

INTERNAL MONITORING REPORT

May 25, 2016

POLICY: 2.4 FINANCIAL CONDITION AND ACTIVITIES
POLICY CATEGORY: OPERATING LIMITATIONS
PERIOD MONITORED: July 1, 2015 – March 31, 2016

This is my monitoring report on the Board of Education's Executive Limitation policy "Financial Condition and Activities." I certify that the information contained in this report is true and complete, and it is presented in accordance with the routine monitoring report schedule. This report will monitor the policy starting at its more detailed prohibitions and end with the global prohibition.

Christopher Gdowski, Superintendent
May 20, 2016

- 1. POLICY PROHIBITION:** *Shall not at any time: (a) Use any reserves other than as intended and permitted by law; or (b) spend any discretionary reserves or allow discretionary reserves to be less than 3% of the general fund expenditures at any time; or (c) fail to provide for incremental growth of discretionary reserves, up to 5% of general fund expenditures, during fiscal years that funding to the District will increase and prudent to do so; (d) fail to maintain reasonable fund balances in other funds; and (e) fail to maintain sufficient appropriated reserves.*

INTERPRETATION (2.4.1 a.):

I interpret “(a) shall not use any reserves other than as intended and permitted by law” to mean:

The District (including charter schools) only expends restricted funds, as shown in the table below, for purposes permitted by law throughout the identified monitoring period. Reserves are maintained as budgeted items not yet spent.

TABOR	An amount equal to 3% of the annual District expenditures must be held in reserve unless the Board adopts a resolution permitting expenditure of the funds and provides security for these funds by means of a letter of credit or by using District assets as collateral. (TABOR reserves are not required for federal and enterprise funds).
Contract Reserves	Multi-year contract obligations for payment of certified and classified employee retirement stipends.

DATA REPORTED: Reserves are maintained for the designated purposes as shown below. There has been no expenditure of these funds. The District’s cash and investment balance declines significantly from July through February each fiscal year because property tax revenues are not received until the spring.

	District	
	Budgeted Restricted Reserve Balance 7/31/2015	Restricted Reserved Balance 3/31/2016
	<u> </u>	<u> </u>
TABOR Reserve	\$ 8,722,463	\$ 8,722,463
Contract Reserves	<u>10,855,000</u>	<u>10,855,000</u>
Total Restricted Reserve	\$ 19,577,463	\$ 19,577,463
 General Fund Cash & Investment Balance	 \$ 54,782,729	 \$ 48,102,477

	Global Village		Prospect Ridge	
	Budgeted Restricted	Restricted Reserved	Budgeted Restricted	Restricted Reserved
	Reserve Balance	Balance	Reserve Balance	Balance
	7/31/2015	3/31/2016	7/31/2015	3/31/2016
TABOR Reserve	\$ 164,361	\$ 201,905	\$ 229,915	\$ 229,915
Contract Reserves	<u>75,000</u>	<u>75,000</u>	<u>200,005</u>	<u>200,005</u>
Total Restricted Reserve	\$ 239,361	\$ 276,905	\$ 429,920	\$ 429,920
General Fund Cash & Investment Balance	\$ 754,839	\$ 1,155,792	\$ 2,904,959	\$ 3,767,432

	Stargate		Westgate	
	Budgeted Restricted	Restricted Reserved	Budgeted Restricted	Restricted Reserved
	Reserve Balance	Balance	Reserve Balance	Balance
	7/31/2015	3/31/2016	7/31/2015	3/31/2016
TABOR Reserve	\$ 148,000	\$ 148,000	\$ 89,000	\$ 111,000
Contract Reserves	<u>200,000</u>	<u>200,000</u>	<u>75,000</u>	<u>50,000</u>
Total Restricted Reserve	\$ 348,000	\$ 348,000	\$ 164,000	\$ 161,000
General Fund Cash & Investment Balance	\$ 1,957,052	\$ 2,280,152	\$ 279,625	\$ 407,702

