report compliance.

INTERPRETATION:

I interpret "*Shall not fail to include…disclosure of planning assumptions… for each school and operating unit…*" to mean:

All school budgets, and all department budgets, are based on attaining the organizational goals as follows:

- At the conclusion of the 2021-2022 school year, Adams 12 Five Star Schools will be the highest performing school district among its comparable peer school districts.
- Increase the graduation rate.
- Increase median growth percentiles to the 50th percentile or above.
- Meet or exceed the state of proficiency data in reading, writing, math, and science.

DATA REPORTED: School and department budgets for the 2021-2022 school year continue past allocations deemed effective in attaining the student achievement outcomes as well as new allocations predicted to improve those outcomes. New staffing allocations for 2021-2022 include funding an Executive Director of Diversity, Equity and Inclusion, staffing for online programming, additional accounting and procurement staff, coordinators for electives and online programming, additional health aides, cybersecurity support, district security services, and ground maintenance staff. Additional operating allocations for 2021-2022 include software purchases for licenses, family tech support and cybersecurity consulting, Section 504 data system, student transportation tracking system, support of school/district websites, environmental testing, and additional supplies and materials for district marketing and increased maintenance/custodial supplies to account for inflation. One-time allocations include new budget development software, replacement warehouse truck, hardware for website implementation and replacement filters for new air purifiers. Department operating budgets were reduced by 5% and each manager determined the specific line items that were reduced. Examples include limitation of overtime, reduction of offsite staff training and travel and supply purchases.

COMPLIANCE: I report compliance.

I interpret "***Shall not fail to include…disclosure of planning assumptions… for each fund"* to mean** the Bond Redemption-Debt Service, Special Revenue, Capital Projects, Building, Insurance Reserve, and Information Technology Funds. The interpretations for the planning assumptions for each fund are listed below, followed by supporting data and compliance statements.

INTERPRETATION:

I interpret <u>*Bond Redemption-Debt Service Fund*</u> *planning assumptions* to mean the use of assessed valuation and the debt payment schedule to calculate needed revenue, which is received through the debt service mill levy. This is reasonable because the assessed valuation from the assessor's offices and the debt payment schedule provided by district investment bankers have historically been reliable to generate revenue adequate to make annual debt payments.

I interpret <u>*Special Revenue Funds*</u> *planning assumptions* to mean revenue information from CDE for federal and state grants, revenue projections based on student fees in alignment with Board approved student fees, and expenditures based on historical actuals and current estimates based on expected enrollment and programmatic costs. The Special Revenue Funds include the Government Designated-Purpose Grant Fund, Interscholastic Athletics Fund, Pupil Activity Special Revenue Fund, Other Special Revenue Fund, Instructional Special Revenue Fund, Food Services Fund, and the Before, After and Summer Enrichment (BASE) Program Fund.

I interpret the <u>*Capital Projects*</u> and <u>*Building*</u> *planning assumptions* to mean the alignment of available Bond Fund, Capital Reserve Fund, and Building Fund allocations with projected needs provided by long-range enrollment projections, with priority given to protection of life/health/safety of building occupants, items that affect the immediate operational use of the facility if not repaired, and meeting the objectives outlined in the voter approved bond election in November, 2016.

I interpret <u>*Insurance Reserve Fund*</u> *planning assumptions* to mean use of information provided by recognized insurance brokers and professional actuaries to project future costs. This is reasonable as these external experts utilize industry trends, loss history, and actuarial studies.

I interpret <u>*Information Technology Fund*</u> *planning assumptions* to mean the management of ongoing technology needs, including student devices, hardware, software, infrastructure, maintenance and district support.

