

INTERNAL MONITORING REPORT

June 15, 2016

POLICY: 2.3 Financial Planning and Budgeting
POLICY CATEGORY: Operating Limitations
PERIOD MONITORED: Projected Revenues/Expenditures for Fiscal Years 2016-2017, 2017-2018 and 2018-2019

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, 2016

- 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.

General Fund (\$ in Millions)	2016-2017 Budget Projection	2017-2018 Budget Projection	2018-2019 Budget Projection
Beginning Fund Balance	\$ 26.80	\$ 26.70	\$ 19.40
Revenue	\$ 326.12	\$ 332.19	\$ 338.08
Expenditures	\$ 296.24	\$ 304.18	\$ 307.90
Total Transfers Out to Other Funds and Charter Schools	\$ 29.98	\$ 35.30	\$ 35.82
Revenue Over/(Under) Expenditures and Transfers	\$ (0.10)	\$ (7.30)	\$ (5.64)
Ending Fund Balance	\$ 26.70	\$ 19.40	\$ 13.76
Ending Fund Balance % of Expenditures	89.06%	54.94%	38.42%
Restricted Reserves per Constitution - TABOR	\$ 18.71	\$ 18.75	\$ 18.91
Assigned Fund Balance - CPP	\$ 0.05	\$ 0.05	\$ 0.05
Required Reserve Per Board Policy - 3%	\$ 8.89	\$ 9.13	\$ 9.24
Available Fund Balance	\$ (0.94)	\$ (8.53)	\$ (14.44)

Budget reductions in the 2017-2018 fiscal year are currently estimated at \$8.53 million and budget reductions for 2018-2019 are estimated at \$14.44 million in order to maintain restricted 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 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 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 2016-2017 projection utilizes \$7.3M in one time funds to balance the budget.

The projections for 2017-2018 and 2018-2019 are based upon the following assumptions:

- a.) enrollment decreasing by 1 and 71 students, respectively, for funded pupil count per year in District administered schools;
- b.) annual increases in AED and SAED contributions to PERA totaling .5% in 2017-2018 and .25% in 2018-2019;
- c.) annual health insurance increases of 5%;
- d.) inflation each year of 2.4%;
- e.) step and lane increases granted for classified and certified staff and an annual compensation increase for administrators equivalent to a certified/classified step increase;
- f.) cost-of-living increases to staff compensation are not included in the assumption.

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 2016-17 school year, Adams 12 will be rated a Performance District in the Colorado Accountability system.
- At the conclusion of the 2018-19 school year, Adams 12 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 2016-2017 school year continue past allocations deemed effective in attaining the foregoing student achievement outcomes as well as new allocations predicted to improve those outcomes. New allocations for 2016-17 include funding for commencement of the P-TECH/early college program at Northglenn High School; intervention support at the International School; intervention support and extended school day for students at Thornton Elementary School and Federal Heights Elementary School, and a pilot for expanded specials programming at Centennial Elementary School.

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, 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 *Bond Redemption-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 to generate revenue adequate to make annual debt payments.

I interpret *Special Revenue Funds 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 Athletic Fund, Pupil Activity Special Revenue Fund, Other Special Revenue Fund, Extended Day Kindergarten Program (EDKP) Fund, Food Services Fund, and the Before, After and Summer Enrichment (BASE) Program Fund.

I interpret the *Capital Projects 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.

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 these external experts utilize industry trends, loss history and actuarial studies.

I interpret *Agency Funds planning assumptions* to mean funds used to record financial transactions related to school-sponsored pupil organizations and activities. These activities are self-supporting and do not receive any direct or indirect district support within the fund. Assumptions for revenues and expenditures are based on prior year data and expected activity in the coming year, with expenses budgeted to match revenue.

DATA REPORTED

2016-2017 Key Budget assumptions for each fund appear below:		
Fund	Revenue	Expenditures
General Fund	The beginning fund balance is estimated at \$26.8M. This includes the planned decrease from FY 15-16. Per pupil revenues (PPR) increased by \$113 to \$7,259.97.	Salaries and benefits make up 91.32% of the operating expenditures, and include a .5% COLA increase, a .65% PERA increase and 3.88% health insurance increase. Operating expenditures are in alignment with the organizational goals as follows: <ul style="list-style-type: none"> • At the conclusion of the 2016-17 school year, Adams 12 will be rated a Performance District in the Colorado Accountability system. • At the conclusion of the 2018-19 school year, Adams 12 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.
Insurance Reserve Fund	The beginning fund balance is estimated to be \$2.18M with transfers in of \$3.35M, \$.3M less than in FY 15-16 budget, and is the result of the insurance plan developed by Rocky Mountain Risk, as well as historical and expected needs for the fund for the coming year.	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 transfers made to the Insurance Reserve Fund for payment of premiums for liability, property, and worker's compensation insurances, as well as security monitoring, environmental services, and risk management.