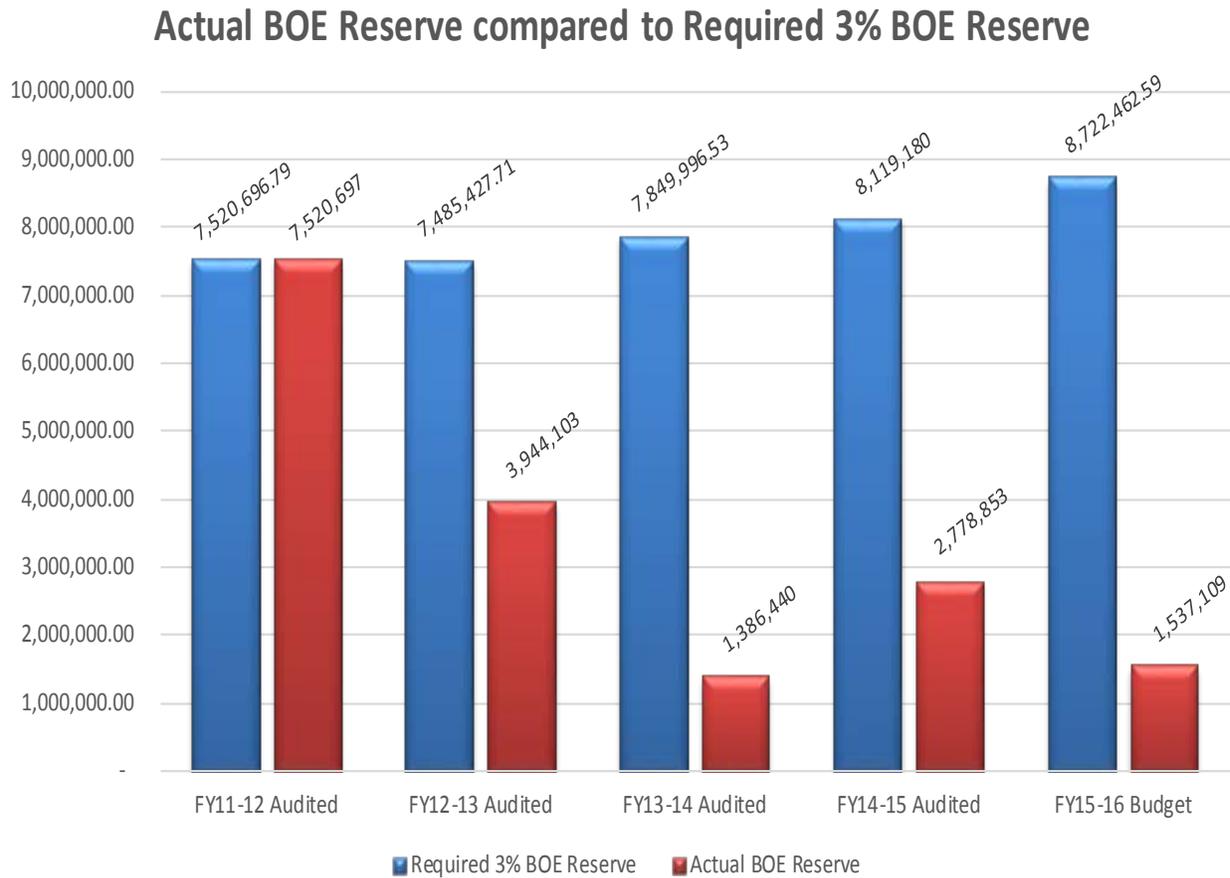
COMPLIANCE: The District and Charter School performance complies with the standard.

INTERPRETATION (2.4.1 b./c.):

I interpret “(b) shall not spend any discretionary or allow discretionary reserves to be less than 3% of general fund expenditures at any time” to mean:

- A. A sum equal to 3% of General Fund Expenditures in funds 10, 17, 18 and 19, excluding charter school transfers, will be held as discretionary reserve (Board of Education Reserve) and shall not include funds designated as Committed, Reserved or Assigned.

DATA REPORTED:



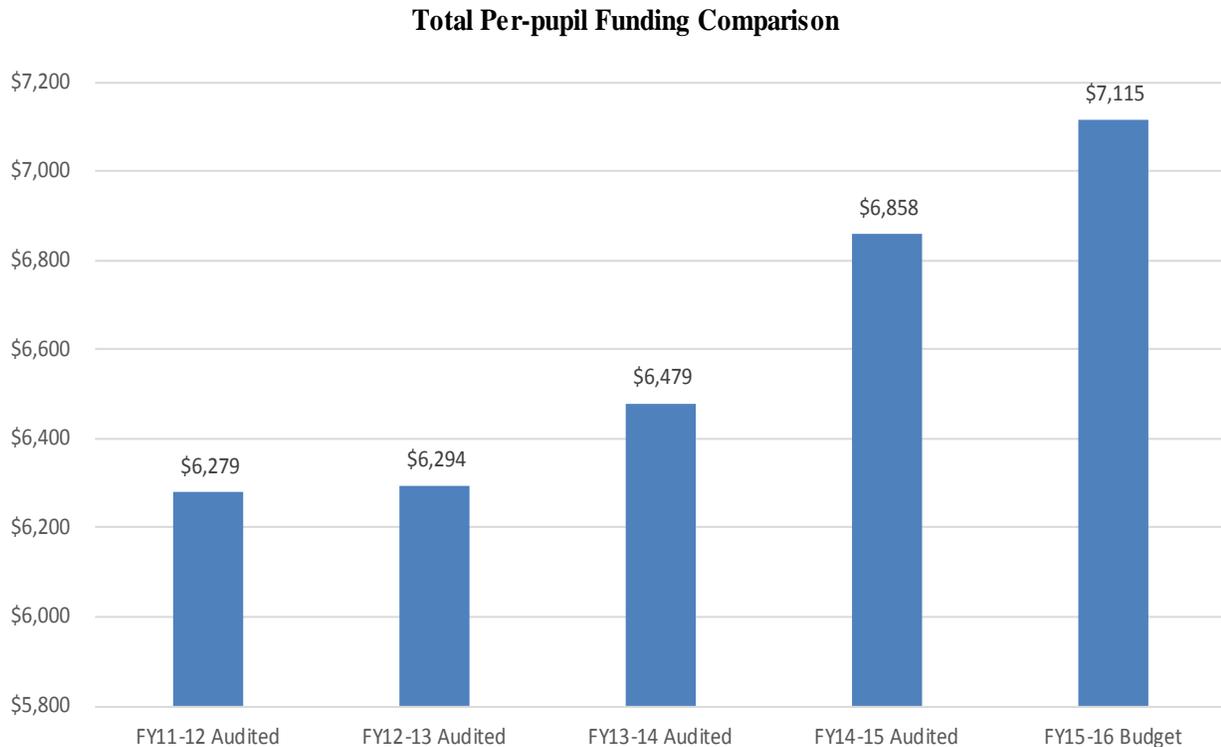
COMPLIANCE: The District’s performance does not comply with the standard. As of 3/31/16 the District has been below the required 3% Board of Education Reserve since FY12-13. In prior years the District believed it was in compliance, but with further and more detailed review of the fund balance allocations it has been determined that prior reports included Assigned fund balance within the reserves described as discretionary. District staff is working on a plan to move into compliance in future fiscal years.

