

INTERNAL MONITORING REPORT

June 20, 2018

POLICY: 2.3 Financial Planning and Budgeting
POLICY CATEGORY: Operating Limitations
PERIOD MONITORED: Projected Revenues/Expenditures for Fiscal Years 2018-2019,
2019-2020, and 2020-2021

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, 2018

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	2018-2019 Budget	2019-2020 Projection	2020-2021 Projection
Beginning Fund Balance	\$ 39,240,653	\$ 35,273,164	\$ 30,186,250
Revenue	\$ 353,177,882	\$ 359,391,307	\$ 365,712,346
Expenditures	\$ 315,365,366	\$ 321,111,392	\$ 321,743,675
Total Transfers Out to Other Funds and Charter Schools	\$ 41,780,005	\$ 43,366,829	\$ 43,984,644
Revenue Over/(Under) Expenditures and Transfers	\$ (3,967,489)	\$ (5,086,914)	\$ (15,973)
Ending Fund Balance	\$ 35,273,164	\$ 30,186,250	\$ 30,170,277
TABOR & Multiyear Commitments	\$ 19,396,480	\$ 19,535,730	\$ 19,707,289
Community Preschool Program Assigned Fund Balance	\$ -	\$ -	\$ -
Encumbrances & Carryover	\$ 15,000	\$ 15,000	\$ 15,000
Designated Reserve	\$ 6,308,080	\$ 910,581	\$ 598,000
School Carryforward	\$ 90,750	\$ 125,000	\$ 125,000
Contingency Reserve - 3% per Board Policy	\$ 8,420,528	\$ 8,559,778	\$ 8,731,337
Unassigned Fund Balance	\$ 1,042,326	\$ 1,040,161	\$ 993,651

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:

The 2019-2020 projection utilizes \$5.0M in one-time funds to balance the budget.

The projections for 2019-2020 and 2020-2021 are based upon the following assumptions:

- a) Enrollment for district schools decreasing in 2019-2020 by 195 students, and increasing in 2020-2021 by 106 students; enrollment for district managed charter schools increasing in 2019-2020 by 202 students and increasing in 2020-2021 by 62 students;
- b) Annual health insurance increases of 5%;
- c) Inflation each of the next two years by 3.0% and 2.8%, respectively;
- 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) Cost-of-living increases to staff compensation are not included in the assumption;
- f) PERA employer contribution increases each year of 0.5% (increased employee contributions are planned as payroll deductions and not new district expense).

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 2019-20 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 2018-2019 school year continue past allocations deemed effective in attaining the student achievement outcomes as well as new allocations predicted to improve those outcomes. New allocations for 2018-19 include funding a 0.5 AP FTE in each elementary school; preschool service at Thunder Vista, Arapahoe Ridge and Cherry Drive; support of Title I cusp schools - Centennial, Westview, Leroy and STEM Launch; and 4.0 ELL FTE to support increased student populations.

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 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 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 *Capital Projects* and *Building 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 *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

2018-2019 Key Budget Assumptions for Each Fund

Fund	Revenue	Expenditures
General Fund	<p>The beginning fund balance is estimated at \$39.2M. Per pupil revenues (PPR) increased by \$466 to \$7,966.24. Funded pupil count is expected to decrease by 159 students for district managed schools and increase by 68 for charter schools.</p>	<p>Salaries and benefits make up 91.84% of the operating expenditures, and include a step/step equivalent across all employee groups and a 2% COLA, final .50% PERA increase implemented January 2018 and 5.7% health insurance increase. Operating expenditures are in alignment with the organizational goals as follows:</p> <ul style="list-style-type: none"> • At the conclusion of the 2018-19 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.
Insurance Reserve Fund	<p>The beginning fund balance is estimated to be \$4.0M with transfers in of \$3.9M, and is the result of the insurance plan developed by Colorado School District Self Insurance Pool for property and liability and by Pinnacle for Worker's Compensation, as well as financial resources previously allocated to Rocky Mountain Risk for administration of claims prior to 7/1/2017 and payment for initial debt for pool origination.</p>	<p>The District has received insurance plans developed by the Colorado School District Self Insurance Pool for property and liability and by Pinnacle 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, and worker's compensation insurances, as well as risk management staff.</p>
Capital Reserve Fund	<p>The beginning fund balance is estimated to be \$15.2M. For FY 18-19, \$7.9M is being transferred from the general fund to the Capital Reserve Fund, which reflects one time capital improvements to door hardware and school security as well as adjustments in COP debt payments.</p>	<p>The 2018-2019 Capital Reserve Fund budget includes planned updates in door hardware, secured entrances, IT equipment, principal and interest payments for ITX and COP's, as well as other deferred maintenance and facilities work throughout the district. FY18-19 is the final year for ITX debt and the \$2.6M budgeted will be available for other needs in future years.</p>
Governmental Designated-Purpose Grants Fund	<p>Both Federal and State grants are included in this fund. Federal Grants: IDEA (Individuals with Disabilities Education Act) \$6.8M; Title I - Education for the Disadvantaged \$4.8M; Title II - Improving Teacher Quality \$1.0M; Title III - English Language Proficiency \$.6M; Medicaid \$6.9M; CCLC (21st Century Community Learning Centers) \$0.8M; and other federal grants \$2.6M; State Grants: ELPA (English Language Proficiency Act) \$3.9M; READ Act (Colorado Reading to Ensure Academic Development Act) \$1.8M; and other state grants \$1.4M. 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.</p>	<p>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.</p>

