

Attachment V-A-1

Executive Limitations 3.3: Financial Conditions and Activity



SUPERINTENDENT MONITORING REPORT

December 7, 2010

Executive Limitations: 3.3 Financial Conditions (Balance Sheet) and Activity (Income Statement)

Policy 3.3 Summary

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 Goals* policies.

Interpretation of policy elements 1, 2 and 4. Policy elements 1, 2 and 4 address activities found in the District's income statement. These activities relate to changes in the District's net assets at year end as reflected on the District's balance sheet. Activities that would result in a net deficit position arising within the general fund at year-end, and after netting interfund borrowing and maintenance of required reserves, are prohibited and the Superintendent will not cause or allow the District or any school chartered by the District to:

1. *Expend more funds in any fund than have been received in the fiscal year to date unless the debt, reserve and liquidity guidelines identified in policy elements 2, 3, 4, and 11 below are met.*
2. *Indebt or obligate the District in an amount greater than can be repaid by certain, otherwise unencumbered revenues by the end of the fiscal year. For any fund, have inadequate reserves, use any reserve other than intended, or use any Board-designated reserves.*
 - a. *For the general fund, allow reserves to be less than 5 percent of its annual revenues.*
4. *Conduct inter-fund shifting in amounts greater than can be restored to a condition of discrete fund balances by certain, otherwise unencumbered revenues within each fiscal year.*

Interpretation of policy elements 3, 5, 6, 7 and 11. Policy elements 3, 5, 6 and 11 address District assets and liabilities as reflected in its balance sheet and as related to the District's capacity to continue activities as a going concern. Actions that would change the District's position with regard to fixed real assets or other significant assets are prohibited and the Superintendent will not cause or allow the District or any school chartered by the District to:

3. *Incur a financially illiquid condition.*
5. *Receive, acquire, encumber, improve or dispose of real property. Maintenance and replacement of building components are permitted improvements.*
6. *Sell any significant portion of the District's assets.*
7. *Achieve compliance with Policy 3.3 by endangering the District's future capacity to achieve its Goals.*

11. Establish and retain less than prudent reserves for contingent obligations.

Interpretation of policy elements 8 through 11. Policy elements 8 through 11 address the timely conduct of financial and business transactions that affect the District's cash flows. The Superintendent shall accomplish these transactions so as to:

8. Settle payroll, accounts and debts in a timely manner.
9. Make timely and accurate tax and other government ordered payments.
10. Aggressively pursue receivables after a reasonable grace period.

Report of Financial Activities. As of June 30, 2010, the audited ending fund balance for the General Fund (not including the Risk Related Activity Fund or the Colorado Preschool Fund) was \$23,092,292. This balance equates to a 93.3 percent spending rate for FY2009-10, leaving an ending fund balance for the General Fund, on a GAAP-basis, of 8.7 percent as compared with a required policy reserve of 5 percent.

As reflected in the unaudited September 30, 2010, Consolidated Quarterly Financial Report, financial activities were accomplished so as to comply with policy. Looking forward, taking into account the announced reductions in state equalization funding, we anticipate ending FY2010-11 with a General Fund balance of \$16 million or 5.9 percent of budgeted General Fund revenues. This figure reflects a one-time drawdown of the General Fund's fund balance of \$5.1 million, as part of FY2010-11 budget reductions approved by the Board of Education, anticipated increases in utility costs of \$1 million, and additional expense of approximately \$1 million for teachers hired to alleviate class size imbalances.

With regard to interfund lending, as of September 30, a balance of \$2,613,749 was on loan from the General Fund to the Grants Fund, pending receipt of reimbursements from federal grant sources. A balance of \$591,616 was on loan from the General Fund to the Nutrition Services Fund, pending receipt of meal reimbursements from federal grant sources.

During FY2010-11, borrowing requirements will occur as follows:

Fund	<u>Nov-10</u>	<u>Dec 20 2010</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>Jun-11</u>
General	425,272	(20,414,907)	(3,849,298)	(7,223,762)	(13,109,525)	5,993,897	1,990,737	15,979,842	26,303,665
Risk	539,765	782,056	713,958	444,160	605,576	803,940	515,898	735,457	951,536
CPP	535,430	626,881	416,112	383,735	372,877	330,956	282,050	245,624	447,255
Grants	(2,584,213)	(4,709,899)	(2,606,332)	(5,124,566)	(5,002,538)	(5,167,574)	(4,838,915)	(6,217,188)	(6,715,237)
Spec Programs	4,335,192	3,738,932	4,151,071	3,815,311	3,307,413	2,884,231	2,468,706	1,783,255	1,491,399
Athletic	273,412	289,593	277,797	242,122	222,790	207,934	190,238	172,250	137,566
Capital Reserve	644,013	1,029,524	778,309	1,010,805	1,231,468	1,504,320	1,713,038	1,950,670	1,222,546
Nutrition Serv	(1,111,272)	(1,579,101)	(234,028)	(34,726)	(164,644)	(62,665)	221,075	666,387	127,317
Copier Serv	252,911	224,804	259,775	267,193	279,906	278,056	293,067	287,167	226,259
Print Serv	371,411	372,397	327,091	312,194	291,279	269,796	243,640	227,826	227,144
Total	3,681,921	(19,639,720)	234,455	(5,907,533)	(11,965,399)	7,042,891	3,079,533	15,831,289	24,419,450

Amounts in (parentheses) indicate negative cash balances requiring interfund borrowing as well as borrowing from the state treasurer under the interest-free loan program to cover cash flow deficits in December, January and February. On November 16, 2010, the Board approved a \$25 million borrowing resolution. Thereafter, the District notified the state treasurer that it will participate in the interest-free loan program with a borrowing limit of \$25 million.