I interpret “(c) shall not fail to provide for incremental growth of discretionary reserves, up to 5% of general fund expenditures, during fiscal years that funding to the District will increase and prudent to do so” to mean:

- B. Discretionary reserves shall be increased in the District’s annual budget only when i) the District’s per pupil funding has been increased as compared to the prior fiscal year, ii) the District is in compliance with Operating Limitations regarding expenditures for deferred maintenance, and iii) the District is in compliance with all Ends requirements.

DATA REPORTED:

- i) District per pupil funding in FY15-16 is budgeted at \$7,115, an increase of \$257 as compared to per pupil funding in FY14-15 of \$6,858.



- ii) In the most recent monitoring reports submitted to the Board, the District has reported non-compliance with Policy 2.5.2 regarding annual deferred maintenance expenditures and non-compliance with several Ends policies regarding student achievement.

COMPLIANCE: The District’s performance complies with the standard. Per-pupil funding has increased but the District has reported non-compliance with policy 2.5.2 and with several Ends policies. Accordingly, the FY15-16 budget does not allocate additional funds for growth of the District’s discretionary reserves in the general fund because it would not be prudent to do so per the interpretation of the policy statement.

INTERPRETATION (2.4.1 d.):

I interpret “(d) shall not fail to maintain reasonable fund balance in other funds” to mean that the following funds, maintain reasonable fund balances:

Insurance Reserve Fund –

- The Insurance Reserve fund has a year-end reserve which equals or exceeds the amount held with Rocky Mountain Risk Insurance Group (Self Insurance Pool).

DATA REPORTED: The balance in the Insurance Reserve Fund as of March 31, 2016, was \$2,768,819 and the amount held with Rocky Mountain Risk Insurance Group was \$1,473,355.

COMPLIANCE: The District's performance complies with the standard. The amount held in the District's Insurance Reserve Fund as of March 31, 2016 exceeded the Pool amount by \$1,295,464.

Transportation Fund –

- The Transportation Fund retains funds equal to at least one month of operating expenditures to allow for emergencies.

DATA REPORTED: As of March 31, 2016, the Transportation Fund forecasts an ending fund balance as of June 30, 2016 of \$588,013, however, the actual ending fund balance will be reduced to \$0.00 due to plans to consolidate this fund back to the general fund. One month of forecasted year-end operating expenditures (not including the 2015 Bus Lease Purchase) for the transportation program is \$779,434.

COMPLIANCE: The District plans to consolidate the Transportation Fund back into the General Fund for FY 16-17 as the District no longer assesses student transportation fees. The consolidation process will occur by June 30, 2016, therefore, the District's performance complies with the standard.

Interscholastic Athletic Fund –

- The Athletic Fund retains funds equal to at least one month of operating expenditures to allow for emergencies.

DATA REPORTED: As of March 31, 2016, the Athletic Fund forecasts an ending fund balance as of June 30, 2016 of \$303,363 and one month of forecasted year-end operating expenditures for the District athletic program is \$77,232.

COMPLIANCE: As of March 31, 2016, it is anticipated that the District's performance will comply with the standard based on a year-end forecast showing an excess of \$226,131 in fund balance.

Bond Redemption Fund –

- The Bond Redemption Fund balance at the end of the fiscal year is sufficient to pay the December debt service payment in the following fiscal year.

DATA REPORTED: On December 15, 2015 the available fund balance was sufficient to pay the December debt service payment of \$33,375,213. The Bond Redemption Fund forecasts an ending fund balance as of June 30, 2016 of \$58,968,374 which will be sufficient to pay the December debt service payment in the following year.

COMPLIANCE: The District's performance complied with the standard.

Capital Reserve Fund –

- Fund balance, including COP revenue, is sufficient to complete outstanding commitments on construction projects and large equipment purchases permitted by law to be made from the Capital Reserve Fund.

DATA REPORTED: As of March 31, 2016 the Capital Reserve Fund has expended \$11,250,430 from a budget of \$33,250,068 as identified in the following schedule.

**ADAMS 12 Five Star Schools
Statement of Revenue/Expenditures
Capital Reserve Fund 43
as of March 31, 2016**

	Current Budget/Plan	Year-to-Date Encumbrances	Year-to-Date Expenditures	Available Budget
PROJECTS				
Total School-Specific Projects	\$ 7,579,345	\$ 243,955	\$ 4,023,988	\$ 3,311,402
Retirement of Debt	7,047,867	-	5,782,223	1,265,644
Total District-Wide Projects	<u>18,622,856</u>	<u>878,242</u>	<u>1,444,219</u>	<u>16,300,395</u>
Total School and District-wide Projects	<u>\$ 33,250,068</u>	<u>\$ 1,122,197</u>	<u>\$ 11,250,430</u>	<u>\$ 20,877,441</u>

COMPLIANCE: The District’s performance complied with the standard.

Food Service Fund –

- The Food Service Fund retains a fund balance equal to one month, but less than three months, of operating expenditures to allow for emergencies. This is reasonable because statutory regulations provide that no more than three months of operating funds may be in reserve.

