

Internal Monitoring Report
January 8, 2019

Policy: **Financial Planning and Budgeting**
Policy Type: **Executive Limitation**
Policy No.: EL 2.4
Period Monitored: December 2017 – December 2018

This report monitors the Board of Education's Executive Limitation Policy:

Financial planning or budgeting for any fiscal year or part thereof shall not deviate materially from District Ends priorities or risk fiscal jeopardy, and shall not fail to be derived from a multi-year plan.

Among other things, the superintendent shall not:

- 1. Fail to include conservative projections of revenues, expenses and carryover funds; separation of funds, capital and operational items; cash flow and significant balance sheet items; and disclosure of planning assumptions.*
- 2. Plan or budget in a manner that risks incurring those conditions set forth in the Board's policy on Financial Condition and Activities.*
- 3. Fail to provide for Board prerogatives during the year as is set forth in the Investment in Governance policy.*

This report is presented in accordance with the Board's monitoring schedule. I certify that the information is true and complete.

Sandra Smyser, Ph.D.
Superintendent of Schools

January 8, 2019

Executive Summary

This Policy monitors the District's ability to plan or budget financial resources for a particular time period by using conservative projections of fiscal year revenues and expenditures to ensure that expenditures are not used in excess of anticipated revenue, unless the use of reserves/fund balance has been specifically included in the budget plan and does not lead to an ongoing deficit; maintaining adequate reserves or fund balances to provide for unforeseen circumstances as well as for specific purposes; and having enough cash on hand to meet future obligations in a timely manner (planning for cash flow fluctuations).

The evidence included in this monitoring report supports that:

- A step-by-step process has been followed that moves the development of a budget forward in an orderly and timely manner.
- Historically, the District's actual expenditures compare favorably with budgeted amounts. This is summarized in quarterly Fiscal Management Summary reports and budget documents provided to the Board.
- Budgets have been developed so that total ongoing expenditures do not exceed annual revenues, unless planned. In the case of unforeseen reductions to revenue (i.e. rescissions), contingency reserves included in the budget are adequate to cover reductions without the need to reduce restricted reserves and/or make adverse modifications to the District's budget plan for a given fiscal year.
- As currently estimated, the District is projecting to maintain a Board directed 2.0% unassigned contingency reserve. The current estimate for unassigned reserves is approximately 3.7% of budgeted expenditures for 2018-19. This amount of unassigned reserves is within the target range of 3-5% defined in District Policy DBAA – General Fund Balances. In addition to available contingency reserves, the District continues to maintain restricted reserves for TABOR (3% of spending) and other legal restrictions, accrued compensation, and carryover budgets.
- During the 2017-18 fiscal year, the District participated in the State's Interest Free Loan Program to meet cash flow obligations due to a heavier reliance on property tax collections than in prior years. The District is participating in this program again for 2018-19, and plans to continue participating into the future.
- The District has and will continue focusing on the primary factors needed to develop a multi-year budget plan including, but not limited to, increases for compensation obligations (health, dental and PERA contribution benefits) and the State of Colorado's ability to sustain K-12 revenues.

Policy Wording:

Financial planning or budgeting for any fiscal year or part thereof shall not deviate materially from District Ends priorities or risk fiscal jeopardy, and shall not fail to be derived from a multi-year plan.

Interpretation:

The District interprets *financial planning* to mean reviewing the money expected to be available to the District for future spending and making quality decisions about how and when to spend that money, predicting the results of these decisions for the District in the form of a financial plan or budget, and then comparing actual results with that plan.

The District interprets *budgeting* to mean building a plan and documenting that plan in the form of a report for a specified period of time. The budget includes estimates for the cash balances available (reserves) as well as the inflows (revenues) and outflows (expenditures) of money for the specified period of time to help ensure that the District does not spend more money than it has available.

The District interprets *for any fiscal year* to mean July 1 through June 30 as defined by state law, and *or any part thereof* to mean increments of months or quarters within the time period of July 1 through June 30.

The District interprets *shall not deviate materially from District Ends priorities* to mean that when observing the financial plan or budget, an informed person would not question whether District Ends are addressed.

The District interprets *shall not risk fiscal jeopardy* to mean planning to pay and/or agreeing to pay for expenditures only when the cash is available and the source of revenue to pay for those expenditures is certain.

The District interprets *shall not fail to be derived from a multi-year plan* to mean that the primary factors used in developing a budget (for example, number of students in District) should be considered for the year that the budget is being developed and for the years that follow. A multi-year plan incorporates both one-time money and costs (occur only once) and those that continue in future years (ongoing).

