INTERNAL MONITORING REPORT
June 7, 2023

POLICY:	**2.3 Financial Planning and Budgeting**
POLICY CATEGORY:	**Operating Limitations**
PERIOD MONITORED:	**Projected Revenues/Expenditures for Fiscal Years 2023-2024, 2024-2025, and 2025-2026**

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 2, 2023

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. The revenue projections assume base per pupil revenue increasing by inflation, 4.3% in FY24-25 and 2.7% in FY25-26, the budget stabilization factor is projected to be bought down to $0 in FY24-25 and FY25-26. Both of these revenue increases are offset by the impact of continued declining enrollment, however the district maintains the use of 5 year averaging over the reporting period.

   Increases in expenditures assume salary adjustments for a step and step equivalent, health insurance premium adjustments of 5% for each projected year, and PERA contribution to remain constant at 21.4%. One-time budget additions in FY23-24 have been reduced in subsequent budgeting years in order to maintain the Board of Education fund balance policy of between four and eight percent.

   Adjustments to Transfers Out assume enrollment in district approved charter schools remains constant and per pupil revenue allocations adjust with increase in base and reduction in the budget stabilization factor. All other funds are assumed to be self-sustaining and no additional transfers from the General Fund are required.

   The TABOR Reserve increase is calculated on revenue received from both Total Program and all voter approved mill levy overrides. The increases are in line with inflation increases associated with the 2018 approved mill levy override (5C), consumer price index adjustments to base per pupil funding and the continued buy down of the budget stabilization factor.

   The Multiyear Commitments, retirement stipends for certified and classified staff, was increased by $2.1M in FY23-24 due to an increase in retirements. This projection remains constant during the reporting period.

   The reduction in the Designated Override Reserve in projected fiscal years is due to the inclusion of staff in the teacher leadership program and the ongoing spend down of fund balance in categories such as Career and Technical Education and Counselors/Social Workers.

   Data for both projection years is determined by analyzing activity in the prior three fiscal years and adjusting for major anomalies. Historical performance is not a guarantee of future results, and the district's largest funding source, Total Program, is driven by legislative decisions of the Colorado General Assembly.

General Fund	2023-2024 Budget	2024-2025 Projection	2025-2026 Projection
Beginning Fund Balance	$ 73,146,399	$ 62,743,744	$ 59,728,508
Revenue	$ 482,554,628	$ 495,550,284	$ 499,470,682
Expenditures	$ 415,293,263	$ 418,478,708	$ 424,627,237
Total Transfers Out to Other Funds and Charter Schools	$ 77,664,020	$ 80,086,812	$ 81,268,970
Revenue Over/(Under) Expenditures and Transfers	$ (10,402,655)	$ (3,015,236)	$ (6,425,525)
Ending Fund Balance	$ 62,743,744	$ 59,728,508	$ 53,302,983
TABOR & Multiyear Commitments	$ 24,518,617	$ 24,908,487	$ 25,026,099
Encumbrances & Carryover	$ -	$ -	$ -
Designated Reserve	$ 2,718,433	$ 2,718,433	$ 2,718,433
School Carryforward	$ 2,389,374	$ -	$ -
Designated Override Reserve	$ 10,823,923	$ 7,324,074	$ 4,210,457
Unassigned Fund Balance	$ 22,293,397	$ 24,777,514	$ 21,347,994
Unassigned Fund Balance as a Percentage of Revenue	5.17%	5.60%	4.80%

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, Information Technology, 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 2023-24 budget utilizes $8.3M of ESSER III funds to meet the educational needs of students. These dollars support the increased school based staffing, literacy curriculum adoption, interventionists and additional social emotional staff in buildings. The 2023-2024 budget utilizes $11.0M of one-time unassigned fund balance to offset the projected shortfall in Total Program revenue needed to increase centralized sub budget, provide budget for the district Blueprint efforts, increase to high school athletic budgets for officials and equipment, school based staffing, increase in translation services, threat assessment specialist, election fees, operating dollars for inflationary increases, and increase to multi-year obligations for retirement stipends.

The projections for 2024-2025 and 2025-2026 are based upon the following assumptions:

> a) Funded pupil count for district schools decreasing in 2024-2025 by 764 pupils, and decreasing in 2025-2026 by an additional 421 pupils; enrollment for district managed charter schools is remaining constant across both fiscal years; b) Annual health insurance increases of 5%; c) Inflation increase in 2024-2025 of 4.3% and 2.7% in 2025-2026 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) Additional increases to staff compensation are not included in the assumption; f) in both fiscal years expenditures were adjusted to create a balanced budget.

