

INTERNAL MONITORING REPORT

May 24, 2017

POLICY: 2.4 FINANCIAL CONDITION AND ACTIVITIES

POLICY CATEGORY: OPERATING LIMITATIONS

PERIOD MONITORED: July 1, 2016 – March 31, 2017

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 24, 2017

Prospect Ridge

	Budgeted Restricted Reserve Balance 7/31/2016	Restricted Reserved Balance 3/31/2017
TABOR Reserve	\$ 229,915	\$ 229,915
Contract Reserves	<u>200,005</u>	<u>200,005</u>
Total Restricted Reserve	\$ 429,920	\$ 429,920
General Fund Cash & Investment Balance	\$ 3,910,261	\$ 4,545,598

Stargate

	Budgeted Restricted Reserve Balance 7/31/2016	Restricted Reserved Balance 3/31/2017
TABOR Reserve	\$ 213,000	\$ 213,000
Contract Reserves	<u>200,000</u>	<u>200,000</u>
Total Restricted Reserve	\$ 413,000	\$ 413,000
General Fund Cash & Investment Balance	\$ 2,565,916	\$ 2,500,916

Westgate

	Budgeted Restricted Reserve Balance 7/31/2016	Restricted Reserved Balance 3/31/2017
TABOR Reserve	\$ 109,852	\$ 109,000
Contract Reserves	<u>50,000</u>	<u>50,000</u>
Total Restricted Reserve	\$ 159,852	\$ 159,000
General Fund Cash & Investment Balance	\$ 739,864	\$ 681,540

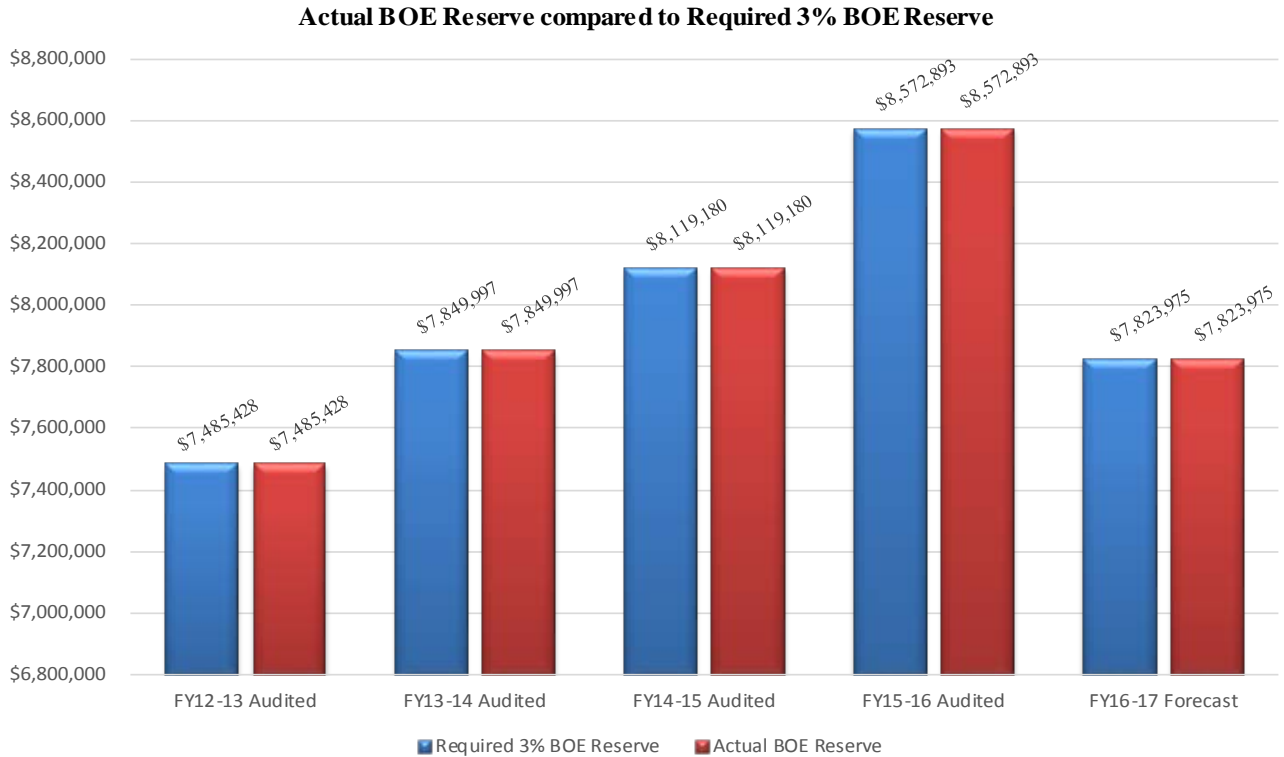
COMPLIANCE: The District and Charter School performance complies with the standard.

