Internal Monitoring Report
December 10, 2024

Policy: Financial Condition and Activities
Policy Type: Executive Limitation Policy
No.: EL 2.3
Period Monitored: July 1, 2023 F June 30, 2024

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

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 policies.

Interpretation:
The District interprets this to mean that fiscal decisions should not expose the District to unnecessary risk or otherwise cause damage to the District and that actual expenditures would not be questioned by an informed person about whether Board priorities are being considered.

Evidence:
The budget development process is conducted in an open and transparent manner in consideration of District Ends, current risks and anticipated future risks. Evaluating fund balance and/or comparing actual expenditures to projected, or budgeted, expenditures can be an(pr)7 (oc)4 CID 6 >>t1 Tf -0.00w -4.65 -1.15 Td [(T)5 (he b)10 (udg)10 ase

At a meeting held on June 22, 2023, the Board authorized the use of the beginning fund balance in the General Fund, Food Service Fund, and Capital Projects Funds in the form of a resolution.

Policy Wording:

Among other things, the

of Education to convene a technical advisory group to work on strategies to balance the program's revenues and expenditures, the outcome of which will influence the District's long-term plans to support the Food Service Fund.

As illustrated in the District's fiscal year 2024 Annual Comprehensive Financial Report, as of June 30, 2024, reserves in the Public School Activities Fund were $5,353,775. There are no regulatory or internal requirements around reserve levels in the Public School Activities Fund.

For the Employee Self-Insurance Fund, the District follows industry standards and maintains reserves at a level to cover six to seven months of insurance claims expense. This level of reserves ensures the fund can handle unexpected claims and maintain financial stability. As illustrated in the District's fiscal year 2024 Annual Comprehensive Financial Report, as of June 30, 2024, the Employee Self-Insurance Fund reserve represents approximately 8.5 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. The District borrowed and repaid $28,609,641 in fiscal year 2024.

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 not to 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 2024 Annual Comprehensive Financial Report, as of June 30, 2024, actual expenditures, on a budgetary basis, exceeded budgeted amounts by $9.0 million. The budget to actual variance is attributable to:

- At the time of the January budget revision, the total program funding projection

Policy Wording:

Among other things, the Superintendent shall not:

7.

Policy Wording:

Among other things, the

Evidence:
It is the responsibility of each school's/site's department manager, director, or principal to determine when assets other than real property assigned to their building or department are no longer needed. For non-technology related assets that do not meet the District's capital asset threshold (assets with a per-unit cost of $5,000 or more), the responsible individual determines if the asset should be offered for use elsewhere in the District, can be recycled, or is obsolete.

The process for disposal of surplus non-technology-related capital assets is managed by Facilities Services. Prior to disposition of capital assets, schools and sites are required to ensure that the asset cannot be of use elsewhere in the District. Once it is established that the capital asset is in fact surplus, Facilities Services staff determine the appropriate method of disposal. Capital assets are evaluated and then determined to be recyclable, eligible for posting on a public auction website, or unusable and obsolete.

The process for disposal of technology items is managed by the Information Technology Department. The District has a contract in place for the recycling of retired computers.

During fiscal year 2024, $176,920 was received related to the disposal of District assets.

Based on the evidence, the District has met the expectations outlined in Executive Limitation (EL) 2.3.16.

Policy Wording:

Among other things, the Superintendent shall not:

17. Fail to establish prudent reserves for contingent obligations.

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 2024 Annual Comprehensive Financial Report at June 30, 2024, the following contingent liabilities existed:

- Construction commitments – construction commitments related to various capital projects for site renovations and repairs were $3.0 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 $42.8 million and are sufficient to fund the construction commitments.

- 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.

- Lawsuits – the District is a defendant in various lawsuits arising through the normal course of business. 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.

  In addition, the District is a defendant in Federal and State lawsuits filed by the families of nine students who were the victims of child abuse by a former employee during the 2022-23 fiscal year. The plaintiffs claim that the District knowingly hired the individual, who had previously been convicted of child abuse, to work with vulnerable children and for systemically ignoring complaints brought forward about the individual. The potential financial impact, if any, cannot be determined at this time, and no liability has been recorded. The District's potential exposure would be for amounts, if any, in excess of the $10 million insurance policy in effect at the time of the abuse. The Colorado State Legislature limits the amount of money that can be recovered from a school district through a State lawsuit to $424,000 per person per occurrence and $1.195 million for any injury to two or more people in a single occurrence, with the individual maximum capped at $424,000.

- 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.