DATA REPORTED

2021-2022 Key Budget Assumptions for Each Fund

Fund	Revenue	Expenditures
General Fund	The beginning fund balance is estimated at $63.6M. Per pupil revenues (PPR) increased by $713.82 to $8,675.49 due to $427.6M decrease in the Budget Stabilization factor. The district funded pupils, including district approved charters, for FY 21-22 is 36,657, which includes 100% of the kindergarten students as full time. The total year over year decrease is 541 funded pupils after the impact of 5-year averaging.	Salaries and benefits make up 90.38% of the gross operating expenditures (not inclusive of the one time transfer of expenses to the government designated purpose grants fund), which includes a step/step equivalent and a 1.5% COLA increase across all employee groups. There is a $9.6M negative transfer to the Governmental Designated Grant Fund which will be a transfer of identified expenditures to ESSER funding. Operating expenditures are in alignment with the organizational goals.
Insurance Reserve Fund	The beginning fund balance is estimated to be $4.6M with transfers in of $3.5M, and is the result of the insurance plan developed by Colorado School District Self Insurance Pool for property and liability and by Pinnacol for Worker's Compensation.	The District has received insurance plans developed by the Colorado School District Self Insurance Pool for property and liability and by Pinnacol for Worker's Compensation and in cooperation with insurance brokers and with the use of professional actuarial studies. This information provides the basis for transfers made to the Insurance Reserve Fund for payment of premiums for liability, property, vehicle and worker's compensation insurances, as well as a risk reporting software and risk management staff.
Information Technology Fund	This is a new fund in FY2021-22, funding will come from a transfer in of $17.4M from the General Fund for expected operating and capital IT needs.	The 2021-2022 Information Technology Fund budget covers ongoing technology needs for the district to include student devices, hardware, software, infrustructure, maintenance, and technology support.
Capital Reserve Fund	The beginning fund balance is estimated to be $23.3M for FY 21-22, $4.3M is being transferred from the general fund to the Capital Reserve Fund, for deferred maintenance, bus and vehicle purchases, and payments for Energy Performance Contract (EPC) and 2016 Refunding of the 2008 Certificates of Participation (COP) for the construction of a new elementary school, aquatic center and transportation facility. Funds associated with IT projects will be moved to the Information Technology Fund at the start of FY21-22.	The 2021-2022 Capital Reserve Fund budget includes planned expenditures for deferred maintenance and facilities work throughout the district, district-wide door hardware upgrades, new bus and vehicle purchases, and principal and interest payments for COP's.

Fund	Revenue	Expenditures
Governmental Designated-Purpose Grants Fund	Revenue – Both Federal and State grants are included in this fund. Federal Grants: IDEA (Individuals with Disabilities Education Act) $7.8M; Title I - Education for the Disadvantaged $5.3M; Title II - Supporting Effective Instruction $1.0M; Title III - English Language Proficiency $0.8M; Title IV - Well-Rounded Education $0.5M; Medicaid $6.5M; CCLC (21st Century Community Learning Centers) $1.0M; and other federal grants $9.7M that includes estimates for additional funding in e-rate ($3.5M), additional federal funding received prior to December 31. 2021 ($5M) and potential additional funding for grants such as McKinney-Vento, Homeless and Perkins ($1.2M); one time federal grant funds include ESSER I $2.3M, ESSER II $1.4M, ESSER III $32.8M (which includes $2.9M for Charters), and ESSER Supplemental Funding (Native, Special Education, CCLC) $0.5M. State Grants: ELPA (English Language Proficiency Act) $4.2M; BEST (Building Excellent Schools Today) $1.7M; READ Act (Colorado Reading to Ensure Academic Development Act) $1.5M; and other state grants $4.5M that includes funding estimates for new career success grant ($1.5M), estimated state COVID grants received prior to 12/31/21 ($1.0M) and estimated additional allocations from grant programs reinstated with SFA ($2.5M). Most federal grants require the district to expend funds and then request reimbursement in order to comply with federal cash guidelines. Reimbursement requests are sent monthly.	Expenditures must be used in conformity with the grant and cannot exceed the amount of the grant. Most grants are used for salaries and benefits.
Interscholastic Athletic Fund	The beginning fund balance is estimated at $.4M. Athletic Fund assumptions project revenue from Board approved fees using historical data and input from school athletic coordinators, and a transfer in from the General Fund of $1.4M which is expected to cover the salaries and benefits of athletic coaching staff.	Expenditures, using historical trend and actual data, are aligned with available revenue sources and are used to support the athletic activities of the students.
Pupil Activity Special Revenue Fund	This fund is expected to have a beginning fund balance of $4.4M. Sources of revenue are generated from student fees that have been approved by the Board of Education. A full Fee Schedule is available for review on the district website and contain fees either mandatory, course related or optional. Examples of student fees would be field trips, workbooks, yearbooks, athletic programs, pottery, etc.	Colorado State Law (CRS 22-32-117) provides that revenue collected for student fees will be used for the designated purpose and shall not be expended for any other purpose.
Other Special Revenue Fund	The estimated beginning fund balance is $2.5M. Sources of revenue are generated from community use rentals of school facilities, auction surplus (sales of fixed assets), vendor rebates, local donations, band uniform replacement, and school based parent/teacher/student fundraising groups.	Expenditures include salary and benefits for district staff who oversee community use and auction activitites, including necessary operating expenditures. School based expenditures will align to the orginal funding purpose. Such that local donations and fundraising sources will be expended in accorrdance with guidelines submitted when the donation was received or fundraising activites were approved.

