

Internal Monitoring Report
February 11, 2025

Policy: **Financial Planning and Budgeting**
Policy Type: **Executive Limitation**
Policy No.: EL 2.4
Period Monitored: February 2024 – January 2025

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.

Brian Kingsley
Superintendent of Schools

February 11, 2025

Executive Summary

This report monitors Executive Limitation 2.4, Financial Planning and Budgeting and relates to the management of the District's short- and long-term financial plan, as well efforts to minimize financial risk and adequately support Board priorities.

Compliance with this executive limitation requires the District to establish and adhere to a financially conservative budget plan, while using appropriate planning assumptions that are openly disclosed in the budget planning process. Additionally, this executive limitation works alongside Executive Limitation 2.3, Financial Conditions and Activities in minimizing financial risk and ensuring financial resources are expended to the benefit of the District. Lastly, this executive limitation requires management to establish a mechanism to determine and include Board prerogatives in the annual budget process.

The evidence included in the monitoring report indicate that the District did not deviate materially from District Ends priorities, risk fiscal jeopardy, or fail to be derived from a multi-year plan.

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 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:

The fiscal year 2025 Adopted Budget and fiscal year 2025 Revised Budget documents prepared by the District contain evidence of financial planning. Adopted and Revised Budgets for the 2024-25 fiscal year (July 1 to June 30) were adopted by the Board of Education on June 18, 2024, and January 28, 2025, respectively.

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).

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.

The budget process is guided by priorities reviewed by the Board of Education and is driven by the District Ends, staffing prioritization, and equity. The 2024-25 budget priorities are focused on 1) literacy, 2) graduating with options and, 3) mental health and belonging. Resources are allocated to operational efforts that align to these priorities as well as those of a) evaluating declining enrollment, b) safety, c) competitive compensation & benefits and d) the implementation of new mandated programs such as Universal Pre-K and Healthy Meals for All. These efforts include providing students access to learning and providing environments, and the necessary supports, conducive to learning.

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 year.

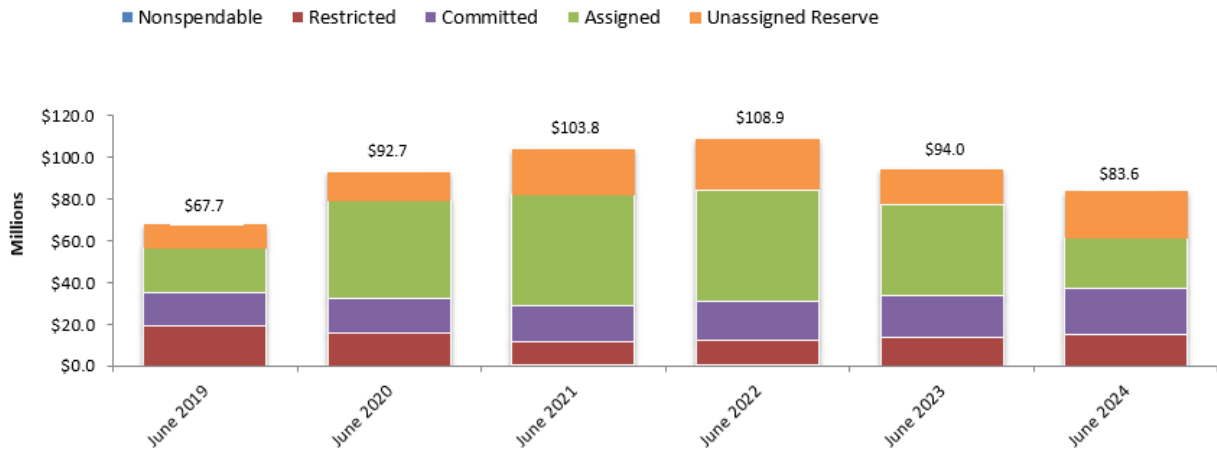
General Fund operating budgets are developed balancing expected ongoing revenues with projected ongoing expenditures. When the District ends a fiscal year with a surplus (revenues exceed expenditures), that amount increases the District's fund balance.

For both the 2023-24 and 2024-25 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 22, 2023, and June 18, 2024, Board meetings for the 2024 and 2025 fiscal year budgets, respectively.

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

Fund Balance History



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. Five classifications are currently included in the District’s budget.

These classifications are defined as follows:

Non-spendable: Amounts that cannot be spent because they not in a spendable form (inventory) or are legally required to remain intact.

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.

