Internal Monitoring Report
December 13, 2022

Policy:	**Financial Condition and Activities**
Policy Type:	Executive Limitation
Policy No.:	EL 2.3
Period Monitored:	July 1, 2021 – June 30, 2022

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

The Superintendent shall neither cause nor allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in District Ends policies.

Among other things, the Superintendent shall not cause or allow the District to:

1. *Expend more funds than have been received in the fiscal year to date unless the debt guideline below is met.*

2. *Indebt the organization in an amount greater than can be repaid by certain, otherwise unencumbered revenues by the end of the fiscal year.*

3. *(a) Allow fund reserves to be unreasonably low or (b) use Board-designated or long-term reserves.*

4. *Cause or allow a financially illiquid condition.*

5. *Expend funds for any purpose other than to achieve District Ends, unless required to comply with Executive Limitations.*

Executive Summary

This report monitors Executive Limitation 2.3, Financial Conditions and Activities and relates to the management of the District's financial resources to ensure fiscal stability and budgeting and spending in alignment with Board priorities.

Compliance with this executive limitation requires the District to establish and adhere to a system of fiscal internal controls. Fiscal internal controls consist of processes and structures that provide the framework for financial activities. They are designed to provide reasonable assurance that objectives related to reliability, timeliness, and transparency of financial activity are met in an efficient and effective way while adhering to applicable internal policies and externally imposed laws and regulations.

The evidence included in this monitoring report indicates that the District is not in fiscal jeopardy and actual expenditures did not deviate materially from Board priorities established in District Ends policies.

Policy Wording:

The Superintendent shall neither cause nor allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in District Ends

In the case of the Debt Service (Bond Redemption) Fund and the Capital Projects Fund, expenditures exceeded revenues and a portion of the beginning fund balance was utilized to fund the expenditures. The utilization of fund balance in the Debt Service (Bond Redemption) Fund was due to purposely drawing down excess fund balance accumulated through property tax collections while the 2016 bond election was in litigation. In the Capital Projects Fund, bond proceeds received in prior years were utilized as planned for capital projects, including the construction of the three new schools. In accordance with state statute, at a meeting held on June 8, 2021, the Board authorized the use of the beginning fund balance in these funds in the form of a resolution.

Based on the identified evidenc

Policy Wording:

For the Employee Self Insurance Fund, the District follows industry standards and maintains reserves at a level to cover four to six months of insurance claims expense. As illustrated in the District's fiscal year 2022 Annual Comprehensive Financial Report, as of June 30, 2022, the Employee Self Insurance Fund reserve represents approximately 8 months of insurance claims expense.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.3.

Policy Wording:

Among other things, the Superintendent shall not:

4. *Cause or allow a financially illiquid condition.*

Interpretation:
The District interprets this to mean available cash must be adequate to make payments when due.

Evidence:
In general, District revenues and expenditures are predictable, which allows for an uncomplicated analysis of cash flow trends to project how much money will be in the bank at a given point in time in comparison to expected expenditures.

In the General Fund, expenditures are higher than revenues for the months of October through February. This monthly cash flow variation occurs because most property tax revenues received in a lump sum during the latter part of a fiscal year while expenditures, primarily employee compensation, occur consistently throughout the year. To address this, if necessary, the District borrows from the State's Interest-Free Loan Program in October which is repaid as soon as property tax revenues are received in March. It was not necessary to participate in the interest-fee loan program in fiscal year 2022.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.4.

Policy Wording:

Among other things, the Superintendent shall not:

5. *Expend funds for any purpose other than to achieve District Ends, unless required to comply with Executive Limitations.*

Interpretation:
The District interprets this to mean use funds for reasons that conflict with the objectives outlined by the Board of Education in the District Ends policy unless the expenditure is necessary to meet the requirements set forth in Executive Limitations.

Evidence:
The District utilizes a budget development process to identify the use of available District General Fund resources in consideration of priorities established in District Ends and Executive Limitations. As illustrated in the District's fiscal year 2022 Annual Comprehensive Financial Report, as of June 30, 2022, actual expenditures, on a budgetary basis, were not in excess of budgeted amounts. This indicates that expenditures were in alignment with General Fund budget priorities.

In addition, fiscal-related Policies, Administrative Guide

Evidence:
Because the Designated Special Purposes Grant Fund and the Food Service Fund are funded by state and federal grants on a reimbursement basis, it is necessary to temporarily borrow General Fund resources to fund expenditures until the reimbursements are received. As illustrated in the District's fiscal year 2022 Annual Comprehensive Financial Report, as of June 30, 2022, the amount due to the General Fund from the Designated Special Purpose Grants Fund was $2,935,886. These transactions are reported on the balance sheets of the respective funds as assets and liabilities, as appropriate, to ensure fund balance in the General Fund was not adversely impacted. This activity is considered normal due to the nature of the Designated Special Purposes Grant Fund. The General Fund is typically repaid within 90 days of fiscal year-end.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.6.

Policy Wording:

Among other things, the Superintendent shall not:

7. Acquire, lease, encumber or dispose of real property.

Interpretation:
The District interprets this to mean that land and/or buildings may not be acquired or disposed of in any manner or leased without Board approval.