Evidence:

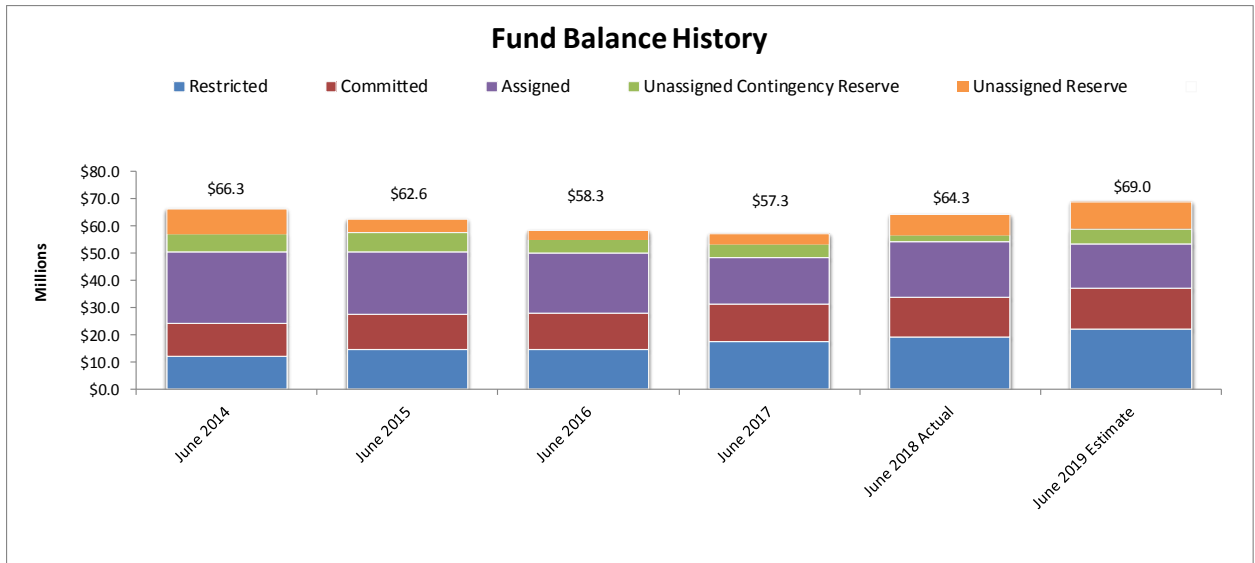
1. The Fiscal Year 2018 Revised Budget and Fiscal Year 2019 Adopted Budget documents prepared by the District contain evidence of financial planning. Revised budgets for all funds for the 2017-18 fiscal year and original budgets for the 2018-19 fiscal year (July 1 to June 30) were adopted by the Board of Education on January 23, 2018 and June 12, 2018, respectively.

2. A clear budget process is established to develop the annual budget. The step-by-step process is guided by a timeline that moves the budget development forward in an orderly manner to a completed adopted budget that provides the financial foundation for the operation of the school District for a specific fiscal year (July 1 to June 30).
3. The budget process provides for input and involvement of various groups within the District. By involving individuals and groups with diverse roles, checks and balances are established to ensure that District priorities are considered. The annual budget is created to align with, promote, and support the expectations related to student achievement as identified in the Board of Education's adopted District Ends policy.
4. The budget process is guided by priorities reviewed by the Board of Education. For the 2018-19 fiscal year the budget relied upon District Ends to guide this process with four focus areas: (1) foundations for success, (2) success in a changing world, (3) above and beyond, and (4) connections.
5. Information presented in the Fiscal Management Summary reports, prepared on a quarterly basis and presented to the Board of Education on a quarterly basis, provides an accounting of how budget estimates compare to actual activity. These reports compare the District's budget with actual revenue received and expenditures made at a fixed point in time during the fiscal year. The reports also forecast revenue and expenditures for the remainder of the fiscal year and allow the District to manage the budget and control expenditures during the course of the year.
6. General Fund operating budgets are developed balancing expected ongoing revenues with projected ongoing expenditures. When the District ends a fiscal year with a surplus (revenues exceed expenditures), that amount increases the District's fund balance.

For both the 2017-18 and 2018-19 fiscal years, the District has other District funds (funds other than the General Fund) whose budgets reflect the use of beginning fund balance. These uses of beginning fund balance are intentional (for example, authorized projects in the Building Fund) and will not lead to an ongoing deficit.