DATA REPORTED: As of March 31, 2016, the Food Service Fund forecasts an ending fund balance as of June 30, 2016 of \$4,638,608. One month of forecasted year-end operating expenditures equals \$1,048,477 and three months of expenditures equal \$3,145,341. The fiscal year-end estimate projects an excess of \$1,493,267 above the three month standard. The Nutrition Services 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. In addition, the Colorado Department of Education granted the District a waiver to the increase in meal prices which would have otherwise been required by the Healthy, Hunger-Free Kids Act of 2010. New leadership in the Nutrition department is currently evaluating meal prices for 2016-2017 along with a evaluating the entire long term plan to limit fund balance growth.

COMPLIANCE: The District performance does not comply with the standard. The Nutrition Services department has a state approved plan and is evaluating additional opportunities to reduce the excess fund balance.

BASE Fund –

- The BASE Fund retains a fund balance equal to at least one month of operating expenditures to allow for emergencies.

DATA REPORTED: As of March 31, 2016, the BASE Fund forecasts an ending fund balance as of June 30, 2016 of \$2,263,855 and one month of forecasted year-end operating expenditures equals \$730,892.

COMPLIANCE: The District performance complies with the standard

INTERPRETATION (2.4.1 e.):

I interpret “(e) *shall not fail to maintain sufficient appropriated reserves*” to mean:

Reserve appropriations are reasonable when they include the entire amount necessary to meet TABOR requirements, the entire amount necessary to pay for all encumbrances existing as of June 30 of each fiscal year, the entire amount of discretionary reserves established by board policy (3%), all assigned fund balance held in the general fund, a sum not less than the amount payable to separated classified and certified staff members for longevity stipend payment two, three, four or five, as applicable, during the fiscal year for which the appropriation has been made, and such additional amounts set aside in the supplemental longevity stipend reserve for contribution to longevity stipend payments due in subsequent fiscal years.

DATA REPORTED:

Fiscal 2016 General Fund Appropriated Reserves:

	FY15-16	FY15-16
	<u>Appropriated Fund Balance</u>	<u>Estimated Year-End Required</u>
TABOR	\$ 8,722,463	\$ 7,710,016
Multi Year Commitments	10,855,000	10,641,224
CPP	-	47,246
Encumbrances (Open PO's)	1,240,809	1,240,809
Learning Services & Other Departments	2,359,376	-
Capital Projects	3,226,432	-
EDKP	896,874	-
Community Use	236,813	-
Board of Education Reserve (3%)	<u>1,537,109</u>	<u>8,706,624</u>
Fund Balance	<u>\$ 29,074,876</u>	<u>\$ 28,345,919</u>

**Certified and Classified budgeted Multi Year Commitments for years two through five are as follows:
FY16-17 \$4.4 million, FY17-18 \$3.2 million, FY18-19 \$2.0 million and FY19-20 \$1.0 million.*

COMPLIANCE: The District's performance does not comply with the standard.

2. POLICY PROHIBITION: *Shall not at any time, allow unrestricted cash and equivalents to drop below an amount necessary to meet operating expenditures over a 30-day period, except that during normal seasonal fluctuations in property tax receipts cash balances may drop below the 30-day threshold but shall not be less than restricted cash.*

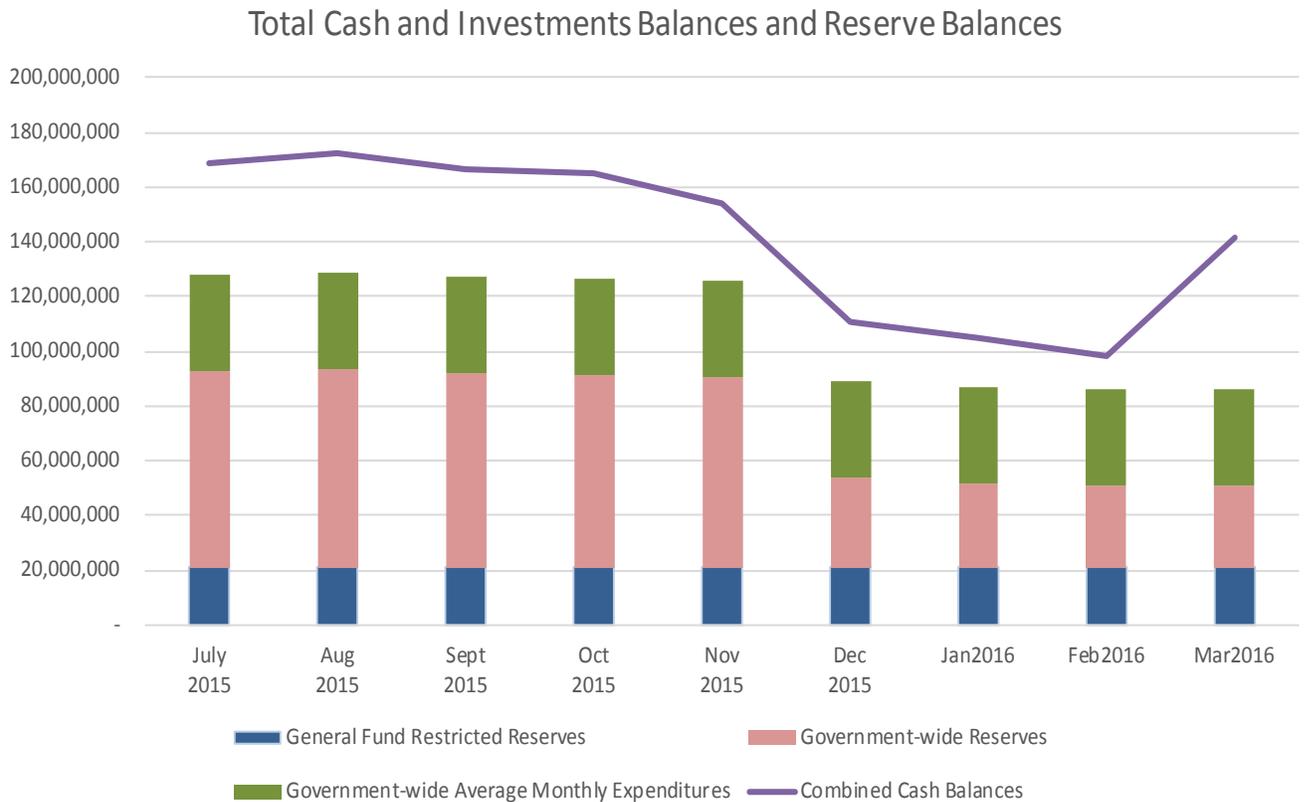
INTERPRETATION:

