Financial Administration

With respect to execution of the budget and the actual, ongoing condition of the district’s financial health, the Superintendent shall not cause or allow a material deviation from the annual budget or budget policy adopted by the Board, cause or allow any fiscal condition that is inconsistent with achieving the Board’s Ends, or places the long-term financial health of the district in jeopardy.

**Interpretation:** I interpret “not cause or allow a material deviation from the annual budget or budget policy adopted by the board” to mean that changes that would cause the district to exceed its annual budget, end the year with a fund balance below the approved amount, or that have material impacts on the long term fiscal stability of the district, must be brought to the board to request for budget amendment, extension or change in policy.

**In Compliance:** Uncertain fiscal times over the last four years have created the need for multiple budget extensions- or mid- to late-year adjustments to the budget. Examples include the implementation of the new state fiscal system brought on by the McCleary case; several years of late bargaining where contracts were not settled until after budget adoption; a global pandemic and related school closures, etc. In each case, the board was kept informed of impacts and budget extensions were brought forward to the board for approval when necessary.

**Interpretation:** I interpret “not cause or allow any fiscal condition that is inconsistent with achieving the Board’s Ends” to mean that sufficient funding must be made available during each school year to provide the resources necessary to meet the boards stated goals for student learning, citizenship and health/fitness.

**In Compliance:** The district remains in compliance with Board ends policies. This evidence demonstrates compliance with the fiscal imperatives of EL-6.

**Interpretation:** I interpret “not . . . places the long-term financial health of the district in jeopardy” to mean that short term budget decisions should always be made with the long term implications to district fiscal stability in mind. Furthermore, commitment of resources must be considered over the long term- not just for the immediate year.

**In Compliance:** Financial decisions continue to be considered in light of their impacts on the districts statutorily mandated four year budget projection. The “affordability” of initiatives, contractual commitments and other expenditures is determined through analysis of long-term impacts. The district’s current financial stability is evidence that the practices in place have been effective.

Accordingly, the Superintendent may not:

1. Expend more funds than are anticipated to be received in the fiscal year unless authorized by the Board through utilization of available reserves or unless resources are made available through other legal means;

   **Interpretation:** I interpret this to mean the district can only spend unassigned fund balance with Board approval.
**Policy Type:** Executive Limitations  
**Financial Administration EL-6**  

**In Compliance:** Each year as required by law, the district prepares an official budget that is adopted by the Board with a resolution. The district is conservative in estimating revenues and more liberal in estimating expenditures, ensuring that there are sufficient funds to cover worst case scenarios. Due to economic conditions, the use of fund balance was budgeted for the past several years. As part of the budget presentations and documents, beginning and ending fund balances are highlighted.

For the 2019-20 school year, fund balance increased by $521,991 as compared to our budgeted decrease of $1,861,926. Revenue was $214,842 more than budget while expenditures were $2,669,070 less than budget. The variance in expenditures was largely driven by COVID-19 and the cost savings resulting from the required shutdown of school facilities statewide. It is important to note that these savings are “one-time only” impacts and do not reflect ongoing, “available” revenue sources for additional spending. Costs not incurred in 2019-20 will return in 2020-21 and beyond when school returns to normal operations.

Shutting down our facilities resulted in less expenditures than anticipated, specifically in the areas of extra hours and overtime ($400K), substitutes ($250K), athletics ($150K), and utilities, supplies, delayed hiring, deferred maintenance, vehicle fuel, summer school, etc. ($1M). The District did expend significant resources responding to COVID-19 ($1.2M) by purchasing computers, hotspots, cameras, furniture, electronic learning resources, masks, gloves, hand sanitizer, other safety equipment, and increased internet bandwidth. Fortunately a significant portion of those expenditures ($659,768) were paid for with new revenues from the federal CARES Act funding. The District will receive additional CARES Act funding during the 2020-21 school year.

At the beginning of each school year, the Board is provided information about district enrollment and class size as compared to budget. This is the best predictor of changes in annual revenues and expenditures. In 2019-20, K-12 enrollment was 95 FTE higher than our budget of 5,325 FTE. It is important to note that this variance is not based on actual student counts but instead OSPI projections. Due to COVID-19 and the subsequent shutdown of school facilities, districts stopped taking traditional enrollment counts in March 2020. OSPI used a regression analysis based on prior year’s enrollment to project enrollment figures for April through June 2020. The above variance is based on that analysis. Running Start enrollment was 191 FTE compared to our budget of 225 FTE. The majority of revenues for Running Start enrollment are passed through to the associated agency.

The district continues to monitor all news related to the economy, state projected revenues and expenditures, collective bargaining agreements, and other indicators that may impact the district’s financial condition. In recent years these changes included new “enrichment” levy regulations, new employee benefit costs and a new methodology for salary allocations. These changes were unprecedented and impacted all aspects of K-12 education. Furthermore, ongoing conversations at the state level about “corrections” to the new system continue to create additional uncertainty around what funding will look like in the long term. The magnitude of these changes is unknown.