2016-2017 Key Budget assumptions for each fund appear below:

Fund	Revenue	Expenditures
Capital Reserve Fund	The beginning fund balance is estimated to be \$35.79M. For FY 16-17, \$5.92M is being transferred from the general fund to the Capital Reserve Fund, which is a decrease of \$4.78M from the FY 15-16 budgeted transfers. The reduction reflects anticipated savings of approximately \$1.5M from refunding the 2008 COPs and a one time transfer reduction of \$2.5M given the availability of the 2014 COP proceeds to meet urgent capital needs.	The 2017 Capital Reserve Fund budget includes planned HVAC replacement, sewer line repair, crawlspace repair, IT equipment, principal and interest payments for ITX and COP's, as well as other deferred maintenance and facilities work throughout the district.
Governmental Designated-Purpose Grants Fund	Most State and Federal grants require the district to expend funds and then request reimbursement from CDE in order to comply with Federal cash guidelines. Reimbursement requests are sent to CDE monthly. Grants include ELPA (English Language Proficiency Act) \$3.2M; IDEA (Individuals with Disabilities Education Act) \$6.1M; Title I - Achievement of the Disadvantaged \$3.9M; Title II - Teacher Quality \$.7M; READ Act (Colorado Reading to Ensure Academic Development Act) \$3.5M; Medicaid \$3.5M; other federal grants \$1.9M; and other smaller state and federal grants.	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 \$.30M. 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 \$.194M, or 23% of the total Athletic fund budget.	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 was previously combined with the Pupil Activity Agency Fund. It is broken out separately for 2016-2017, and is expected to have a beginning fund balance of \$3.2M. Fund sources are revenues from pupil activities that are charged via the Board approved fee schedule, and include such items as instructional materials fees, technology fees, band fees, school field trips, planners, art, etc.	Expenditures are to be used for activities and programs that benefit the programs that raised the revenues and are broken out by school level.

2016-2017 Key Budget assumptions for each fund appear below:

Fund	Revenue	Expenditures
Other Special Revenue Fund	This fund was previously combined with the Pupil Activity Agency Fund. It covers the non-district provided lunch programs at Northglenn and Thornton High Schools, local grants, and items such as vendor rebates, business donations, and fund balance assigned for periodic high cost expenditures for items such as textbook adoptions and band uniform replacement. The estimated beginning fund balance is \$2.58M.	Expenditures include salaries, benefits, and food costs for the Northglenn and Thornton High School lunch programs, districtwide curriculum purchases, and for any grants from local businesses, expenditures are to be used in accordance with the guidelines required in the funding documents.
Extended Day Kindergarten Program Fund	This fund has been carved out from the General Fund to be a stand alone fund for 2016-2017. The beginning fund balance is estimated at \$.45M. Revenues are generated from monthly fees paid by participants in 21 programs, including three pilot programs, throughout the District.	Expenditures are used to support EDKP at each of the schools that has this program and include salaries, benefits, and program costs.
Food Service Fund	The beginning fund balance is estimated to be \$4.6M. Revenues are derived from the sale of breakfast and lunches, and includes a small lunch fee (\$.10 per meal) increase this year. In addition, we receive a federal reimbursement as part of the national school breakfast and lunch program.	Salaries, benefits, and the cost of food are the major expenses of this program.
Before, After and Summer Enrichment Program Fund	The beginning fund balance is estimated to be \$2.26M. Revenues are derived from participant tuition and a small amount of funding from the Colorado Child Care Assistance Program. Revenues are estimated based on historical actuals and expected enrollment.	Expenditures include salaries, benefits, overhead 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 \$58.97M. Revenues are generated from mill levies passed by the voters for the sole purpose of repaying bonds, and investment earnings.	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.
Transportation Fund	As fees are no longer charged for in-district transportation, we are no longer required to have a separate transportation fund. The Transportation Fund moved to the General Fund for FY 16-17.	As fees are no longer charged for in-district transportation, we are no longer required to have a separate transportation fund. Expenses for transportation moved to the General Fund for FY 16-17.
Pupil Activity Agency Fund	The beginning fund balance is estimated to be \$.89M. The fund is used to record financial transactions related to school-sponsored pupil organizations (e.g. PTO, PTA, Booster Clubs, etc.) and activities. Projected revenues are based on prior year data regarding fundraising revenues and expected activity in the coming year.	Activities in this fund are self-supporting and do not receive any direct or indirect district financial support. Expenditures shown are based on prior year data and are budgeted to match revenue.

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 Final Budget for Fiscal Year 2016-2017 provides funding in the amount requested by the Board of Education. The Board discussed its 2016-2017 department budget at the March 16, 2016, April 13, 2016 and May 20, 2016 meetings. The Board department budget was finalized at the May 20, 2016 meeting and is expected to be adopted as part of the Final 2016-2017 District Budget at the June 15, 2016 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 2 fiscal years.

DATA REPORTED: Budget planning has been prepared to meet the requirements of Board Policy 2.4 for fiscal years ending 2017 through 2019. The budget for Fiscal Year 2017 anticipates that the Ending Fund Balance in the General Fund may be less than the 3% discretionary reserve required by Board Policy 2.4.1b and so a plan for restoring the 3% discretionary reserve has been submitted for Board consideration at the June 15, 2016 meeting. Projections for fiscal years 2017-2018 and 2018-2019 predict significant budget reductions which may be avoided, in whole or in part, by variations in actual revenue/expenditures compared to current assumptions, including annual changes to actual compensation in each year’s budget.

COMPLIANCE: I report compliance assuming the Board of Education's approval of the plan for restoration of the 3% discretionary balance.

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.

Acknowledged receipt of a monitoring report as of June 15, 2016 for the period July 1, 2016 through June 30, 2017 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.