INTERPRETATION (2.4.1 b.):

I interpret “(b) shall not allow discretionary reserves at the conclusion of a fiscal year to be less than 3% of general fund revenues except as provided in section 2.4.2” to mean:

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

DATA REPORTED:



Note: FY16-17 forecast is based on the current forecasted year end revenue of \$260,779,168

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

2. POLICY PROHIBITION: *The discretionary reserve may be utilized for achievement of Board Ends and compliance with Operating Limitations Policies with prior Board approval and a specific plan for replenishing the reserves.*

INTERPRETATION:

I interpret “*The discretionary reserve may be utilized for achievement of Board Ends and compliance with Operating Limitations Policies with prior Board approval and a specific plan for replenishing the reserves*” to mean:

The policy language is clear as written and requires no further interpretation.

DATA REPORTED: As of March 31, 2017, the Board has not utilized or established a need for use of the 3% discretionary reserve.

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

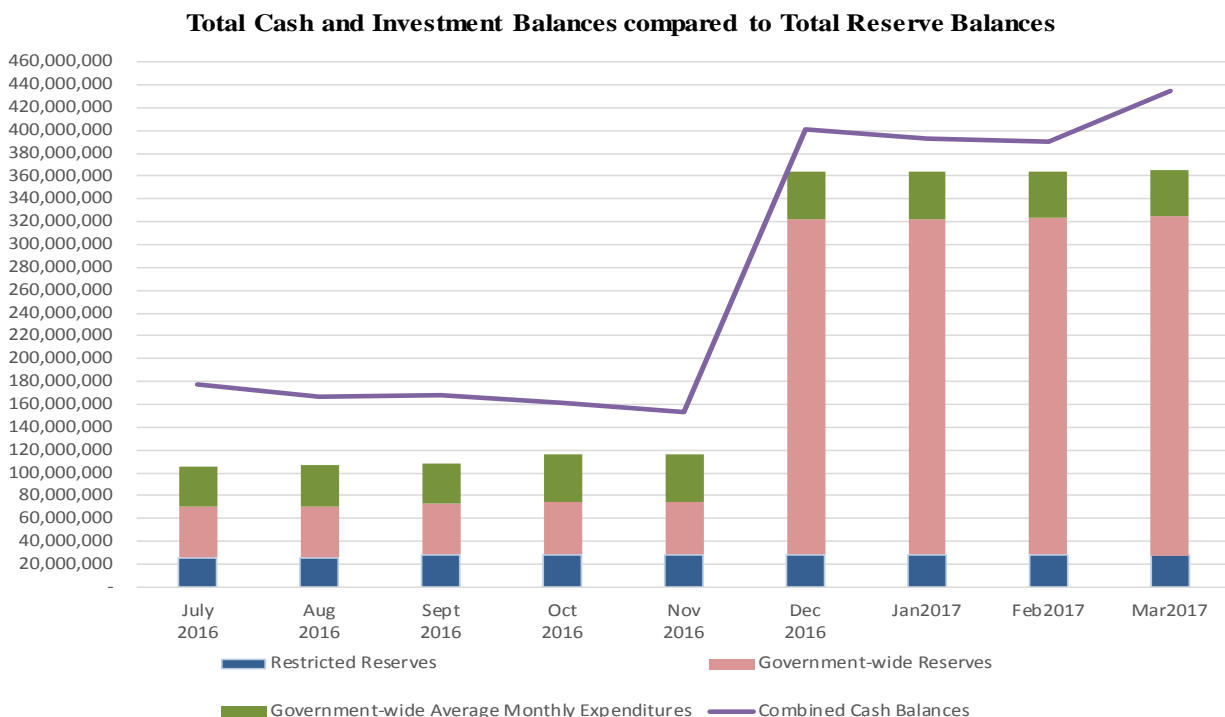
3. POLICY PROHIBITION: *Shall not at any time, allow unrestricted cash and equivalents to drop below an amount necessary to meet operating expenditures over a 30-day period, except that during normal seasonal fluctuations in property tax receipts cash balances may drop below the 30-day threshold but 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 required in other funds.
- 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, 2017. (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.



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

Government-wide Reserves include Insurance Reserve, Bond Redemption-Debt Service, Building Fund, Capital Reserve-Capital Projects, Interscholastic Athletic Special Revenue, Food Service and the Before, After, and Summer Enrichment Funds.

Government-wide Average Monthly Expenditures include Insurance Reserve, Governmental Designate-Purpose Grants, Bond Redemption-Debt Service, Building Fund, Capital Reserve-Capital Projects, Pupil Activity Special Revenue, Other Special Revenue, Instructional Special Revenue, Interscholastic Athletic Special Revenue, Food Service and the Before, After, and Summer Enrichment Funds.