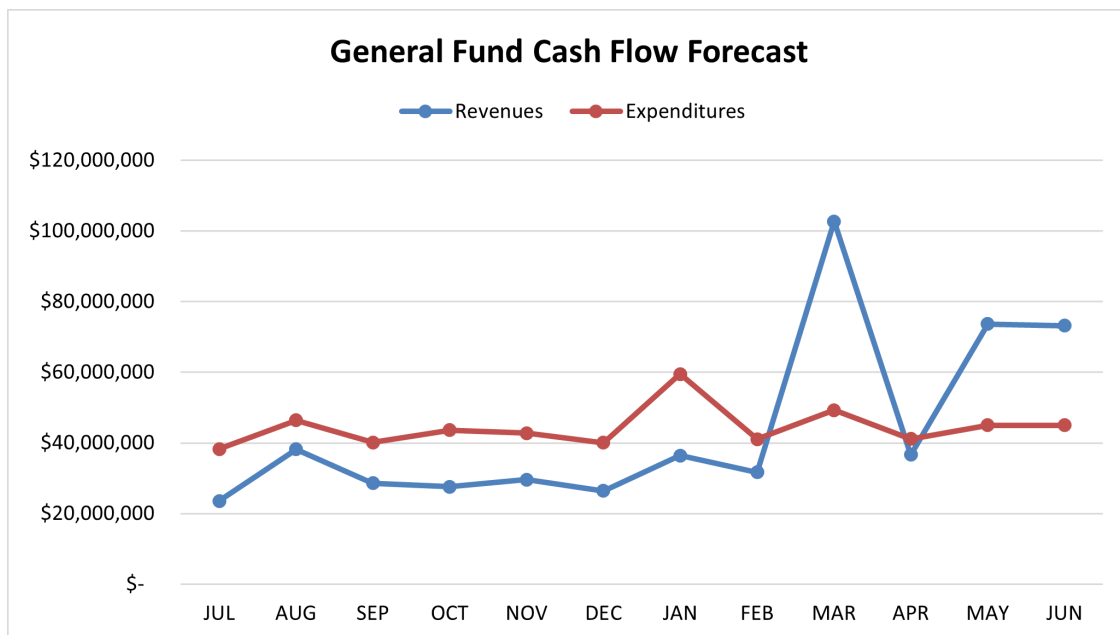
Committed: Amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Included in this classification are reserves for accrued compensation.

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 such as the COVID Response reserve.

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 increases in assigned and unassigned fund balance from fiscal years 2019-20 through 2021-22 followed by decreasing fund balance levels in fiscal years 2022-23 and 2023-24. This illustrates the buildup and then utilization of federal Coronavirus relief funds on allowable expenditures. Now that these federal funds have been expended, the District continues the process of purposefully using one-time reserves resources in to balance the budget and return to normal financial operations. The Pandemic Response reserve was eliminated at the conclusion of fiscal year 2022-23.

Following is a graph demonstrating the General Fund's estimated cash flow for the 2024-25 fiscal year. By analyzing the District's cash flow, the District projects how much money will be available for expenditures throughout the year. 2024-25 marks the first year of a nine-month state equalization distribution to support District cash flows in months when low levels of property taxes are collected.



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 the bulk of property tax revenues are received in March, May, and June. Participation in the program is reevaluated annually if cash flow deficiencies need to be addressed during

the year. The District participated in the State's Interest Free Loan Program in 2023-24 and plans to do so again in 2024-25. The District will borrow funds in February and March, then repayment of the Interest Free Loan in the months of March and April is reflected in the graph. 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 considers primary factors in developing a four-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 time that preliminary enrollment estimates indicate declines compared to the current year. This information gives us the ability to calculate the School Finance Act average funded pupil count for incorporation into fiscal year 2025-26 modeling.

Starting with fiscal year 2018-19, the District developed a new comprehensive multi-year planning tool. This multi-year projection is initially presented to the Board of Education in February, and then is used throughout the budget development process. Below is a very preliminary look at projections. It is important to note that the legislative process of setting the per pupil rate for the next fiscal year starts in the month of January and continues into the month of May. Changes to this information must be expected along the way. This model is based on a conservative per pupil funding increase based on limited information at the time of publication. Additionally, this information will be shared with the Board of Education at its March 11, 2025 meeting.

Budget Projections for Poudre School District
Current base year + 4 projected years
Updated January 31, 2025 (in millions)

