

**POLICY:** 3.2 FINANCIAL MANAGEMENT  
**POLICY CATEGORY:** SUPERINTENDENT LIMITATIONS  
**PERIOD MONITORED:** May 10, 2016 – December 12, 2016  
**BOARD MEETING DATE:** December 12, 2016

This is my monitoring report on the Board of Education's Executive Limitation policy "Financial Management." 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 prohibitions and end with the global prohibition.



Scott Korpak  
Superintendent

December 12, 2016

**3.2.1 POLICY PROHIBITION:** *The Superintendent shall not fail to insure the District to the extent possible against liability losses to Board members, staff, and individuals engaged in business and/or activities on behalf of the District.*

**INTERPRETATION:**

I interpret “*shall not fail to insure the District to the extent possible against liability losses to Board members, staff, and individuals engaged in business and/or activities on behalf of the District*” to mean:

1. Insurance contracts and policies are in place with the appropriate level of protection and all loss claims against the policies are recovered, less the deductible.
2. The district has in place insurance contracts to replace, repair, or provide financial remuneration for the district’s assets exceeding \$1,000.00. The level of coverage restores the district to an equal or similar position prior to the loss or damage to the asset, less the deductible. The insurance replaces assets stolen, damaged or destroyed with a minimum value that meets or exceeds the deductible limitations of the insurance coverage, and includes the replacement of real estate, facilities, fixtures, furniture, equipment and consumable assets (i.e. textbooks, computer components, etc.) owned or leased by the district with a value greater than \$1,000.00.
3. Appropriate policies are in place and all claims against the policies are resolved. The district has in place insurance policies to cover acts of litigation, settlements, judgments and staff injuries resulting in financial remuneration by the district. The policies provide coverage for these acts to the extent available through insurance contracts. There are certain acts that are not insurable.
4. Conduct an annual audit by a qualified audit firm; and the adopted budget includes funds to pay for the audit services. This is reasonable as the law requires an annual audit.

This interpretation is reasonable because it is the industry standard utilized by the West Michigan Risk Management Trust. It also meets industry standard for insurance as established by the KISD and are commensurate with insurance programs of similarly situated school districts in the county.

## DATA REPORTED:

1. The district has in place the following insurance contracts:
  - a. Property, Mobile Equipment, Auto Physical Damage totals \$122,108,035 in value for the district. This is less the \$1,000 deductible.
  - b. General Liability, Employee Benefits Liability coverage totals \$6 million which includes \$5 million excess liability coverage.
  - c. Auto Liability coverage totals \$6 million, which includes \$5 million excess liability coverage.
  - d. Employee Dishonesty, Crime coverage totals \$500,000 less the \$1,000 deductible.
  - e. Self-Insured Retention is paid out of the Pool's Loss Fund which currently contains \$1.07 million. The Pool purchases Aggregate Stop Loss coverage which is required by the Michigan Department of Finance and Insurance Services.
  - f. We carry additional available coverage on Boiler & Machinery, School Board Legal, Cyber Insurance, and Fiduciary Liability. In the event of a student trip outside of the United States, we purchase the Foreign Legal Liability Coverage.
2. The deductible amount is \$1,000 and is applicable to the Property, Mobile Equipment, Auto Physical Damage and Employee Dishonesty Claims. Boiler Machine Insurance Deductibles are \$3,500 per incident.
3. Board Policies and Procedures are in place in NEOLA section 8700.
4. The 2015-16 audit was conducted by Hungerford Nichols CPAs + Advisors, presented to the Board of Education this evening (12/12/16), and paid for by funds designated in the annual budget adopted by the Board of Education.

## CONCLUSION STATEMENT:

The organization met expectations.

**3.2.2 POLICY PROHIBITION:** *The Superintendent shall not fail to protect intellectual property, information, and files from loss or significant damage.*

## INTERPRETATION:

I interpret "*Superintendent shall not fail to protect intellectual property, information, and files from loss or significant damage*" to mean:

1. All data is backed up continuously and saved each workday. Backup media (tapes/disks) are completed successfully at a rate of 100% automated on a daily basis. 100% of all back-up data and logs are completed and stored offsite to ensure proper backup of critical data and systems. The district also maintains industry standard firewall and

security protection to prevent inappropriate access to sensitive or private information. This measure is reasonable because it is necessary to meet Federal Regulations and prevents rework due to loss of data.