In accordance with Colorado Revised Statute 22-44-105, the Board of Education authorized all uses of a portion of the beginning fund balance at the June 13, 2017 and the June 12, 2018 Board meetings for the 2018 and 2019 fiscal year budgets, respectively.

7. The fund balance history displayed in the following chart shows the District's ability to budget for and maintain sufficient cash balances (reserves).



In developing the General Fund budget, the District fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resource reported in governmental funds. Three classifications are currently included in the District's budget.

These classifications are defined as follows:

Restricted: Amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation. Included in this classification are reserve amounts required under TABOR and other legal restrictions.

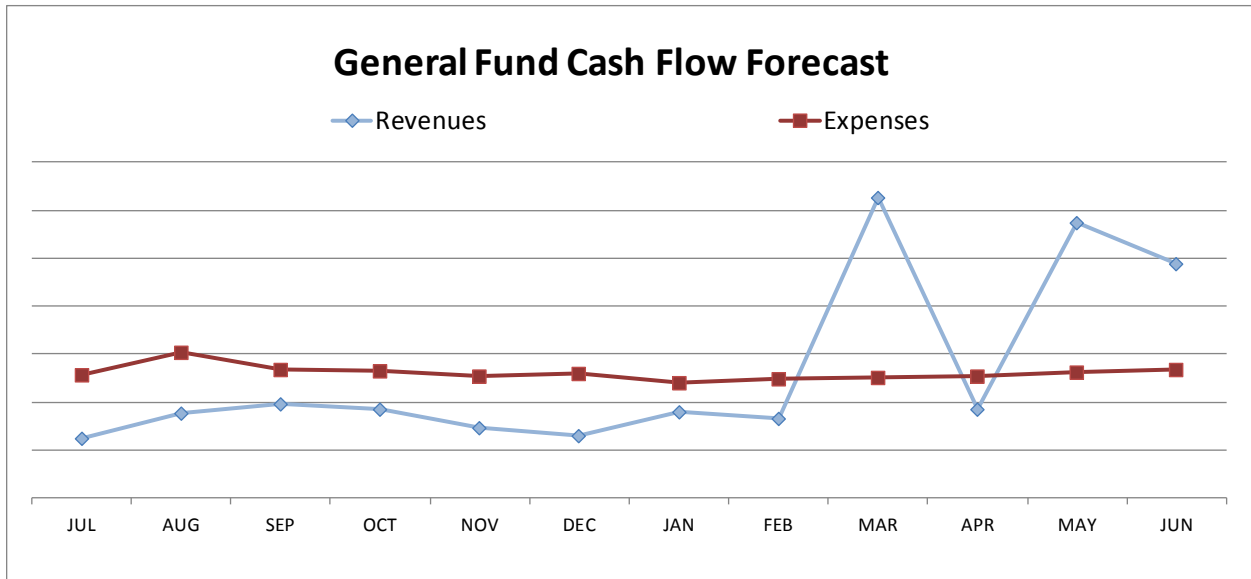
Committed: Amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Included in this classification are reserves for accrued compensation.

Assigned: Amounts intended to be used by the District for specific purposes that do not meet the criteria to be classified as restricted or committed. Included in this classification are reserve amounts for school and department carryovers, and other reserves designated for a specific purpose.

Unassigned: The residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. District Policy DBAA – General Fund Balances sets a target range of 3-5% of General Fund expenditures for the District's unassigned fund balance. In addition, the Board has currently directed a minimum contingency reserve of 2% of General Fund expenditures.

The District shows an increase in overall reserves between fiscal year 2016-17 and 2017-18 as a result of steps taken to increase reserves back into compliance with policy. Additionally, fiscal year 2018-19 estimates continue this positive trend of keeping reserves levels at appropriate percentage levels in relations to our increasing general fund budget.

- Following is a graph demonstrating the General Fund’s estimated cash flow for the 2018-19 fiscal year. By analyzing the District’s cash flow, the District projects how much money will be available for expenditures throughout the year.



As shown in the graph, expenditures are higher than revenues during the first seven months of the fiscal year. Starting in the 2017-18 fiscal year, the District participated in the State’s Interest Free Loan Program to meet short term cash flow needs until property taxes are received. Additionally, each year the Board adopts a resolution to authorize the borrowing of unencumbered monies from any fund, except the Bond Redemption Fund, for temporary use in another fund at any time during the fiscal year if needed. The District is participating in the State’s Interest Free Loan Program again for 2018-19, and plans continue participating into the foreseeable future to make up any remaining cash flow deficiencies during the year.