<u>Revenue</u>		<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>
State Formula:						
State formula (gross)	<i>modeling & enrollment</i>	\$ 310.9	\$ 308.7	\$ 309.5	\$ 311.4	\$ 312.7
Negative Factor (BS factor)		-	-	-	-	-
State formula (net of BS factor)		<u>310.9</u>	<u>308.7</u>	<u>309.5</u>	<u>311.4</u>	<u>312.7</u>
Other Local						
MLO and Other Property Taxes	<i>static/inflation</i>	66.1	66.6	67.1	67.6	68.1
Other	<i>modeling/inflation</i>	13.4	13.7	14.0	14.3	14.6
Other State (categorical & UPK)	<i>inflation/modeling</i>	27.4	28.0	28.7	29.4	30.0
State On Behalf Payment	<i>static</i>	4.5	4.5	4.5	4.5	4.5
Federal (non-grant)	<i>no growth</i>	3.0	3.0	3.0	3.0	3.0
Total Revenues		<u>425.3</u>	<u>424.5</u>	<u>426.8</u>	<u>430.2</u>	<u>432.9</u>
Expenditures						
Compensation and benefits						
Base	<i>modeling</i>	230.2	234.7	234.7	234.7	234.7
PERA - Employer only	<i>modeling, assuming 0.5%</i>	56.6	56.9	57.2	57.5	57.7
Health and dental	<i>assuming % TBD</i>	37.0	38.9	40.8	42.8	45.0
Compensation (cola, step, lane, market)	<i>negotiated</i>	4.5	-	-	-	-
Site-based non-staffing budgets	<i>modeling/inflation</i>	37.1	38.0	38.9	39.8	40.6
One-Time budget	<i>modeling</i>	1.8	-	-	-	-
Capital projects	<i>modeling/inflation</i>	0.9	0.9	0.9	1.0	1.0
Utilities	<i>modeling/inflation</i>	8.4	8.6	8.8	9.0	9.2
Risk management	<i>inflation and projection</i>	4.8	4.9	5.0	5.1	5.3
State On Behalf Payment	<i>static</i>	4.5	4.5	4.5	4.5	4.5
Charter schools (in district)	<i>modeling & growth</i>	39.0	39.9	40.9	41.8	42.7
Budget available for ongoing needs (Budget Priorities, compensation, benefits, Budget Design Team, etc....)		-	(2.7)	(4.9)	(6.0)	(7.8)
Budgeted Reserve Increases (TABOR, BOE, accrued comp, etc.)		-	-	-	-	-
Total Expenditures		<u>\$ 424.8</u>	<u>\$ 424.5</u>	<u>\$ 426.8</u>	<u>\$ 430.2</u>	<u>\$ 432.9</u>
Budget remaining (use of Reserves)		<u>0.5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other calculations/estimates						
Cost of living adjustment (per 1%)		3.0	3.1	3.1	3.2	3.3
Cost of living to meet inflation		15.6	7.1	7.5	7.4	6.9
Inflation (CPI - Denver-Aurora-Lakewood)		5.2%	2.3%	2.4%	2.3%	2.1%

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:

The adopted fiscal year budget identifies projections of revenue, expenditures, and carryover funds (ending reserves/fund balance).

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 dependable (meaning likely to occur) revenue and expenditure projections. The process includes communication of these projections to the public.

Historical data of the District shows evidence that the District has been strategically conservative or cautious in projections of revenue, expenditures and reserves/ending

fund balance and demonstrates that the District's approach to budgeting is effective. After building reserves levels, the District has also been strategic about using carryover funds to address large initiatives or one-time needs as evidenced in the changing fund balance levels over time and illustrated in the fund balance history chart on page 5.

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 funds and 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.

Evidence of the separation of capital and operational items is found in financial management system. The financial system ensures the separation of operating and capital expenditures through distinct accounting practices, budgeting processes, and financial reporting mechanisms. Specifically, the General Fund is utilized to account for operational revenues and expenditures and capital projects funds are used to account for capital revenues and expenditures. By maintaining a clear distinction between operating and capital expenditures, the District can effectively manage finances, ensure compliance with accounting standards, and make informed strategic decisions.

Planning assumptions were used in the development of the 2023-24 and 2024-25 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 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:

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.

The District maintains reserves to cover contingent and/or unplanned obligations. The June 30, 2024 ending reserve balance includes \$14.9 million classified as restricted for requirements under TABOR, Medicaid, and other legal restrictions; \$22.1 million committed for accrued compensation; \$24.3 million assigned for carryovers and other assigned reserves; \$7.7 million for unassigned contingency reserves, leaving approximately \$14.6 million unassigned. It is important to note that in 2022-23 a portion of the unassigned contingency reserves was allocated for a District-wide facilities condition assessment. This was a one-time allocation and the unassigned contingency reserve levels were restored to 2% in 2023-24.

As indicated in the interpretation above, the District strives to maintain an unassigned fund balance appropriated reserve between 3 and 5 percent of General Fund expenditures. The District anticipates being in compliance with this policy at June 30, 2025 based on the most recent estimates from the Second Quarter 2024-25 Financial Management Summary (FMS) and Revised Budget that was approved on January 28, 2025.

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:

For the 2024-25 fiscal year, \$146,000 was budgeted and allocated for the Board’s activities regarding the cost of governance. This is the same amount that was allocated in the previous fiscal year.

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. An example of this is the 2% Board contingency reserve.

The Board was intricately involved in budget planning for the 2023-24 and 2024-25 fiscal years, including the amount budgeted for Board activities. An example of this are budget conversations at the December 12, 2023, and December 10, 2024, Board of Education meetings. During these meetings staff reviewed budget priorities with the Board and each Board member had the opportunity to discuss priorities that they would like to see incorporated into the budget

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