2. The district has systems in place to detect and prevent attempts to gain access to district systems that would corrupt, damage or provide access to proprietary, confidential, or sensitive information. Proprietary, confidential, and/or sensitive information is defined as the programs and data systems used to support the district operations. Examples of this interpretation include employee data, student data, financial data, and contract data. This interpretation is reasonable because the information protected is sensitive, private, and/or critical to the mission of the district, which if accessed inappropriately, lost, or damaged could potentially harm the district or individuals.

#### **DATA REPORTED:**

1. All data is backed up and saved daily in two locations remotely at the Kent Intermediate School District, and at Wyoming Public Schools due to their Financial and Student Management Software hosting responsibilities. On Friday of each week a third backup is completed which backs up the business office and human resource files specifically. All on-site backup media are stored in a fire-proof safe that is located in the AS-400 room. Industry standard Firewall and Security Protection is used to monitor and maintain the safety and security of district/employee information.
2. The district security includes firewall protection and security systems that will scan for malware (including Adware, Spyware, Trojans, viruses, worms and rootkits) and is updated on a regular basis as part of our system maintenance.

#### **CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.3 POLICY PROHIBITION:** *The Superintendent shall not make any purchase or commit the District to any capital expense beyond the mandated ceiling provided by the State of Michigan.*

#### **INTERPRETATION:**

I interpret “*Superintendent shall not make any purchase or commit the District to any capital expense beyond the mandated ceiling provided by the State of Michigan*” to mean:

1. Purchases over the state mandated ceiling of \$23,417 (previously \$23,230) from any one vendor at any one time.
2. Commitments made to any one entity or individual to expend district resources in excess of the state mandated ceiling of \$23,417 on that entity or individual's property, product(s) or services.

All purchases related to construction, exceeding the bid threshold, were put through a rigorous bid process. Requests for quotes were placed on the State of Michigan website [www.buy4michigan.com](http://www.buy4michigan.com), the Northview Public School website, [www.MLive.com](http://www.MLive.com), and the Grand Rapids Press. Numerous vendors were given the opportunity to provide quotes for products or services to the district.

#### **DATA REPORTED:**

1. No general fund commitments over the state mandated ceiling of \$23,417 were made.
2. It was discovered that a purchase made in June of 2016 by Crossroads Middle School for cafeteria tables exceeded the mandated ceiling of \$23,230. After conferring with Kent Intermediate School District, a review of the purchasing process was conducted and a meeting held with Mr. Duba. The bid threshold will be reviewed with all principals at the December 15, 2016, Administration Team Meeting.

#### **CONCLUSION STATEMENT:**

The organization met expectations, except for the purchase of the Crossroads cafeteria tables.

**3.2.4 POLICY PROHIBITION:** *The Superintendent shall not fail to implement internal controls to ensure fiscal responsibility and sound financial condition for the District.*

#### **INTERPRETATION:**

I interpret "Superintendent shall, implement internal controls to ensure fiscal responsibility and sound financial condition for the District" to mean:

1. The goal is to have the amount of fund balance in the District's general operating fund maintained at a level of not less than 10%.
2. The District only expends designated funds for allowed purposes throughout the identified monitoring period. This is reasonable because

Michigan State Law and District policies are followed when expending these funds. Reserves are maintained as budgeted items if not yet spent.

3. The District maintains reasonable fund balances in the Insurance Reserve Fund, the Bond Redemption Fund, Building and Capital Reserve funds, and the Nutrition Services.

#### **DATA REPORTED:**

1. The audited fund balance is \$4,103,129 or 11.18% of the 2016 general operating fund as reported in the annual audit. As presented at the December 2016 board meeting.
2. The district non-general fund expenditures totaled \$6,597,404 (Capital Outlay - Building and Sites - \$1,537,919, Debt Service - \$3,717,413, Food Service - \$1,342,072.)
3. The insurance reserve balances are held by the West Michigan Risk Management Trust (\$1,066,094 Reserve for Claims, \$3,572,138 Net Position - Audited Figure), the West Michigan Workers Compensation Fund (\$1,865,606 Reserve for Claims, \$10,255,806 Net Position - Audited Figure), and the Western Michigan Health Insurance Pool (\$3,004,446 Reserve for Claims, \$11,931,087 Net Position - Audited Figure). The amounts held meet the requirements set by the State Office of Financial and Insurance Services.