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 2023-2024 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 2023-2024 school year continue past allocations deemed effective in attaining the student achievement outcomes as well as new allocations predicted to improve those outcomes. New staffing allocations for 2023-2024 include funding 19.23 FTE to support special education, 1.0 504 Coordinator, increased support for classroom substitutes, 10.0 Elementary Elective teachers, 4.0 Assistant Principals at K-8 schools, and staffing to support a Newcomer Center. Additional operating allocations for 2023-2024 to include additional supplies and materials for district marketing, increased utilities, field repairs, staff mental health services, and inflationary increases to maintenance and custodial supplies.

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 Information Technology 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, 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 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 *Information Technology Fund planning assumptions* to mean the management of ongoing technology needs, including student devices, hardware, software, infrastructure, maintenance and district support.

I interpret *Instructional Revenue Fund planning assumptions* to mean the alignment of mill levy funds associated with the purchased of instructional material. Activity for these expenditures include the elimination of student fees for classroom consumables and well as textbooks for new curriculum.

DATA REPORTED

2023-2024 Key Budget Assumptions for Each Fund

Fund	Revenue	Expenditures
General Fund	The beginning fund balance is estimated at $73.1M. Per pupil revenues (PPR) increased by $996.23 to $10,484.09 due to $180.0M decrease in the Budget Stabilization factor, an inflation rate of 8%, and the difference in funding for Five Star Online becoming a multi-district program. The district funded pupils, including district approved charters, however does not include Preschool students, for FY 23-24 is 35,520.4. With the passage of HB22-1295 the Department of Early Childhood was developed along with universal preschool for 4 years olds and 3 year olds with qualifying factors. Preschool students will now be funded and couted through the Department of Early Childhood. For FY 23-24 Adams 12 Five Star Schools will be held harmless when it comes to funding for preschool students. The district total year over year decrease is 364.8 funded pupils after the impact of 5-year averaging. The district will also see a $2.0M increase to special education funding.	Salaries and benefits make up 87.0% of the gross operating expenditures. With a change to the certified salary schedule starting certified salaries now start at $58,000 which is an increase of over $12k from FY 22-23. Changes to steps and lanes within the salary schedule will ensure no certified staff will receive less than a 6% increase in salary. Classified and Administrative staff will receive a 6% cost of living increase. Health insurance premiums are projected to increase 4.71% which equates to approximately $1.1M for FY 23-24. Other significant increases to the budget includes $0.8M increase to utilities, 2.0 additional Safety & Security personnel, $1.0M increase to district substitutes, 19.23 Special Education staff who were previously funded with federal funds, 5.6 certified staff for Career & Technical program expension, and department operating increases due to inflation.
Insurance Reserve Fund	The beginning fund balance is estimated to be $4.0M for FY23-24. This amount contains self-insured workers compensation claims of $1.5M, one month of reserves $333,710, and insurance reserves. An additional transfer from the General Fund will provide total revenue of $3.6M.	The primary expenses are insurance premiums, budgeted at $2.3M. The District partners with the Colorado School Districts Self Insurance Pool (CSDSIP) for property and liability coverage, Pinnacol Assurance for workers' compensation, and Arthur Gallagher for cyber security coverage. The property and liability insurance package with CSDSIP is estimated to increase $194,918 (11.7%) for FY23-24. This increase is the result of the replacement of 41 buses, an increase in property values of 8.5%, and the loss of higher deductible credits. Worker's compensation insurance with Pinnacol is estimated to increase by $21,924 (7.2%). This is largely due to the Risk Management team working diligently in mitigating workers' compensation claim costs. The district has had a large deductible program since FY19-20 of $500,000 per claim with a $1.5 M annual aggregate. Each policy year's outstanding financial liability is reviewed, and currently the total outstanding liability for the 35 open claims is $409,905. This includes expected costs of one open claim from FY19-20 for $91,008, four open claims from FY21-22 for $111,792, and thirty open claims from FY22-23 for $207,105. The insurance reserves are budgeted to decrease by $434,007 to fund deductibles in FY23-24, these anticipated expenses will leave an ending fund balance of $3.5M.
Information Technology Fund	The beginning fund balance is estimated to be $6.5M in FY23-24, this is from both operating expenditures as well as capital project savings. Funding is solely from a transfer in of $19.7M from the General Fund for expected operating and capital project needs.	The FY23-24 Information Technology Fund budget includes operating expenditures for the district print shop, instructional materials center, records management, academic and administrative data services, and strategic technology initiatives. Aside from salaries and benefits, the largest expense in IT is purchased services which include $6.7M in annual software license maintenance, $1.8M for professional services consulting support, and over $600K for Districtwide copier lease. The internal reimbursements in this fund is for school and department click charges, as each location is responsible for its own usage. IT will continue to purchase chromebooks to support the districts one to one device intiative as well as partner with Learning Services to implement new Multi-Tiered System Support software.