- The District considers primary factors in developing a three-year financial projection as shown in the following table. Primary factors used in developing the budget include student enrollment (funded pupil count), inflation and possible benefit and compensation increases. Any revenue or costs identified as one time only (not ongoing each year) are included in the appropriate year. Multi-year planning allows the District to incorporate known or expected information related to the factors as information becomes available. For example, the District knows at this point in time that employer-paid PERA benefits will increase 0.25% in July 2019 and can use this information in the projection for the 2019-20 fiscal year.

Starting with fiscal year 2018-19, the District developed a new comprehensive multi-year planning tool that was shared with the Board of Education in January 2018. Below is an example of what the projection looks like. The District is currently updating this model which will be used for planning the 2019-20 fiscal year. This information will be shared with the Board of Education January 22, 2019.

Budget Projections for Poudre School District
Current base year + 4 projected years
 Prepared April 10, 2018 (in millions)

<u>Revenue</u>		<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
1	State Formula:					
	<i>modeling & growth</i>					
2	State formula (gross)	231.9	243.4	252.3	260.9	269.9
3	Negative Factor (BS factor)	(25.4)	(21.2)	(21.2)	(21.3)	(21.3)
4	State formula (net of BS factor)	<u>206.5</u>	<u>222.2</u>	<u>231.1</u>	<u>239.6</u>	<u>248.6</u>
5						
6	Other Local					
7	Mill Levy Overrides 1988-2010	35.0	35.0	35.0	35.0	35.0
	<i>static</i>					
8	Mill Levy Override 2016	2.6	8.0	8.0	8.0	8.0
	<i>new MLO modeling</i>					
9	Other	17.0	17.5	18.0	18.4	18.8
	<i>inflation</i>					
10	Other State (categorical)	10.1	10.4	10.7	11.0	11.3
	<i>inflation</i>					
11	Federal (non-grant)	0.1	0.1	0.1	0.1	0.1
	<i>no growth</i>					
12	Less: Fees in lieu of land	(1.9)	(2.0)	(2.1)	(2.2)	(2.3)
	<i>inflation</i>					
13		<u>269.4</u>	<u>291.2</u>	<u>300.8</u>	<u>309.9</u>	<u>319.5</u>
	Expenditures					
14	Compensation and benefits					
15	Base	207.6	207.6	215.4	221.0	226.8
	<i>modeling and inflation</i>					
16	PERA - Employer only	-	?	-	-	-
	<i>modeling</i>					
17	PERA - Salary redefinition	1.8	-	-	-	-
	<i>modeling</i>					
18	Health and dental	1.7	1.7	1.2	1.2	1.3
	<i>assuming 10%, 7% + inflation</i>					
19	Step increase	4.2	4.2	4.3	4.4	4.5
	<i>negotiated + inflation</i>					
20	Lanes and market	1.3	1.3	1.3	1.4	1.4
	<i>negotiated + inflation</i>					
21	Retirement differential	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)
	<i>negotiated + inflation</i>					
22	Cost-of-living increase (COLA)	-	-	-	-	-
	<i>negotiated</i>					
23	Total compensation and benefits					
24						
25	Site-based non-staffing budgets	33.0	34.0	34.9	35.8	36.6
	<i>inflation</i>					
26	Capital projects	1.5	1.5	1.6	1.6	1.7
	<i>inflation</i>					
27	Utilities	4.7	4.8	4.9	5.0	5.2
	<i>inflation</i>					
28	Risk management	2.7	2.8	2.9	2.9	3.0
	<i>inflation</i>					
29						
30	Charter schools (in district)	15.7	17.7	18.2	18.9	19.6
	<i>modeling & growth</i>					
31	Charter MLO sharing	1.3	1.3	3.3	3.3	3.3
	<i>modeling & growth</i>					
32						
33	Strategic use of non-typical revenue until ongoing needs are assigned					
34	Negative factor buy down - held for one-time needs and is then					
35	used to offset ongoing PERA increases.		2.4	-	-	-
36	2016 MLO - consider one-time uses until new schools		7.3	7.3	7.3	7.3
37						
38	Budget available for ongoing needs (COLA, benefits, site-					
39	based budgets, etc.... (from growth & inflation)	-	3.9	6.7	8.3	10.2
40						
41		<u>266.5</u>	<u>291.2</u>	<u>300.8</u>	<u>309.9</u>	<u>319.5</u>
42						
43	Budget remaining	<u>2.9</u>	<u>0.0</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>0.0</u>
44	Other calculations/estimates					
45	Cost of living adjustment (per 1%)		1.6	1.6	1.7	1.7
46	Cost of living to meet inflation		5.4	4.3	4.0	4.1
47	Inflation (CPI - Denver-Boulder-Greeley)					
48	most conservative estimate		3.4%	2.6%	2.4%	2.4%
49	PERA decrease in salary to employees		2.5	2.6		
50	Speculative distribution of PERA assistance		3.9			

Based on the identified evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.4.