#### **CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.5 POLICY PROHIBITION:** *The Superintendent shall not(a) use reserves other than as intended and permitted by law, (b) allow general fund reserves to be less than 10% of general fund expenditures for the previous twelve months, (c) fail to maintain reasonable fund balances in other funds, and (d) fail to maintain sufficient appropriated reserves.*

#### **INTERPRETATION:**

I interpret “(a) use reserves other than as intended and permitted by law” to mean:

The District only expends designated funds, as shown in the table below, for allowed purposes throughout the identified monitoring period. This is reasonable because Michigan law and District policies are followed when expending these funds. Reserves are maintained as budgeted items if not yet spent.

	<b>Restricted Legal Purpose</b>	<b>Non-spendable</b>	<b>NVPS Expenditures</b>
<b>Bond (Debt Service) Reserve Fund</b>	\$1,064,357		\$3,717,413
<b>Food Service Fund</b>	\$327,923	\$6,739	\$1,342,072
<b>Building and Site Fund</b>	\$246,676		\$886,689

**DATA REPORTED:**

Reserves are maintained or spent per legal and District designated purposes. This is as reflected in the December 2016 Audit Presentation.

**CONCLUSION STATEMENT:**

The organization met expectations.

**INTERPRETATION:**

I interpret “(b) allow general fund reserves to be less than 10% of general fund expenditures for the previous twelve months” to mean:

1. The amount of fund balance in the District’s general operating fund is maintained at a level of not less than 10% unless specifically approved by the Board of Education.
2. The 10% represents fund balance as a percent of cumulative expenditures for twelve monthly accounting periods preceding the date of this monitoring report, measured at the end of each accounting period ending on the last day of the month.

This is reasonable as it represents compliance with law and Board Policy.

**DATA REPORTED:**

1. The fund balance is at 11.18%
2. The fund balance is \$4,103,129

As presented with the December 2016 Audit Presentation.

**CONCLUSION STATEMENT:**

The organization met expectations.

**INTERPRETATION:**

I interpret “(c) fail to maintain reasonable fund balances in other funds” to mean:

1. Insurance reserve fund has a year-end reserve, which equals or exceeds the amount required to be held in the insurance reserve balances are held by the West Michigan Risk Management Trust, the West Michigan Workers Compensation Fund, and the Western Michigan Health Insurance Pool. The amounts held meet the requirements set by the State Office of Financial and Insurance Services insurance pool.
2. Bond redemption funds year-end reserve is sufficient to make the subsequent debt service payment.

**DATA REPORTED:**

1. The insurance reserve balances are held by the West Michigan Risk Management Trust, the West Michigan Workers Compensation Fund, and the Western Michigan Health Insurance Pool (amounts reported in previous sections). The amounts held meet the requirements set by the State Office of Financial and Insurance Services.
2. The bond redemption fund (\$782,830 beginning fund balance coupled with annual revenue of \$3,998,940) was sufficient to make the debt service payment of \$3,717,413.

**CONCLUSION STATEMENT:**

The organization met expectations.

**INTERPRETATION:**

I interpret “(d) fail to maintain sufficient appropriated reserves” to mean:

The District plans for potential expenditure needs that may arise during the course of the fiscal year. Appropriated reserves are established for encumbrances and carryover, possible impacts of negotiations, uncertainties in State funding, and other anticipated operational needs. This is reasonable as it is fiscally responsible to plan for unexpected needs that develop throughout the year. Additionally, conservative revenue and enrollment projections are used and generally acceptable accounting principles and historical data are integrated in the budget planning process. Appropriated reserves are maintained as budgeted items if not yet spent.