I interpret this to mean the District:

- A. Maintains cash at the end of each monthly accounting period at an amount that exceeds restricted cash in an amount equal to one month's operating expenditures. Restricted cash includes Restricted Reserves, Board of Education Reserve and Reserves as required in other funds per 2.4.1 d.
- B. Operating expenditures over a 30-day period shall be calculated by using forecasted year-end expenditures.

DATA REPORTED: The District's combined cash balance in all funds is projected to exceed the policy standard as of June 30, 2016. (From December to March cash balances may drop below

the 30-day threshold due to timing of property tax collections; this is not interpreted as non-compliance). The following graph illustrates that cash balance is maintained above required level.



Note: In December the District pays down the principal on its outstanding debt causing the Government-wide reserve requirement to decline. The amount held in reserve as of March 31, 2016 is the amount sufficient to cover the June debt service interest payment.

General Fund Restricted Reserves include TABOR, Multi Year Commitments, CPP and Board of Education Reserve budgeted.

Government-wide Reserves include Insurance Reserve, Transportation Fund, Athletic Fund, Bond Redemption Fund, Capital Reserve Fund, Food Service Fund and the BASE Fund.

Government-wide Average Monthly Expenditures include General Fund, Insurance Reserve, Transportation Fund, Governmental Designate-Purpose Grants Fund, Athletic Fund, Bond Redemption Fund, Capital Reserve Fund, Food Service Fund and the BASE Fund.

Combined Cash Balances include all funds identified above.

COMPLIANCE: The District’s performance complied with the standard.

3. POLICY PROHIBITIONS: *Shall not expend more operating funds than have been received in the fiscal year to date unless both the liquidity requirement and reserve requirement above are met.*

INTERPRETATION:

I interpret this to mean:

That at any time within a budget year, except when liquidity (unrestricted cash) and reserves are maintained in accordance with this Policy 2.4, the District expenditures will not exceed revenues in the following funds used for day-to-day activities.

DATA REPORTED: As of March 31, 2016 Bond Redemption Fund expenditures exceed revenue by \$14.3 million. This is reasonable as the majority of property tax revenue is received from March to May of each year and beginning fund balance requirements ensure that the amount held in reserve is sufficient to pay the debt service principal payment due in December of each year. Expenditures exceed revenue in the Food Service Fund due to the timing of requesting and receiving federal reimbursements in addition to an approved plan by CDE to reduce fund balance in the current year. Governmental Designated-Purpose Grant fund expenditures exceed revenues due to the timing of requesting and receiving federal reimbursements and the approved spend down of beginning fund balance. The beginning fund balance is the approved use of local, state and federal funds carried over from the prior year.

Fund	7/1/2015 Fund Balance	Revenues	Transfers	Expenditures	3/31/2016 Fund Balance
General	39,899,000	219,411,860	(39,203,863)	209,155,619	10,951,378
Insurance Reserve	2,492,101		3,650,000	3,373,282	2,768,819
Transportation	669,158	4,507,075	7,339,399	9,675,942	2,839,690
Gov't Designated Grants	5,478,447	10,779,783	-	13,827,244	2,430,986
Athletic Special Revenue	414,592	596,300	194,350	615,172	590,070
Bond Redemption	53,111,796	49,085,449	-	63,374,168	38,823,077
Capital Reserve	39,485,219	1,332,506	10,700,056	11,250,430	40,267,351
Food Service	5,624,559	6,342,625	-	8,516,462	3,450,722
BASE	3,145,553	6,128,175	-	5,764,641	3,509,087
Pupil Activity-Agency Fund	4,145,994	4,990,735	-	4,243,726	4,893,003

COMPLIANCE: When policy section 2.4.1(b) fund balance requirements and policy 2.4.2 cash liquidity requirements are met, policy section 2.4.3 will be in compliance even if a deficiency is reported. The District's performance has not complied with section 2.4.1(b). It has complied with section 2.4.2. Accordingly, the District's performance does not comply with the section 2.4.3 standard.

4. POLICY PROHIBITION: *Shall not allow the organization to incur penalties in material amounts for tax payments, other government ordered payments, or other payments, or allow any filings that are overdue or inaccurately filed.*

INTERPRETATION:

I interpret this to mean:

All payments are made without incurring late payment fees in excess of the aggregate amount of \$1,000 for any fiscal year; further, reports and other required documents are submitted and accepted in accordance with Colorado Department of Education and Federal timelines. This is reasonable as it represents compliance with external requirements, and the \$1,000 amount has minimal impact on operations of the District.