2018-2019 Key Budget Assumptions for Each Fund

Fund	Revenue	Expenditures
Interscholastic Athletic Fund	The beginning fund balance is estimated at \$.37M. 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 \$4.1M. Fund sources are revenues from pupil activities that are charged via the Board approved fee schedule, and include such items as 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.
Other Special Revenue Fund	The estimated beginning fund balance is \$1.7M. This fund covers local grants, community use of school facilities, Auction Surplus Program (designed to capture activities related to sales of fixed assets) and items such as vendor rebates, business donations, and band uniform replacement.	Expenditures include salary and benefits for the Warehouse Services Lead (Auction Surplus program lead), expenses related to community use of facilities at school locations, band uniform replacement, and for any grants from local businesses, expenditures are to be used in accordance with the guidelines required in the funding documents.
Instructional Special Revenue Fund	The beginning fund balance is estimated at \$2.30M. This fund includes the Extended Day Kindergarten Program (EDKP), and activities relating to instructional materials. Revenues are generated for the EDKP from monthly fees paid by participants in 21 programs throughout the district. Revenues from student fees for instructional materials are shown here as is the transfer from the General Fund for textbooks.	Expenditures included in this fund are those used to support EDKP at each of the schools that has this program and include salaries, benefits, and program costs. The balance of expenditures are for instructional material purchases.
Food Service Fund	The beginning fund balance is estimated to be \$3.1M. Revenues are derived from the sale of breakfasts and lunches, and includes an average increase of \$.10 for the breakfast fee and \$.10 for the lunch fee 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. The Food Service department has a long term plan to reduce fund balance which has been approved by the Colorado Department of Education (CDE). The plan includes additional training for Nutrition Services staff, purchase of equipment, and improvements in the quality of meals served to students.

2018-2019 Key Budget Assumptions for Each Fund

Fund	Revenue	Expenditures
Before, After and Summer Enrichment Program Fund	The beginning fund balance is estimated to be \$1.8M. 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 \$60.7M. 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 \$226.8M. Revenues in FY 18-19 are from estimated investment earnings. The first sale of the bonds on 12/20/16 was for \$285.00M and brought in \$34.30M in premium.	Expenditures from this fund are for projects outlined in the initial bond issuance, and include school instructional upgrades, capital projects such as renovations, renewals, and repairs of existing facilities, technology refresh, completion of the buildout of the new Anthem PK-8 school opening in August 2018, and expansion of the STEM Lab.
Pupil Activity Agency Fund	The beginning fund balance is estimated to be \$.92M. This 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 from the district. Expenditures shown are based on prior year data and are consistent with prior year expenses and are designed to follow revenue 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 Final Budget for Fiscal Year 2018-2019 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 March 21, 2018 meeting. This is expected to be adopted as part of the Final 2018-2019 District Budget at the June 20, 2018 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 2019 through 2021. Projections for fiscal years 2019-2020 and 2020-2021 predict increases in TABOR and discretionary reserves based on additional revenue, and 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 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 20, 2018, for Fiscal Years 2018-2019, 2019-2020 and 2020-2021, 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 is relevant, justified and complete.