**DATA REPORTED:**

Bond Redemption Fund(s) \$1,064,357

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.6 POLICY PROHIBITION:** *The Superintendent shall not allow the organization to incur penalties in material amounts for tax payments, other government-ordered payments or other payments, or allow any filings that are overdue or inaccurately filed.*

**INTERPRETATION:**

I interpret this to mean:

All payments are made without incurring late payment fees in excess of \$1,000 aggregate amount for any fiscal year; further, reports and other required documents are submitted and accepted in accordance with Michigan Department of Education and Federal timelines. This is reasonable as it represents compliance with external requirements, and the \$1,000 amount has minimal impact on operations of the District.

**DATA REPORTED:**

We have no outstanding penalties or interest payments.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.7 POLICY PROHIBITION:** *The Superintendent shall not fail to aggressively pursue receivables after a reasonable grace period.*

**INTERPRETATION:**

I interpret this to mean:

A timely attempt is made to collect monies owed to the District that are older than thirty days, or other period of time deemed reasonable within the normal course of business. Major categories of receivables:

- Amounts Due from Other Governments – 30 to 90 days following submission of reports or other required information.
- Accrued Investment Earnings – 30 to 180 days as defined by the Investment Agreements.

This is reasonable as common business practices are used as a guideline to compare against.

**DATA REPORTED:**

We bill Other Governmental Units for programs we are running twice annually. The Deaf and Hard of Hearing Center Program bills go out in November and May. Our region billings are sent in January and June.

All amounts are received within normal business timelines.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.8 POLICY PROHIBITION:** *The Superintendent shall not achieve compliance with these provisions by endangering future capacity to accomplish Ends.*

**INTERPRETATION:**

I interpret this to mean:

Endangering future capacity means committing to expenditures without a reliable funding source. This is reasonable as this helps to prevent fiscal jeopardy.

**DATA REPORTED:**

For Fiscal 2017, revenues are expected to be \$36,144,547 (per the November budget amendment) which is more than anticipated, due to an increase in student count.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.9 POLICY PROHIBITION:** *The Superintendent shall not determine borrowing levels.*

**INTERPRETATION:**

I interpret this to mean:

Shall not conclude and take action on loans or other financing transactions obligating the District for re-payment. This is reasonable as these types of financing transactions represent borrowing by the District.

**DATA REPORTED:**

The following amounts were approved for borrowing by the Board of Education for the period ending month/year:

- Michigan Municipal Bond Authority issuance was \$4.0 million to be repaid on August 21, 2017. Approved by the Board of Education in June 2016.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.10 POLICY PROHIBITION:** *The Superintendent shall not fail to provide for an annual audit of the financial statements of the District each fiscal year by a qualified third party and make provision for payment of the expenses of conducting the audit.*

**INTERPRETATION:**

I interpret this to mean:

Shall not fail to conduct an annual audit by a qualified audit firm; and the adopted budget include funds to pay for the financial audit. This is reasonable as an annual external audit is required by state law.

**DATA REPORTED:**

An audit was completed by Hungerford Nichols CPAs + Advisors and presented to the Board of Education on December 12, 2016. The adopted budget included the amounts necessary to pay for the audit.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2.11 POLICY PROHIBITION:** *The Superintendent shall not fail to pursue discounts offered by suppliers for early payment of invoices when appropriate.*

**INTERPRETATION:**

I interpret this to mean:

- The discounts for early payment of invoices do not exceed the percentage of revenue the District would receive if funds remained in our accounts for the full length of time allowed for payment by vendors.

**DATA REPORTED:**

- During the period monitored the District received discounts on payments for a savings of \$5,190.
- At no time did the discount amount received for early payment provide less revenue than if the District left the money in accounts for the entire billing period.

**CONCLUSION STATEMENT:**

The organization met expectations.

**3.2 GLOBAL POLICY PROHIBITION:** *The Superintendent shall not allow assets to be unprotected, inadequately maintained or unnecessary risked. Furthermore, budgeting for any fiscal period or for the remaining part of any fiscal period shall not deviate significantly from Board Ends priorities, risk fiscal jeopardy or fail to derive from a multi-year plan.*

**INTERPRETATION:**

I submit the Board's policy is comprehensively interpreted in the preceding provisions. This is reasonable because my interpretations, data reported and conclusion statements are presented with those provisions above.

**CONCLUSION STATEMENT:**

The organization met expectations.