DATA REPORTED: As of March 31, 2016 District staff is aware of two findings that will be issued by the Colorado Department of Education (CDE) concerning the results of a risk-based compliance audit. The audit was conducted by CDE and included the review of data submitted by the District pursuant to the Rules for Administration of the Public School Finance Act of 1994 for fiscal year 2014-15, and the Rules for the Administration of the Public School Transportation Fund for fiscal year 2013-14. The District anticipates to owe a refund back to CDE for a total of 46.5 pupils in the amount of \$313,834 and \$83,565 for Pupil Transportation related to not properly identifying non-pupil transportation cost and co-mingling expenditures. District staff will take necessary steps to ensure accurate data is being submitted to CDE.

In addition, as of March 31, 2016 outside counsel is still working with PERA and the District to address PERA's finding regarding the 2009 change permitting Administrator Longevity Program (ALP) payments to be directed into tax deferred accounts or into salary at the direction of an administrative employee. At this time the District is uncertain as to whether a fine will be imposed. However it will likely be necessary for the District to self-report the prior years' over-contributions to the IRS and pay Medicare taxes due. Effective January 1, 2016 the ALP contributions will be placed directly into tax deferred accounts (403(b) and 401(k)).

COMPLIANCE: The District will comply with this standard.

5. POLICY PROHIBITION: *Shall not fail to aggressively pursue receivables after a reasonable grace period.*

INTERPRETATION:

I interpret this to mean:

A monthly attempt is made to collect accounts receivable that are past due by more than thirty days.

DATA REPORTED: As of March 31, 2016 school and departments have worked within standard guidelines to collect on accounts receivable balances. Monthly attempts to collect unpaid student fees are performed through consolidated billing where statements are emailed on the 20th of each month and paper statements are mailed in November to all households with balances due. In March of each year a paper statement is mailed to all transitioning student households with a balance due.

COMPLIANCE: The District's performance complies with the standard.

6. POLICY PROHIBITION: *Shall not allow (a) bond funds and funding from certificates of participation to be spent inefficiently or in any way other than intended, or (b) override funds to be commingled with other funds or spent other than to directly achieve Ends.*

INTERPRETATION (2.4.6 a):

I interpret “(a) *Shall not allow bond funds and funding from certificates of participation to be spent inefficiently or in any way other than intended*” to mean:

- A. Bond funds shall be spent in a manner that does not deviate from plans and commitments presented to District voters.
- B. Certificates of participation (COP) shall be spent in a manner that does not deviate from plans and commitments approved by the Board of Education.
- C. Bond and certificate of participation proceeds are spent efficiently when they meet the following criteria:
 - 1. District construction shall comply with the District Educational Specifications and Technical Guidelines in place at the time of construction.
 - 2. District construction costs will be controlled through a competitive process that will be utilized to bring the best value to the District and ensure alignment with market pricing.
 - 3. Cost of services provided by District staff is less than or equal to the cost of outsourcing the same services.
 - 4. Projects are managed and completed so that the start date of the school year is not impacted by construction.

DATA REPORTED:

- A. The District completed all projects described in the \$180 million bond approved in 2000, the \$180 million bond approved in 2004, and the \$32,985,000 certificates of participation approved in 2008 prior to the commencement of the monitoring period. Accordingly, this monitoring report does not include expenditures data for these items.
- B. In June 2015, new certificates of participation were issued in the amount of \$27,500,000 for the purpose of site improvements and deferred maintenance estimated to be complete by the winter of 2018.

C. The expenditures listed below from the June 2015 COP have been made for only improvements within the parameters approved by the Board of Education. The District Facilities Planning Department follows guidelines and check lists as established through the criteria identified in 1-4 to ensure that proceeds are spent efficiently.

**ADAMS 12 Five Star Schools
Statement of Revenue/Expenditures
COP Projects
as of March 31, 2016**

	Current Budget/Plan	Year-to-Date Encumbrances	Year-to-Date Expenditures	Available Budget
PROJECTS				
School Specific:				
SSN Rm C206-WLM	\$ 50,000	\$ -	\$ 6,900	\$ 43,100
Room C100 Cooling-Vantage Pt.	29,442	1,222	23,965	4,255
Boiler Replacement-Stukey	250,000	-	165,043	84,957
RTU Replacement-NGMS	40,000	-	35,425	4,575
Upgrade BiDirection Amp-THS	26,250	-	18,150	8,100
Renovation-STM	<u>577,500</u>	<u>28,260</u>	<u>64,180</u>	<u>485,060</u>
Total School-Specific Projects	1,190,192	29,482	313,663	847,047
District-Wide:				
Crawlspace Assessment	206,250	101,760	161,187	(56,697)
Equipment Services	75,000	-	68,526	6,474
Exterior Windows	448,000	76,450	13,550	358,000
Door Hardware Compliance	107,500	525	14,045	92,930
Sewer Line Assessment	157,500	14,625	560	142,315
DDC Control (HVAC) replace	200,000	3,831	172,914	23,255
HVAC Boilers	342,000	13,000	9,450	319,550
HVAC Cooling	218,850	13,250	22,525	183,075
Tennis Court Resurfacing	<u>75,000</u>	<u>-</u>	<u>6,304</u>	<u>68,696</u>
Total District-Wide Projects	4,966,600	223,441	469,061	4,274,098
Total Projects	<u>\$ 12,729,979</u>	<u>\$ 252,923</u>	<u>\$ 782,724</u>	<u>\$ 11,694,332</u>

COMPLIANCE: Expenditures from these funds shall be spent only for capital projects permissible pursuant to the terms of the COP agreement. The District's performance during the monitoring period complied with the standard.

INTERPRETATION (2.4.6 b):

I interpret "(b) Shall not allow override funds to be commingled with other funds or spent other than to directly achieve Ends" to mean:

Additional operating funds received annually by the District per voter approval in November 1991, 2000, 2004 and 2008 shall be maintained in distinct accounts separate from other District expenditures. All override funds shall be spent for the purposes

described in the voter-approved ballot question to achieve the Ends established by Board policy.