Policy Wording:

Executive Limitation 2.4.1—Among other things, the superintendent shall not fail to include conservative projections of revenues, expenses and carryover funds; separation of funds, capital and operational items; cash flow and significant balance sheet items; and disclosure of planning assumptions.

Interpretation:

The District interprets *fail to include* to mean to not consider and incorporate each of the following items into financial planning or budgeting.

The District interprets *conservative* to mean cautious or careful.

The District interprets *projections of revenue* to mean expected sources of money that will be available for District spending.

The District interprets *projections of expenses* to mean expected uses of District funds.

The District interprets *projections of carryover funds* to mean expected accumulation of money (cash or reserves) not spent but still available to apply to future uses at the end of a fiscal year.

The District interprets *separation of funds, capital and operational items* to mean separately tracking sources of revenue and the use of that revenue as defined in the State of Colorado's Chart of Accounts and/or because there is a need for separating to track such funds (i.e., specific projects funded using bond proceeds).

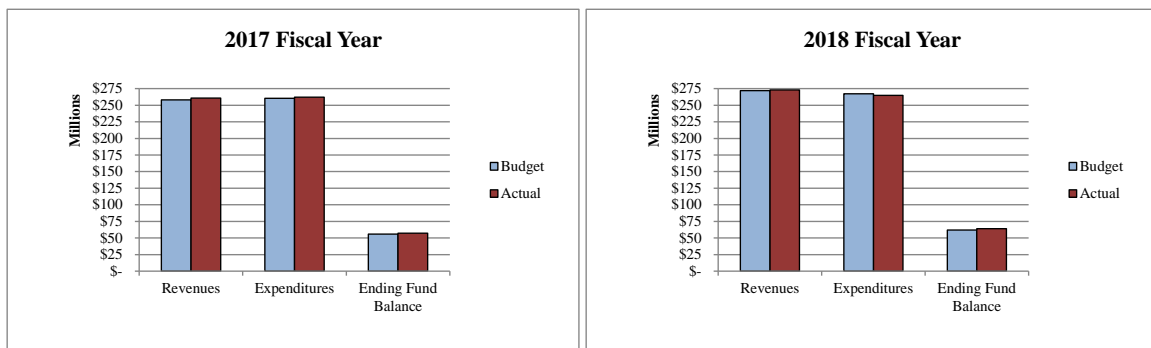
The District interprets *cash flow* to mean the likely timing of when cash will be received and when cash will be spent by the District.

The District interprets *significant balance sheet items* to mean the snapshot at a point in time of the District's major a) assets (such as cash and amounts expected to be received from others, b) liabilities (the amounts owed or expected to be owed to others) and c) fund balance or net assets (the amount of assets over or under the amount of liabilities).

The District interprets *disclosure of planning assumptions* to mean revealing or explaining facts and opinions used in making predictions about future sources and uses of money.

Evidence:

1. The adopted fiscal year budget identifies projections of revenue, expenditures, and carryover funds (ending reserves/fund balance).
2. Methods and steps used in preparing the budget are explained in the “budget message” which is included in the budget document. The budget development process contains numerous systems to guarantee reliable (meaning likely to occur) revenue and expenditure projections. The process includes communication of these projections to the public.
3. Historical data of the District shows evidence that the District has been conservative or cautious in projections of revenue, expenditures and reserves/ending fund balance and demonstrates that the District’s approach to budgeting is effective. The following charts display budgeted revenue, expenditures and reserves (ending fund balance) on a budgetary basis compared to actual results for fiscal year 2016-17 and 2017-18.



4. Separation of capital and operational items during the period monitored is maintained in accordance with Colorado Department of Education and Generally Accepted Accounting Principles (GAAP) reporting requirements, using appropriate account codes that segregate capital items and operational items for all District funds. Separation of these items is verified through independent external audits and approved electronic submission of accounts to the Colorado Department of Education.
5. Evidence of successful separation of capital and operational items includes the unqualified opinion letter from the District’s external auditors, Clifton Larson Allen, which is included in the District’s Comprehensive Annual Financial Report, a memo from the Colorado Department of Education recognizing a successful electronic submission of financial data, the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting.