The District ended Q1 of FY2010-11 in a liquid and sound financial condition. Moreover, I can report that its financial activities comported with the requirements of Policy 3.3, elements 1, 2 and 4. Barring unforeseen and profoundly adverse macroeconomic or public finance shocks, the District will remain in a sound and liquid financial condition throughout FY2010-11.

Evidence of Compliance with Policy 3.3, elements 1, 2 and 4. Detailed evidence of financial activity compliance can be found on pages 11 through 14 of the September 30, 2010, Consolidated Quarterly Financial Report.

Statement of Financial Position. During Q1, FY2010-11, the District undertook \$39,756,343 in bonded borrowing as approved by the Board of Education. Proceeds from this sale of bonds will finance projects contained in the long-range facilities plan.

As addressed above, the District retained reserves required by Board Policy 3.3 and TABOR.

Spending rates as an annualized percentage of appropriated budget exceeded 100 percent for the following funds or charter schools:

AXL Charter School	119.2 %
Aurora Public Schools Education Foundation	104.1 %
Bond Redemption Fund	105.1 %
Capital Reserve Fund	141.2 %

Funds will be monitored to ensure that appropriated budgets are not exceeded at year end.

Evidence of Compliance with Policy 3.3, elements 3, 5, 6 and 11. Detailed evidence of the District's financial position with regard to assets, liabilities and capacity to continue operations as a going concern is presented on pages 7 through 9 of the Consolidated Quarterly Financial Report.

With regard to liquidity, as illustrated on page 6, "Cash Flow Analysis," of the Consolidated Financial Report, District cash on hand exceeded cash requirements throughout the quarter ending September 30, 2010.

Statement of Compliance with Policy 3.3, elements 8 through 10. During this monitoring period, the District made tax withholding, retirement account, medical

insurance and other payments in a timely manner. It also completed payroll and debt service payments in a timely manner. With regard to receivables, the District promptly sought reimbursement for Medicare, transportation, food service and federal grants, thereby minimizing the need for interfund borrowing.

Evidence of timely accomplishment of financial and business transactions. As of November 24, 2010, invoice aging reflected an outstanding payable balance of \$275,195. Of this amount, 64 percent was for invoices received in the past 30 days and 36 percent was on invoices with an age of 30 days or longer. The District makes payment on invoices in accordance with invoice payment terms and following receipt of invoiced goods and services. Where goods are purchased on a purchase order, payment is made following a match between the purchase order, receipt of an invoice and receipt of goods.

Attachment V-A-2

Executive Limitations 3.4: Financial Planning and Budgeting



SUPERINTENDENT MONITORING REPORT

December 7, 2010

Executive Limitations: Policy 3.4 Financial Planning and Budgeting

Policy 3.4 Summary

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

Interpretation of policy elements 1, 2 and 3. Policy elements 1, 2, and 3 address projections, assumptions and plans used to develop the District's annual budget and cash flow and balance sheet statements included in the District's Comprehensive Annual Financial Report (CAFR). Items 1.a and 1d are reflected in the District's annual budget while items 1.b and 1.c are reflected in the CAFR. Item 1.b requires annual budgeting and reporting by fund. Item 3 requires that the Superintendent budget adequate funds to further governance by the Board as specified in Policy 1.7, *Investment in Governance*.

For any financial plan or budget, the Superintendent shall not cause or allow the District or any school chartered by the District to:

1. Omit:
 - a. Credible projections of revenues and expenses,
 - b. Separation of capital and operational items and funds,
 - c. Cash flow and significant balance sheet items, or
 - d. 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. Provide less for Board prerogatives during the year than is set forth in the *Investment in Governance* policy. This item pertains only to the District, not charter schools.

Report of Compliance with Policy 3.4. As of the date of this report, the District is in compliance with this policy. As reflected in the audited CAFR dated November 18, 2010, cash flows, assets and liabilities are accounted for in accordance with statute and generally accepted accounting standards. Additionally, capital and non-capital transactions are recorded to reflect changes in the District's financial position. The District's annual budget also projects revenues and expenses by school, division and fund. The letter of transmittal discusses long-range projections while the financial section provides budgeting planning factors and assumptions.