DATA REPORTED: The below chart accounts for the expenditure of override funds through March 31, 2016. All expenditures have been made in accordance with promises made to voters for use in directly supporting Board of Education Ends. However, not all override funds have been maintained in a distinct account separate from other expenditures.

MILL LEVY FUND ACTUAL EXPENDITURES
As of March 31, 2016

	<u>1991</u>	<u>2000</u>	<u>2004</u>	<u>2008</u>
Instruction:				
General	\$ 2,039,289	\$ 3,428,310	\$ 4,054,205	\$ 7,425,000
Pre-School	461,445	-	-	-
Special Education	901,455	263,476	-	-
Instructional Staff Training & Support	647,811	516,620	944	-
Operations & Maintenance	-	335,433	440,000	-
Student Transportation	-	550,000	440,000	-
Recruiting, Business and Other Support	-	1,252,007	1,643,868	-
Total	<u>\$ 4,050,000</u>	<u>\$ 6,345,846</u>	<u>\$ 6,579,017</u>	<u>\$ 7,425,000</u>

COMPLIANCE: The District’s performance will not comply with this standard through June 30, 2016. Proper separation of all override funds into distinct account identifiers will be implemented to ensure compliance for FY16-17.

7. POLICY PROHIBITION: *Shall not achieve compliance with these provisions by endangering future capacity to accomplish Ends.*

INTERPRETATION:

I interpret this to mean:

Endangering future capacity means committing to multiple-year expenditures without a reliable funding source.

DATA REPORTED: For FY15-16, General Fund revenues and expenditures are currently being received and expended as anticipated. The District has not expended funds anticipated from third parties prior to receipt and has not committed to multiple-year expenditures without a reliable funding source.

COMPLIANCE: The District’s performance complied with this standard.

8. POLICY PROHIBITION: *Shall not commit revenues due to student enrollment growth to continuing line item or program expenditures without considering needs associated with the opening of new schools.*

INTERPRETATION:

I interpret this to mean:

The annual budget plan developed by the Superintendent shall allocate adequate funds for teaching staff, school operations, and transportation services necessary for student enrollment growth in the District before any remaining revenues received for those new students are allocated for expenditures to continue in future years.

DATA REPORTED: The District's 2015-16 budget projected that the District's funded pupil count would grow by 444. Those anticipated revenues were only budgeted for teaching staff, school operations, and transportation services.

COMPLIANCE: The District's performance complied with the standard.

9. POLICY PROHIBITION: *Shall not determine borrowing levels.*

INTERPRETATION:

I interpret this to mean:

Shall not approve or complete certificates of participation, bonds, multiple-year lease-purchase agreements, or similar financing transactions obligating the District for repayment without approval by the Board of Education. This is reasonable as these types of financing transactions represent borrowing by the District.

DATA REPORTED: As of March 31, 2016 the District had identified the 2008 COP in the amount of \$22,805,000 was available to refund. On April 20, 2016 the Board of Education approved the resolution which authorizes the refunding of Certificates of Participation, Series 2016.

COMPLIANCE: The District's performance complied with the standard.

10. POLICY PROHIBITION: *Shall not fail to provide for an annual audit of the financial statements of the District each fiscal year by a qualified third party and make provisions for payment of the expenses of conducting the audit.*

INTERPRETATION:

The Board of Education's policy is clear and requires no further interpretation.

DATA REPORTED: The FY15-16 annual audit has been scheduled and will be performed by Clifton Larson Allen LLP. The interim audit has been scheduled to begin the week of May 23, 2016 and the Financial and Compliance audit and Agreed Upon Procedures for monitoring report has been scheduled to begin the week of September 27, 2016. The adopted budget includes amounts necessary to pay for the audit contract.

COMPLIANCE: The District's performance complied with the standard.

11. POLICY PROHIBITION: *Shall not commit District support to, or commit District resources, monetary or in kind, to join or support litigation initiated between third parties.*

INTERPRETATION:

The Board of Education's policy is clear and requires no further interpretation.

DATA REPORTED: The District has not entered into litigation initiated between third parties and has not provided monetary or in kind support following the adoption of this policy provision.

COMPLIANCE: The District's performance complied with this standard.

12. POLICY PROHIBITION: *Shall not fail to undertake a full-scale competitive process for the selection of independent auditors pursuant to the most current Government Finance Officers Association recommendations regarding the selection of auditing services.*

INTERPRETATION:

The Board of Education's policy is clear and requires no further interpretation.

DATA REPORTED: The District undertook a full-scale competitive process for the selection of independent auditors for the Fiscal Year 2011-2012 audit in February 2011. The Government Finance Officers Association (GFOA) recommends that a competitive process for the selection of independent auditors be completed every five years, and so the February 2011 process was within the recommended timeline. District staff are currently in the planning stage for preparing a full-scale competitive process for the selection of an independent auditor the Fiscal Year 2016-17 audit.

COMPLIANCE: The District's performance complied with the standard.

13. POLICY PROHIBITION: *Shall not receive, process or disburse funds under controls which are insufficient to meet the Board-appointed auditor's standards.*

INTERPRETATION:

I interpret this to mean:

The District manages money and money-related transactions using a system of internal controls which provide for separation of duties, fraud protection, and an authorization process providing reasonable assurance that appropriate controls exist. This is reasonable because independent auditors review these controls on an annual basis and report their findings to the District administration and the Board of Education.