Combined Cash Balances include all funds identified above.

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

4. 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, 2017, General Fund and Bond Redemption Fund expenditures and transfers exceed revenues by \$28.4 million and \$14.1 million respectively. This is reasonable as the majority of property tax revenue is received from March to May of each year. Expenditures and transfers exceed revenue in the Capital Reserve – Capital Projects fund and the BASE Special Revenue fund by \$3.4 million and \$525,801 respectively, which is appropriate as planned beginning fund balance was appropriated for this use. Expenditures and transfers exceeded Food Service Fund revenue by \$245,956 due to the timing of requesting and receiving federal reimbursements.

Fund	Beginning Fund Balance	Revenues	Transfers	Expenditures	12/31/2016 Fund Balance
General	33,548,812	216,070,345	(27,986,602)	216,469,741	5,162,815
Insurance Reserve	2,366,652	69,804	4,662,000	3,225,483	3,872,973
Gov't Designated Grants	-	17,023,287	-	13,267,358	3,755,928
Bond Redemption	58,654,446	58,049,033	-	72,152,906	44,550,573
Building Fund	-	293,345,055	-	2,954,230	290,390,825
Capital Reserve	37,654,194	28,298,083	5,130,790	36,793,922	34,289,145
Pupil Activity Special Revenue	-	3,759,448	3,114,448	3,414,639	3,459,257
Other Special Revenue	-	1,826,647	1,049,824	1,248,327	1,628,144
Instructional Special Revenue	-	2,362,059	2,836,418	1,665,769	3,532,709
Interscholastic Athletic Special Revenue	452,809	670,114	194,350	712,254	605,019
Food Service	4,449,851	7,639,840	-	7,885,796	4,203,895
Before, After, and Summer Enrichment Special Revenue	2,622,826	6,225,767	(400,000)	6,351,569	2,097,025
Pupil Activity-Agency Fund	4,207,705	844,378	(3,570,627)	751,211	730,245

Note: General fund transfers out include transfers to Charter Schools for their share of School Finance Act funding

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 complied with both section 2.4.1(b) and section 2.4.2. Accordingly, the District's performance complies with section 2.4.3.

5. 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, 2017, the District continues to work with outside legal counsel in response to 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. In late 2015, PERA approved of the District's plan to correct the situation. In July 2016, the District self-reported the prior years' over-contributions to

the IRS. The District has notified affected employees and is working with them to resolve remaining issues. Effective January 1, 2016 the ALP contributions were placed directly into tax deferred accounts 403(b) and 401(k), so the problem has been corrected moving forward.

COMPLIANCE: The District will comply with this standard.

6. 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, 2017 the district does not aggressively pursue student fee receivable balances that remain outstanding. District Staff have identified that normal procedures for monthly billing and issuing outstanding statements are performed. However, more aggressive procedures need to be development and implemented to address:

- Billing earlier in the school year
- Implementing consequences for non-payment at the Elementary and Middle School levels
- Outside collection agency involvement

COMPLIANCE: The District’s performance will comply with this standard by developing agreed upon procedures for collecting past due amounts.

7. 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. On December 20, 2016 the District sold \$285 million of a total \$350 million in voter approved general obligation bonds. This bond was approved for the purpose of investing in aging school buildings, relieving overcrowding, building a PK-8 school, and addressing programming needs to ensure all students in the District learn in a safe, warm and dry environment.
- B. On December 20, 2016, the District defeased the 2015 certificates of participation with proceeds from the 2016 Bond. Original remaining proceeds from the 2015 COP will be spent in accordance within the parameters of voter approved Bond projects.
- C. The expenditures listed below from the December 2016 Bond have been made for only improvements and new construction within the parameters approved by voters. The District Facilities Planning Department follows guidelines and checklists as established through the criteria identified in 1-4 to ensure that proceeds are spent efficiently.

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

Adams 12 Five Star Schools
2016 Bond Projects - Summary
Budget to Actual Expenditures - Bond Projects
Bond Status Based on Current Budget as of March 31, 2017

Project Description	Current Budget	Potential Baseline Change	2015-16	2016-17	Project Life	\$ Variance Increase/Decrease	% Spent
			Actual (YTD)	Actual (YTD)	Total		
Anthem PK8	\$ 46,800,000	\$ 6,377,000	\$ -	\$ 900,211	\$ 900,211	\$ 45,899,789	1.92%
STEM lab Reconstruction	\$ 24,500,000	\$ 2,950,000	\$ 551,841	\$ 1,102	\$ 552,943	\$ 23,947,057	2.26%
Labor/Supplies/Material Costs	\$ 13,000,000		\$ -	\$ 913,843	\$ 913,843	\$ 12,086,157	7.03%
Original COP Remaining Projects	\$ 13,100,000		\$ 1,956,964	\$ 2,242,400	\$ 4,199,364	\$ 8,900,636	32.06%
COP Repayment	\$ 27,500,000		\$ -	\$ 27,087,163	\$ 27,087,163	\$ 412,837	98.50%
Projects not started	\$ 302,700,153		\$ -	\$ -	\$ -	\$ 302,700,153	0.00%
	\$ 427,600,153		\$ 2,508,805	\$ 31,144,718	\$ 33,653,524	\$ 393,946,630	7.87%