Fund	Revenue	Expenditures
Instructional Revenue Fund	The beginning fund balance is estimated at $10.6M. The Instructional Revenue Fund is funded through a transfer in from the General Fund for 5C curriculum and textbooks.	Expenditures included in this fund are those used to support textbook and curriculum purchases, implementation of curriculum, and comsumable supplies & materials at schools to eliminate student fees.
Capital Reserve Fund	The beginning fund balance is estimated to be $28.5M in FY23-24. Revenues for this fund are from tenant leases at the Educational Support Center, cash in lieu payments from local building developments, and royalties received for oil and gas rights on district properties, and are expected to be $2.3M combined. A transfer of $3.7M from the General Fund for continued safety and security initiatives tied to the 5c mill levy, vehicle payments, and debt payments for Energy Performance Contract (EPC) and Certificates of Participation (COP). Funds for deferred maintenance historically are included in the transfer, but will not be in this fiscal year. $1.1M of interest earnings is expected in this fiscal year, for a total revenues and transfers in of $6.2M.	The FY23-24 Capital Reserve Fund budget includes expenditures of $7.2M, major expenses include deferred maintenance, and major facilities repairs and improvements throughout the district. Expenses for the fund also include lease payment for Five Star Online, ongoing vehicle fleet payments, installation and lease of transportation software upgrade, and principal and interest payments for COP's. Additionally, staffing paid out of Capital Reserve Fund includes salary and maintenance expenses for the property management of the Educational Support Center, salary for additional communication center support. The $1.1M expected from interest earning will be transferred to General Fund, for an ending fund balance forecasted at $27.3M.
Governmental Designated-Purpose Grants Fund	Federal Grants total $39.8M and State grants total $6.6M of the fund revenue. Of the total Federal and State grant revenue $13.5M is due to carryover awards. Federal revenues declined by $9.2M mainly due to funding tied to COVID that has been spent down and State grants declined by $1.2M due to completing BEST grant projects. Federal grant totals are based on federal allocations provided by CDE or estimated allocations based on the most current information available at the time. State grant totals are based on awarded grant information. The district will continue to pursue grant funding that will support and enhance the learning experience of our students. Most federal grants require the district to expend funds and then request reimbursement in order to comply with federal cash guidelines.	2 CFR Part 200 of Uniform Grant Guidance establishes uniform administrative requirements, cost principles and audit requirements that each grantee must adhere to. All expenditures must be used in conformity with the grant guidelines and original funding purpose established by the grantor. Salary costs include a 9.4% increase across all employee groups. Other operating expenses such as supporting low income schools, after school learning (PEAK) opportunities, support for special education, support for career and technical students, health services, and providing wraparound services for highly mobile students are adjusted based on programmatic needs. Grant expenses cannot exceed the funding balance of the individual grant and must be reported on a yearly basis to the grantor to ensure that all spending is appropriate.
Interscholastic Athletic Fund	The beginning fund balance is estimated at $1.7M. 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 $2.6M which is expected to cover the salaries and benefits of athletic coaching staff as well as Middle School sports.	Expenditures, using historical trend and actual data, are aligned with available revenue sources and are used to support the athletic activities of the students. In FY23-24 the district will continue to offer Middle School interscholastic sports for 7th and 8th grades to include girls volleyball, cross country and boys and girls basketball. Sixth grade students will be able to participate in Middle School interscholastic cross country or intramural volleyball and basketball.
Pupil Activity Special Revenue Fund	This fund is expected to have a beginning fund balance of $4.6M. Sources of revenue are generated from student fees that have been approved by the Board of Education. A full Fee Schedule is available for review on the district website and contain fees either mandatory, course related or optional. Examples of student fees would be field trips, workbooks, yearbooks, athletic programs, pottery, etc.	Colorado State Law (CRS 22-32-117) provides that revenue collected for student fees will be used for the designated purpose and shall not be expended for any other purpose.
Other Special Revenue Fund	The estimated beginning fund balance is $3.6M, with sources of revenue generated from community use rentals of school facilities, auction surplus (sales of fixed assets), vendor rebates, local donations, band uniform replacement, and school based parent/teacher/student fundraising groups. Revenues from all sources total $2.4M expected in FY23-24.	Expenditures include salary and benefits for district staff who oversee community use and auction activities, including necessary operating expenditures. In FY23-24, grant funded FTE for Newcomer program support is also included. School based expenditures will align to the original funding purpose, such that local donations and fundraising sources will be expended in accordance with guidelines submitted when the donation was received or fundraising activities were approved.