DATA REPORTED: Funds have been managed in accordance with professionally appropriate standards as demonstrated by the most recent independent audit for the period ending June 30, 2015, performed by Clifton Larson Allen LLP, except for the item described below. The following steps have been taken to correct the item of noncompliance.

Context:

Audit Finding: In accordance with OMB Circular A-87, employees whose compensation is funded by federal programs are required to complete applicable time reporting documentation, either time and effort reports or semi-annual time certifications per monthly personnel activity report which meet the specifications of the circular. During testing, it was noted that one of the employees whose salary was charged to the Title I grant did not have the proper time reporting documentation.

Audit Recommendation: The District should implement procedures to comply with OMB Circular A-87. The District should ensure that semi-annual time certifications, or time and effort reports, are completed for all employees to support the amount of salary and related benefit costs charged to the Title I grant.

Management Response: The District has complied with this recommendation by implementing the following steps:

1. An agreement has been made between the Human Resource department and the Financial Services department that will require HR to coordinate with Finance regarding all employee change forms with a grant account code. HR will verify with Finance that a position has been approved for the current grant before the employee change form is processed. This will provide staff with oversight responsibilities for Title I funds with an accurate roster of employees to be paid with Title I funds.

2. Labor distribution reports shall be reviewed on a monthly basis by finance staff so that any discrepancies can be addressed in a timely manner with Title I staff.

3. The Title Coordinator will communicate with building principals at the beginning of each year the names of any employees who are funded and paid for from the Title I District Managed funds. The Title Coordinator will also explain the need for school to communicate any changes with this personnel to the Financial Services department as soon as possible.

COMPLIANCE: The District has complied with this standard.

14. POLICY PROHIBITION: *Shall not invest or hold operating, capital, bond and reserve funds without following the “prudent investor” standard and complying with the legal investment of public funds requirements under C.R.S. 24-75-601.1 and other applicable law.*

INTERPRETATION:

I interpret this to mean:

All funds are invested in compliance with C.R.S. 24-75-601.1 and other applicable law as follows:

- A. Cash is deposited in eligible depository banks subject to FDIC insurance or which pledge collateral in accordance with the Colorado Public Deposit Protection Act (“CPDPA”), or
- B. Cash is deposited in money market funds or local government investment pools with the highest credit rating assigned by a nationally recognized credit rating agency, or
- C. Investments in securities comply with applicable Colorado law and the credit rating, diversification and maturity restrictions as specified by the District’s investment policy, and
- D. Cash and other funds are not invested in instruments other than those permitted by Interpretations A-C.

DATA REPORTED: As of March 31, 2016, the District maintained cash as follows:

- A. Cash in the amount of \$3,935,556 was deposited in eligible depository banks subject to FDIC insurance or in institutions which pledge collateral in accordance with the CPDPA in compliance with Interpretation A.
- B. Cash totaling \$29,073,860 was deposited in money market funds and in local government investment pools totaling \$55,897,536 in compliance with Interpretation B.
- C. Security investments with a market value of \$56,991,360 were made in compliance with Interpretation C.
- D. Cash and securities were not invested in instruments other than those permitted in Interpretations A-C.

COMPLIANCE: The District’s performance complied with the standard.

15. POLICY PROHIBITION: *Shall not endanger the district's public image or credibility, particularly in ways that would hinder the accomplishment of its Ends.*

INTERPRETATION:

I interpret this to mean:

Maintaining positive public image is measured through the compliance with 2.4 policy prohibitions and/or the implementation of corrective actions for any non-compliance with the 2.4 policy prohibitions.

DATA REPORTED: The District's performance did not comply with 2.4 policy standards in the following areas:

2.4.1 b - Discretionary Board of Education Reserve was not maintained at 3% of expenditures.

2.4.1 d – Food Service Fund maintains a fund balance higher than the standard permits.

2.4.1 e – Appropriated reserves are not sufficient to satisfy the Board's discretionary reserve requirement based on year-end estimates.

2.4.3 – Fund balance requirements are not met in 2.4.1 b to satisfy requirements to hold a 3% Board Reserve.

2.4.6 b – Not all override funds have been maintained in separate distinct accounts.

COMPLIANCE: The District's performance did not comply with the standard.

GLOBAL POLICY PROHIBITION: *With respect to the actual, ongoing financial condition and activities, the Superintendent shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in Ends policies.*

I interpret the condition of fiscal jeopardy to mean: entering an agreement to pay expenses when the source of funding to pay for those expenses has not been determined or not having cash available to pay expenses when they are due.

I interpret a material deviation of actual expenditures from the Board's Ends priorities to mean that when reviewing the actual expenditures of the district, an informed person would not question whether District Ends priorities are being addressed.

DATA REPORTED:

1. The District has not agreed to pay for expenses without an identified funding source.
2. The District has projected there will not be adequate revenues in place to pay all expenses incurred to date or due through the June 30, 2016 conclusion of the fiscal year. In anticipation of the revenue shortfall the Board of Education adopted and approved on June 17, 2015 a resolution to use a portion of beginning fund balance for the intentional draw-down of accumulated fund balance for operational expenses.
3. Current year expenditures are allocated to implementation of the District's Unified Improvement Plan and achieving Ends.

COMPLIANCE: The District's performance complies with the standard.

Acknowledged receipt of a monitoring report as of May 25, 2016, for the period July 1, 2015 through March 31, 2016, of the Superintendent concerning Board Policy 2.4 Financial Condition and Activities, and found the superintendent's interpretations were reasonable and supported by data that was relevant, justified and complete.