6. Further evidence of the separation of capital and operational items is found in the various reports the District has developed. One such report, Building Fund by Bond Project Package, tracks the original and current status of projects identified to be completed using bond proceeds from the sale of the bonds authorized in 2016.
7. Planning assumptions were used in the development of the 2017-18 and 2018-19 budgets and were communicated to various individuals and groups throughout the budget process.

Based on the identified evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.4.1.

Policy Wording:

Executive Limitation 2.4.2—Among other things, the superintendent shall not plan or budget in a manner that risks incurring those conditions as set forth in the Board’s policy on Financial Condition and Activities.

Interpretation:

The District interprets *to plan or budget* means to predict the money expected to be available to the District for spending and when that money will be available, to make decisions about how and when to spend the money, and to document this information in the form of a report for a specified period of time.

The District interprets *in a manner* to mean in a way.

The District interprets *risks* means to cause or bring about undesirable events. Adequate reserves or ending fund balances (the accumulation of money not spent but still available to apply to future uses at the end of a fiscal year) should be enough to cover obligations that are unforeseen but that may occur. The District interprets this to mean that the District’s General Fund fund balance should: (1) specify any portion of the fund balance that is reserved for a specific purpose; (2) maintain an unassigned contingency reserve of 2% of General Fund expenditures; and (3) maintain an unassigned fund balance of 3 to 5% of General Fund expenditures.

The District interprets *those conditions as set forth in the Board’s policy on Financial Condition and Activities* to mean the situations and actions involving cash or money outlined in the Board’s Executive Limitation policy on Financial Condition and Activities.

Evidence:

1. The District’s budget plan has considered the appropriate level of staff necessary to manage the day-to-day financial operations. Central accounting, payroll, and budgeting are the primary areas responsible for the financial activities and condition

of the District. Financial activities include paying financial obligations in a timely manner, monitoring of periodic financial results and reserve levels, complying with purchasing requirements, and maintaining and monitoring controls over both central and site-level financial activities.

2. The District maintains reserves to cover contingent and/or unplanned obligations. The June 30, 2018 ending reserve balance includes \$19.2 million classified as restricted for requirements under TABOR and other legal restriction; \$14.7 million committed for accrued compensation; \$20.4 million assigned for carryovers and other assigned reserves; \$2.5 million for unassigned contingency reserves, leaving approximately \$7.5 million (or 3.0% of 2017-18 expenditures) unassigned.

Estimated reserve balances for 2018-19 include \$22.1 million classified as restricted for requirements under TABOR and other legal restriction; \$15.1 million committed for accrued compensation; \$16.4 million assigned for carryovers and other assigned reserves; \$5.4 million for unassigned contingency reserves set by Board resolution annually, leaving approximately \$10.0 million (or 3.7% of estimated 2018-19 expenditures) unassigned, thereby meeting District Policy DBAA – General Fund Balances.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.4.2.

Policy Wording:

Executive Limitation 2.4.3—Among other things, the superintendent shall not fail to provide for Board prerogatives during the year as is set forth in the Investment in Governance policy.

Interpretation:

The District interprets *fail to provide* to mean to not offer or furnish.

The District interprets *Board prerogatives* to mean choices or decisions made by the Board of Education of Poudre School District as it functions in its legal authority.

The District interprets *during the year* to mean in the course of each fiscal year, July 1 through June 30, as defined by State law.

The District interprets *as is set forth in the Investment in Governance policy* to mean the choices or decisions the Board needs to make so it can “govern competently and wisely” as outlined in the Board’s Governance Process policy on Investment in Governance.

Evidence:

1. For the 2018-19 fiscal year, \$138,000 was budgeted and allocated for the Board's activities regarding the cost of governance.
2. In addition to the annual budget, adequate District reserves are available to allow the Board to make decisions to invest in its capability to govern competently and wisely as described in the Investment to Governance policy.
3. The Board reviewed year-to-date transactions charged to 2017-18 Board budget. Discussion was held related to anticipated expenditures for the remainder of the fiscal year as well as changes and suggestions for the 2018-19 budget.
4. The anticipated amount necessary to allow for Board prerogatives has been incorporated into the 2018-19 fiscal year budget.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.4.3.