Fund	Revenue	Expenditures
Food Service Fund	The beginning fund balance is estimated to be $10.4M in FY23-24. Total revenues are expected at $14.4M, with a significantly higher portion coming from state support due to the Healthy School Meals for All (HSMA) act which starts in FY24. This act provides state funded reimbursements in combination with existing federal reimbursements to provide no-cost meals to all students in the district. The anticipated result is a significant reduction to cash revenues (only cash paid for a la carte items), and lower federal reimbursement, but is offset by the increase to state reimbursements.	Total budget for FY23-24 expenditures is $15.3M, and assumptions include increases to salary and benefits, inflation of food, delivery, and supply costs as major drivers of non-salary operating costs in this fund. The number of meals served is also expected to increase due to HSMA, as students who previously brought lunches will be able to receive no-cost meals. Additionally, the replacement of old and failing equipment is planned with the intent to spend a portion of fund balance down to closer align with the three-month fund balance requirements.
Before, After and Summer Enrichment Program Fund	The beginning fund balance is estimated to be $3.0M in FY23-24. Revenues are generated from participant tuition in before school, after school, and summer programs, with additional funding from the Colorado Child Care Assistance Program. Combined, the total expected revenue is $7.5M. Adjustments to the tuition rates were made to align with changes to the school year calendar.	Fund expenditures are planned at $7.5M to cover salaries, benefits and program costs to include supplies, snacks, field trip admissions, and transportation. Staffing schedules have also been adjusted to support the new calendar. Ending fund balance is forecasted at $3.0M.
Bond Redemption Fund	The beginning fund balance is estimated to be $63.2M. 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	2016 and 2018 bond proceeds were collected in advance of spending, and of the $393.9M net proceeds received at the beginning of bond, the fund is expecting to carry an estimated balance of $23.3M into FY23-24. As bond projects continue to wind down and available fund balance declines, the District is unable to invest in long term investment products, therefore short term products are most viable to provide the District the greatest projected return of $0.27M in investment earnings in FY23-24. In prior years, external reimbursements such as federal ERate reimbursements, as well as use tax refunds and cash-in-lieu payments from local governments have supplemented fund revenue, however no external reimbursements are forecasted for FY23-24.	As of the beginning of FY23-24 the District has spent approximately $387M in bond proceeds on projects across the district as outlined in the initial bond issuance. For FY23-24 the District will have around 25 remaining bond projects which include construction of the Independence Academy Campus; HVAC and elevator system upgrades; school intercom, intrusion panel, and external door security upgrades; technology infrastructure and device upgrades; school bus purchases; and roof replacement at Legacy High School.

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 Recommended Budget for Fiscal Year 2023-2024 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 April 5, 2023 meeting. This is expected to be adopted as part of the Final 2023-2024 District Budget at the June 7, 2023 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 the unassigned fund balance is maintained per Board of Education policy between 4% and 8%; 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 two fiscal years.

DATA REPORTED: Budget planning has been prepared to meet the requirements of Board Policy 2.4 for fiscal years ending 2024 through 2026. The projections for fiscal year 2024-2025 predicts an increase in the TABOR reserve due to the increase in revenue, and then an additional increase in fiscal year 2025-2026. All fiscal years included in this report include mill levy override funding when calculating the TABOR and Contingency reserves. Projected fiscal years include 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 total program funding, 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 7, 2023, for Fiscal Years 2023-2024, 2024-2025, and 2025-2026 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 was relevant, justified and complete.