Evidence of Compliance with Policy 3.4

- Accreditation Report – Compliance – Budget, Accounting and Reporting, dated December 14, 2010.
- Adopted 2010-11 Budget dated June 15, 2010, and Re-Adopted 2010-11 Budget dated December 14, 2010.
- Quarterly Interim Financial Reports.
- Comprehensive Annual Financial Report (CAFR) dated November 18, 2010.
- District Policy DA – Fiscal Management Goals/Priority Objectives.
- The board of education has a \$173,966 services budget to use at its prerogative, and has spent \$89,000 after five months of operations.
- The board also has a governance services budget of \$757,030 for audit and legal services and treasurer collection fees.
- A Public Budget Hearing is facilitated annually by the District Accountability Advisory Committee.
- Cash flow borrowing is accomplished in accordance with the State Treasurer's Interest-Free Loan Program for Colorado School Districts. The Board resolution authorizing up to \$25 million in borrowing was approved by the Board on November 16, 2010.

Attachment V-A-3

Executive Limitations 3.8: Communication and Support to the Board



SUPERINTENDENT MONITORING REPORT
December 7, 2010 Consent Agenda
Executive Limitations 3.8 - Communication and Support to the Board

Policy 3.8 Summary

The Superintendent shall not cause or allow the Board to be uninformed or unsupported in its work.

Interpretation of Policy 3.8

- The Superintendent and staff will keep the Board informed about key activities related to Aurora Public Schools. This means that the Superintendent and staff will provide the Board updates and relevant facts about key issues. They will also answer requests that will help the Board make decisions and understand key issues and activities in the district. The Superintendent and staff will ensure that the Board has clear, concise and timely information needed to fulfill its duties and responsibilities as defined by the Board's governance policies.
- The Superintendent and staff will ensure that the Board is updated in a timely manner about legislative issues, accreditation, incidents, media coverage and any legal or possible legal matters.
- In addition to information, the Superintendent and staff will provide logistical, clerical and other needed support so the Board may fulfill its duties and responsibilities as defined by policy governance.
- The Superintendent and staff will treat Board members equitably.
- The Superintendent and staff will ensure that Board members have all needed information and materials for meetings.
- The Superintendent and staff will support the Board's ability to act as a team.
- Failure to comply with any of these items may leave the Board uninformed and/or unsupported.

Update on Compliance with Policy 3.8

- Although they have made significant improvements, the Superintendent and staff were not in full compliance with this policy. For example, they not provide the board information about the calendar survey by the required deadline.

Evidence of Compliance with Policy 3.8

Despite shortcomings, the Superintendent and staff did present communication support for the Board of Education in the following ways:

- Provided the Board necessary information and materials for Board meetings.
- Informed the Board about key issues, legal issues and media stories involving APS through:
 - Superintendent's Bulletin
 - Department and Division newsletters

- Daily media mentoring reports
 - Web updates
 - Community Connection
 - Quarterly news story highlights-DVDs
 - Emails
 - Legal updates
 - Executive sessions
 - Board meeting VISTA 2010 metric updates
 - BOE weekly email updates on department/division activities
 - BOE Quarterly Reports
 - BOE Monitoring Reports
 - Monthly meetings with the Superintendent and Deputy Superintendent
 - Support for the Microsoft migration
 - Support of the arbitration issue
- Responded to Board requests for information
 - The Superintendent and Deputy Superintendent provided requested information at meetings and via emails.
 - If information was readily available, the Board member received it in two to three days.
 - If information was not readily available and required research, the BOE and Superintendent agreed upon an appropriate date for delivery. Responses to requests approved by the Board were shared with all Board members.
 - The Superintendent and Leadership Team followed through with requests for support or inquiries made by parents at Board meetings.
- Notified the Board of school and district incidents or alleged incidents involving significant risk to student(s) or employees' health and/or safety.
 - The types of "incident" / "situations" that may have required school board notification included:
 - Physical plant, building infrastructure, health and safety situations that had the effect or potential to place employees/students /visitors at risk, or school and facility operations at risk, or that result in loss of property.
 - Bus accidents or vehicle contact in vehicles owned and operated by APS where personnel were injured.
 - Any accidents or medically-related issues that involved emergency response and/or resulted in serious employee, student or visitor injuries including death.
 - Awareness of an issue/event outside of APS direct control (such as weather-related conditions or power outages) that had the potential to place employees, students or visitors at risk, or school or facility operations at risk.
 - Notice of violation or third party activity that posed a public relations risk for APS. (Examples: legislative activity, advocacy group demonstration, vandalism or burglary of APS property, etc.)
 - Accidents or medically related situations that had the potential for public relations or regulatory agency risk exposure.
 - An act of conduct or alleged conduct committed by APS employees, non-employees, visitors or students that may have been construed as illegal or unethical.

- Supported the Board Policy Governance by providing the following:
 - Ongoing updates in the following areas:
 - Board Web site (agendas and minutes).
 - Leadership Team Web site (Leadership Team and Division of Instruction agendas).
 - News releases regarding Board executive sessions and additional meetings/trainings.
 - Continued promotion of Board awards in talking points and fact sheets.
 - District calendar for the Board
 - Quarterly school invitations to the Board
 - Weekly site website calendar updates for the Board

- Continued development of VISTA 2015 action plans