Evidence:
Additions or disposals of real property are accounted for in the District's capital asset database and are reported, along with leases, in the District's Annual Comprehensive Financial Report. In addition, internal controls require that all transactions involving expenditures of $5,000 or more and all funds received for leased property are processed by the Finance Department. This ensures that transactions involving real property are identified.

Board approval was obtained for all transactions involving real property identified:

- Lease of building space to house the School to Work Alliance Program (SWAP)
- Lease for office space to house Employee Assistance Services
- Leases of District land (Cherry Heights and Mountain Vista sites) for grazing and farming purposes were executed
- Lease of space at French Field with a cellular service provider for placement of a cell tower
- Lease of space at Fort Collins High School, with a cellular service provider, for placement of a cell tower
- Lease of land located at Lincoln Middle School to the Boys and Girls Club of Larimer County to provide after-school and summer programming

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.7.

Policy Wording:

Among other things, the Superintendent shall not:

8. Sell any significant portion

agreement or contract. The District's contract manager is available as a resource to assist with contract compliance issues.

The District is not aware of any violations of contract provisions.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.11.

Policy Wording:

Among other things, the Superintendent shall not:

12. Achieve compliance with these provisions by endangering future capacity to achieve District Ends.

Interpretation:
The District interprets this to mean that financial decision-making necessary to comply with these executive limitations should not occur at the expense of future financial needs.

Evidence:
The District's financial planning and budgeting are derived from a multi-year plan. Professional staff is responsible for analyzing primary factors which impact projected revenues and expenditures and effectively determining ongoing versus one-time revenues and costs. Considering multi-year impacts in the budgeting process helps reduce the risk that current compliance with provisions related to bond debt, lease or other obligations would jeopardize future ability to meet priorities established in District Ends.

Based on the multi-year plans, the District has met the expectations outlined in Executive Limitation (EL) 2.3.12.

Policy Wording:

Among other things, the Superintendent shall not:

13. Fail to settle payroll, accounts, debts, and other fiscal obligations in a timely manner.

Interpretation:
The District interprets this to mean that employees should be paid for services performed and external vendors should be paid for goods or services provided within the contractually specified timeframe or 30 days, whichever is less.

Evidence:
Payroll is processed on a monthly basis and employees are paid on the last working day of the month.

All payments related to invoices for purchases of $5,000 or more must be processed invoices are accurate and represent authorized expenditures. Payments are processed on a weekly basis for all invoices that meet that criterion. Ensuring the timeliness of payments related to invoices for purchases under $5,000 is the responsibility of the school or site that made the purchase.

Payments for obligations that are not invoiced, such as debt and certain lease obligations, are based on payment terms included in the bond issuance or other contractual documents. The Finance Department maintains detailed procedural documentation that includes specific deadlines related to these types of obligations and utilizes checklists to ensure payments are not missed. Detailed reconciliation processes provide an additional level of assurance.

Based on the evidence that the obligations have been met in the timeliness prescribed, the District has met the expectations outlined in Executive Limitation (EL) 2.3.13.

Policy Wording:

Among other things, the Superintendent shall not:

14. Fail to make tax payments and other

Policy Wording:

Among other things, the Superintendent shall not:

16. Fail to prudently dispose of surplus assets, as long as the guideline for selling significant portions of the organization’s assets is not violated.

Interpretation:
The District interprets this to mean if surplus assets are disposed of, they must be disposed of in a manner that provides the

Interpretation:
The District interprets this to mean that reserves should be adequate to fund liabilities or potential losses that may occur depending on the outcome of an uncertain future event.

Evidence:
As illustrated in the District's fiscal year 2022 Annual Comprehensive Financial Report at June 30, 2022, the following contingent liabilities existed:

> Construction commitments – construction commitments related to various capital projects for new construction and site renovations and repairs were $8.3 million. These commitments will be due and payable contingent upon the completion of work in accordance with the terms and conditions in the related contracts. Construction commitments will be liquidated from the Capital Projects Fund utilizing bond proceeds. Reserves in the Capital Project Fund at June 30 totaled $93.3 million and are sufficient to fund the construction commitments.
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> Grant awards – amounts received or receivable from grantor agencies are subject to audit adjustment by grantor agencies. Any disallowed expenditures, including amounts already reimbursed, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined. In the event that disallowed expenditures are identified, it will be necessary to utilize General Fund resources to repay the disallowed amounts. Consideration for this contingent liability was included in the development of the previously described required appropriated General Fund reserve range of three to five percent of each fiscal year's expenditures and other financing uses.
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> Lawsuits – the District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the District does not expect resolution of these matters to have a material adverse effect on the financial condition of the District. Consideration for this contingent liability was included in the development of the previously described required appropriated General Fund reserve range of three to five percent of each fiscal year's expenditures and other financing uses.
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> Arbitrage - The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The amount owed, if any, is contingent upon interest rates. Based on current interest rates and expected future trends, it is not expected that the District will be required to make an arbitrage payment. However, in the event that one is required, consideration for this contingent liability was included in the development of the previously described required appropriated General Fund reserve range of three to five percent of each fiscal year's expenditures and other financing uses.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.17.