* Budget includes Capital Reserve and Service Expansion Fee from Broomfield County funds

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, 2017. All expenditures have been made in accordance with promises made to voters for use in directly supporting Board of Education Ends.

MILL LEVY FUND ACTUAL EXPENDITURES				
As of March 31, 2016				
	1991	2000	2004	2008
Voter Approved Override:	\$ 5,400,000	\$ 10,200,000	\$ 9,900,000	\$ 9,900,000
Direct Instruction:				
Elementary Education	85,780	1,811,144	1,810,037	1,603,243
K-8 Education	-	78,166	81,024	73,992
Middle School Education	-	310,238	397,643	446,638
High School Education	2,019	279,056	431,552	202,838
Other Regular & Special Education	633	230	-	3,927,854
Indirect Instruction:				
General Administration	18,329	80,838	-	-
Instructional Staff Training	3,254,789	699,867	-	231,794
Pupil Support	-	-	1,966,533	-
Other Support:				
Communications	-	-	281,416	-
Facilities	106,322	-	-	-
Human Resources	-	-	1,096,844	-
Information Technology	-	1,211,884	-	-
Maintenance & Operations	-	-	259,390	4,426
Pupil Transportation	-	-	-	389,043
Safe & Secure	-	1,226,571	-	-
Staff Development	45,810	-	-	-
Utilities	-	-	440,000	-
Total Expenditures	3,513,682	5,697,994	6,764,439	6,879,828
Ending Available Balance	\$ 1,886,318	\$ 4,502,006	\$ 3,135,561	\$ 3,020,172

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

8. 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 FY16-17, 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.

9. 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 2016-17 budget projected that the District's funded pupil count would remain flat. No growth was planned in comparison to the 2015-16 school year.

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

10. 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: On December 20, 2016, the District refunded the 2006 GO Bond in the amount of \$34,845,000, which produced a net present value savings of \$3,406,871.

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

11. 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: CliftonLarsonAllen, LLP has been contracted to complete the fiscal year 2016-17 audit. The interim audit for the current fiscal year is planned to begin on May 31, 2017 and the annual audit for the fiscal year ending June 30, 2017 is scheduled to begin on September 25, 2017. The adopted budget includes amounts necessary to pay for the audit contract.

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

12. 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.

13. 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 policy language is clear as written and requires no further interpretation.

DATA REPORTED: A competitive process for the selection of an independent auditor to complete the Fiscal Year 2016-17 audit was completed as of March 31, 2017. CliftonLarsonAllen, LLP was awarded the contract with the option to extend up to three additional years.

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

14. 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, 2016, performed by CliftonLarsonAllen, LLP.

COMPLIANCE: The District has complied with this standard.

15. 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, 2017, the District maintained cash as follows:

	Market Values	Investment Policy Limit	Investment Policy	Actual
	All Portfolios		Compliance	Allocation
Depository Banks	\$ 30,252,779	100%	✓	7%
Money Markets	\$ 1,950,523	100%	✓	<1%
Local Government Select Series	\$ 58,097,714	100%	✓	<1%
U.S. Treasuries	\$ 111,836,926	100%	✓	26%
Federal Agencies	\$ 143,153,882	75%	✓	33%
Supra-National Agency Bond/Notes	\$ 718,687	75%	✓	<1%
Municipal Obligations	\$ 4,557,055	25%	✓	1%
Corporate Notes	\$ 23,987,487	35%	✓	6%
Negotiable Certificates of Deposit	\$ 8,073,587	35%	✓	2%
Commercial Paper	\$ 53,113,943	35%	✓	12%

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

16. 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 reported compliance with all standards within monitoring report 2.4.

COMPLIANCE: The District’s performance complies 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 2016-17 budget has projected there will not be adequate revenues in place to pay all expenses incurred through the June 30, 2017 conclusion of the fiscal year. In anticipation of the revenue shortfall, the Board of Education adopted and approved on June 15, 2016 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 support implementation of the District's Unified Improvement Plan and achieving Ends.

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

The Board acknowledged receipt of a monitoring report as of May 24, 2017, for the period July 1, 2016 through March 31, 2017, 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.