

INTERNAL MONITORING REPORT

June 17, 2015

POLICY: 2.3 FINANCIAL PLANNING AND BUDGETING
POLICY CATEGORY: OPERATING LIMITATIONS
PERIOD MONITORED: Projected Revenues/Expenditures for Fiscal Years 2015-2016, 2016-2017 and 2017-2018

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 15, 2015

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 and other state agencies’ projections, current legislation impacting the School Finance Act, historical trends for specific ownership taxes and various economic news releases. Revenue 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 including utilities; staffing and program changes; and budget realignment.

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

General Fund	2015-2016 Budget Projection	2016-2017 Budget Projection	2017-2018 Budget Projection
Beginning Fund Balance	\$38,739,130	\$29,074,876	\$22,040,993
Revenue	302,968,304	311,073,999	319,633,863
Expenditures	290,748,753	296,943,077	304,316,747
Transfers to Other Funds	21,883,805	21,164,805	21,164,805
Revenue Over (Under) Expenditures and Transfers	(9,664,254)	(7,033,883)	(5,847,689)
Ending Fund Balance	29,074,876	22,040,993	16,193,304
Ending Fund Balance % of Expenditures	10.00%	7.42%	5.32%
Required Reserve Per Board Policy	29,074,876	29,694,308	30,431,675
Available Fund Balance	-	(7,653,314)	(14,238,370)
Available Fund Balance % of Expenditures	0.00%	-2.58%	-4.68%

DATA REPORTED: The table shows three-year projections using the criteria in the interpretation above.

The projections for 2016-2017 and 2017-2018 are based upon the following assumptions: a.) enrollment growth increasing by 200 funded pupil count per year in District administered schools; b.) annual increases in AED and SAED contributions to PERA; c.) health insurance increase of 9%; d.) utilities increase of 6%; e.) inflation of 2.8%; f.) a step increase granted for classified and certified staff and an annual compensation increase for administrators equivalent to a certified/classified step increase.

Based on the foregoing assumptions, budget reductions in the 2016-2017 fiscal year are currently estimated at \$7.65 million and budget reductions for 2017-2018 are estimated at \$14.24 million in order to maintain nondiscretionary reserves in the General Fund (e.g. 3% TABOR emergency reserve, funds for payment of classified/certified longevity stipends in future years, etc.) as well as the 3% discretionary reserve required by Board Policy 2.4.

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 funds and accounts separate from operational items. This is reasonable as the District utilizes the Colorado Department of Education standard chart of accounts, which prohibits the commingling of expenditures for 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 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: The major planning assumptions used in planning for the 2016-2017 and 2017-2018 school years were identified earlier in the report.

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 and department budgets are based on the organizational assumptions shown in the preceding table, along with other criteria such as changes in enrollment at individual schools and changes in specific expenditure needs, such as utilities.

DATA REPORTED: Schools and operating units for the 2015-2016 school year incorporate the assumptions from the District’s budget plan as well as school and unit adjustments based on projected enrollment and changing expenditure needs.

COMPLIANCE: I report compliance.

I interpret “*Shall not fail to include...disclosure of planning assumptions... for each fund*” to mean the Debt Service, Special Revenue, Capital Projects, Insurance Reserve and Agency Funds. The interpretations for the planning assumptions for each fund are listed below, followed by supporting data and compliance statements:

INTERPRETATION:

I interpret *Debt Service Fund 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.

DATA REPORTED: The use of assessed valuation information and the debt payment schedule in planning have resulted in funds being available for timely debt service payments as verified by external financial audits and trustee paying agent reports.

COMPLIANCE: I report compliance.

INTERPRETATION:

I interpret *Special Revenue Funds planning assumptions* to mean the Athletic Fund, Before, After and Summer Enrichment Program Fund, Government Grant Fund, Nutrition Services Fund and Transportation Fund and with the assumptions listed below:

Athletic Fund assumptions project revenue through use of historical data and input from the District Athletic Director and the school athletic coordinators. Expenditures are aligned with available revenue sources.