Fund	Revenue	Expenditures
Instructional Special Revenue Fund	The beginning fund balance is estimated at $6.5M. Funding is from a transfer in from the General Fund for 5C Curriculum and textbooks.	Expenditures included in this fund are those used to support textbooks & curriculum and literacy staff. Expenses for the Extended Day Kinder program moved into the General Fund in FY2021-22.
Food Service Fund	The beginning fund balance is estimated to be $6.0M for FY 21-22. The majority of revenues will be from USDA reimbursements through the Seamless Summer Option (SSO) waiver program allowing for all enrolled students with the district free meals. Cash revenue will be from a la carte sales and is expected to return to pre-covid levels.	Salaries, benefits, and food costs are the major expenses of this program and have increases due to cost of living adjustments and inflation. Additionally, staffing hours for training and setups have increased, as well as the contracted rates for food delivery to sites.
Before, After and Summer Enrichment Program Fund	The beginning fund balance is estimated to be $.5M for FY21-22. Revenues are generated from participant tuition as well as a minor amount of funding from the Colorado Child Care Assistance Program. Revenues are estimated based on historical actuals and expected enrollment.	Expenditures include salaries, benefits and program costs in support of the program, and are based on historical actuals and current estimates using expected enrollment.
Bond Redemption Fund	The beginning fund balance is estimated to be $112.4M. Revenues are generated from mill levies passed by the voters for the sole purpose of repaying bonds.	Interest and principal on payments based on fixed payments are due in December and June of each year, as well as fees for the paying agent and annual arbitrage calculations.
Building Fund	The beginning fund balance is estimated to be $58.7M. Revenues in FY 21-22 include $3.6M in estimated e-rate reimbursements and $0.1M in investment earnings.	Expenditures from this fund are for projects outlined in the initial bond issuance, and include school instructional upgrades, capital projects such as renovations, renewals, roof repair and repairs of existing facilities, technology refresh, and completion of existing building projects at numerous schools.

COMPLIANCE: I report compliance.

2. **POLICY PROHIBITION WORDING:** *Shall not provide less for Board prerogatives during the year than is set forth in the Cost of Governance policy.*

   INTERPRETATION:

   I interpret this to mean the District budget includes requested funding in accordance with Board of Education Policy 4.7. This is reasonable, as the Board of Education requires budgeted funds to perform its duties.

   DATA REPORTED: The Recommended Budget for Fiscal Year 2021-2022 provides funding in the amount requested by the Board of Education. The Board discussed, and there was general consensus regarding, its department budget at the April 7, 2021 meeting. This is expected to be adopted as part of the Final 2021-2022 District Budget at the June 16, 2021 Board of Education meeting.

   COMPLIANCE: I report compliance.

3. **POLICY PROHIBITION WORDING:** *Shall not budget in a manner that risks incurring those*

conditions prohibited in our policy on Financial Condition and Activities Policy.

INTERPRETATION:

I interpret this policy language to mean that planning provides for consistent compliance with Board Policy 2.4, which assures that money is only expended towards the achievement of Ends; that reserves are maintained with no less than the sum of the required TABOR Reserve, career longevity stipend reserve, encumbered funds reserve, and any multiple year financial commitment reserves; that a 3% discretionary reserve is maintained per Board of Education policy unless a plan for restoration of the discretionary reserve has been approved by the Board of Education; and that compliance does not require the absence of projected deficits in future fiscal years, as annual decisions regarding compensation and expenses, coupled with updated revenue assumptions are likely to eliminate such deficits. Compliance with this "prudent planning policy" requires compliance with the foregoing criteria in the proposed budget for the next fiscal year and reasonable estimates of revenues and expenses in the next two fiscal years.

DATA REPORTED: Budget planning has been prepared to meet the requirements of Board Policy 2.4 for fiscal years ending 2022 through 2024. The projections for fiscal year 2022-2023 predicts an increase in TABOR and Contingency reserves due to the increase in revenue, and then an additional increase to both in fiscal year 2023-2024. All fiscal years included in this report include mill levy override funding when calculating the TABOR and Contingency reserves. Projected fiscal years include the use of one time funds to balance the budget, but this could be offset in whole or in part, by variations in actual revenue compared to current assumptions, including annual changes to total program funding, specific ownership tax and earnings on investments in each year's budget.

COMPLIANCE: I report compliance.

GLOBAL POLICY PROHIBITION: *Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate materially from Board's Ends priorities, risk fiscal jeopardy, or fail to be derived from a multi-year plan.*

I submit that the Board's policy is comprehensively interpreted in the preceding provisions. This is reasonable because my interpretations, data reported and compliance statements are presented with those provisions above.

COMPLIANCE: I report compliance.

The Board acknowledged receipt of a monitoring report as of June 16, 2021, for Fiscal Years 2021-2022, 2022-2023, and 2023-2024 of the Superintendent concerning Board Policy 2.3 Financial Planning and Budgeting, and found the superintendent's interpretations were reasonable and supported by data that was relevant, justified and complete.