The Before, After and Summer Enrichment Program Fund includes estimations for the revenue needed to cover expenses using past experience and current data of costs recovered through user charges.

Government Grant Fund planning assumptions are derived from the Learning Services Department and reflect new grant resources confirmed for receipt in upcoming fiscal years, as well as grant resources which will end in future fiscal years.

Nutrition Services Fund planning is derived from planning assumptions comprised of user supported revenue trends and related expenditures to provide services on a cost reimbursement basis.

The Transportation Fund revenue assumptions are based on anticipated changes to the categorical funding level. Expenditure estimates include planned changes in the number of bus routes offered in a given year and historical data on maintenance of equipment.

DATA REPORTED: Athletic Fund planning utilizes data from the preceding fiscal years in addition to staff knowledge at the school sites and District office.

The Before, After and Summer Enrichment Program Fund and Nutrition Services Fund planning comprises trending analysis and projections to provide services on a cost reimbursement basis to meet expected program plans.

The Government Grant Fund planning reflects a decrease of approximately \$623 thousand in grant funding and related spending in Fiscal Year 2015-2016, due to a slight reduction of Title I and IDEA awards and the planned spending of carryover funds.

The Transportation Fund planning is based on historical trends and includes the elimination of the transportation fee charged for student ridership.

COMPLIANCE: I report compliance.

INTERPRETATION:

I interpret *Capital Projects Funds planning assumptions* to mean the alignment of available Bond Fund and Capital Reserve Fund allocations with projected needs provided by long-range enrollment projections, with priority given to protection of life/health/safety of building occupants (priority 1) and items that affect the immediate operational use of the facility if not repaired (priority 2). Additionally, the District periodically analyzes future capital needs to be funded through voter-approved bond authorizations.

DATA REPORTED: The issuance of Certificates of Participation in the amount of \$27 million was approved by the Board of Education on April 15, 2015. Business Services' goal to prevent priority 1 and priority 2 maintenance issues is a criterion used to prioritize renovation projects and Capital Reserve Funds are used to address such capital needs. Additional assumptions are that the commitments made to voters for use of these funds are maintained. It is projected to spend down all remaining Building Fund resources allocated from November 2004.

COMPLIANCE: I report compliance.

INTERPRETATION:

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

DATA REPORTED: The District annually receives an insurance plan developed by Rocky Mountain Risk (formerly known as Adams County BOCES Self Insurance Pool), in cooperation with insurance brokers and use of professional actuarial studies. This information provides the basis for planning assumptions used by the District, resulting in an allocation to the Insurance Reserve Fund of \$3.7 million with budgeted expenditures of \$3.9 million for Fiscal Year 2015-2016.

COMPLIANCE: I report compliance.

INTERPRETATION:

I interpret *Agency Fund planning assumptions* to mean cash receipts and disbursements that occur as a result of school clubs and activities. Historical trends are used to determine the expected level of fund raising.

DATA REPORTED: In the Pupil Activity Fund, projected revenues are based on prior year data regarding fundraising revenues. All such revenues may be spent in the same year they are received.

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 Superintendent's Adopted Budget for Fiscal Year 2015-2016 provides funding in the amount requested by the Board of Education.

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 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; which plans for expenditures associated with student enrollment growth; and avoids fiscal jeopardy by observing sound, conservative fiscal management practices.

DATA REPORTED: Budget planning under this policy has been prepared to meet the requirements of Board Policy 2.4 for Fiscal Years 2016 through 2018. Staff submits quarterly financial and monitoring reports confirming that actual expenditures comply with 2.4 policy requirements.

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 17, 2015 for the period July 1, 2015 through June 30, 2016 of the Superintendent concerning Operating Limitations Policy 2.3 Financial Planning and Budgeting, and the Board found the superintendent's interpretations were reasonable and supported by data that was relevant, justified and complete.