Another item creating uncertainty around long-term funding is COVID-19 and its impact on the economy and the State’s fiscal health. The State is projecting billions in revenue shortfalls due to COVID-19. The estimates have been between $3B and $8B, and continue to fluctuate significantly as the impact of COVID-19 and the resulting shutdowns continue on the economy is analyzed. It is unclear how significant the budget shortfalls will be, if the State can weather the storm through use of...
its fund balance, or if any mitigating measures taken by the State will impact non-protected K-12 funding such as levy equalization (LEA).

Levy equalization remains a critical funding source for the district. In 2019-20 the district collected $2.6M in levy equalization. Under the rules established for calendar year 2019 and beyond the state will benefit from increased property assessments in the future. As property values increase, the levy amount collected from local taxpayers will go up while the state contribution through levy equalization will go down.

In addition to our uncertainties at the state level, there is a major change happening at the federal level. While it is too early to make any specific predictions about the future of federally funded programs, we do anticipate changes as the new administration grapples with the economy.

Detailed information about the 2019-20 budget, revenues, expenditures and financial statements can be found using this link:

- 2019-20 F-196 Annual Financial Statements (posted on OSPI’s website)

2. **Allow a year end fund balance that is below the budgeted amount;**

**Interpretation:** I interpret this to mean that the district must maintain a fund balance equal to or greater than budgeted.

**In Compliance:** The budgeted ending fund balance for 2019-20 was $7,638,074. Actual ending fund balance for 2019-20 was $10,872,731.

A detailed breakdown of fund balance is provided as part of the final fiscal report for the year, including the individual fund balance categories. The district’s current balance exceeds the amount necessary to maintain the 5% “assigned to minimum fund balance” and 2% “committed to economic stabilization” requirement.

It should also be noted that the increase in fund balance this year was unanticipated and is directly related to COVID-19 and the subsequent shutdown of school facilities.

Detailed information about the 2019-20 budget, revenues, expenditures and financial statements can be found using these links:

- 2019-20 F-196 Annual Financial Statements (posted on OSPI’s website)

3. **Fail to settle payroll and debts in a timely manner;**

**Interpretation:** I interpret this to mean the district must establish systems in order to pay its vendors and employees in a reasonable and predictable time frame.
In Compliance: All contracted employees are paid on the last working day of the month and substitutes are paid on the 15th of the following month after their work. Compensation for extra work is paid as submitted. It is the district’s procedure that all extra pay be submitted at the end of each month for payment on the following payroll. All employee benefits, medical and retirement are also paid within the vendor parameters.

In keeping with good fiscal management, the district strives to pay its accounts payable debt within 30 days of the invoice date. The use of procurement cards has reduced the number of invoices that need to be processed monthly. Procurement cards are currently used by all departments and schools for purchases less than $1,500. The district still uses purchase orders when using procurement cards is not advisable. Some examples are personal service contracts, large purchases, and vendors that do not take procurement cards, like FSA (Food Service of America).

Paying vendors and employees in a timely manner requires the cooperation of all district personnel (both schools and departments) and is continually monitored to ensure compliance. The district provides ongoing training to our clerical staff and have established high expectations around tracking purchase orders to ensure invoices are received and paid in a timely manner. When problems are identified, additional training is provided. If problems persist the issues are documented in performance evaluations.

4. Allow reports or filings required by any state or federal agency to be overdue or inaccurately filed;

Interpretation: I interpret this to mean that all reports required by state or federal agencies related to the budget, or with significant budget implications, are accurate and filed by the due date.

In Compliance: All major reports, which include fiscal, student data, and compliance reports that are required by OSPI, SAO, Pierce County, other state agencies, federal agencies, and grantors are submitted on time and accurately. The district’s internal controls include monitoring of upcoming due dates for reports, as well as cross-training to ensure that staff absences do not prevent filing. Most of these reports are now completed online or in an electronic format.

The district continues to make reporting accuracy and timeliness the highest priority.

5. Fail to arrange for the annual audit of all district funds and accounts;

Interpretation: I interpret this to mean that the State Auditor’s Office (SAO) will perform an audit of the district’s financial statements on an annual basis.

In Compliance: The district’s financial statements are audited annually by the State Auditor's Office (SAO). The audit of our financial statements includes an audit of our federal grants as required by the federal “single audit act” of 1984. SAO also performs an “accountability” audit, which focuses on high quality accounting, operations, and internal control practices.

For the 2019-20 audit, the district has been moved from SAO’s Team Port Orchard to Team Tacoma. SAO informed us of this change a couple years ago, but postponed the move while they balanced their staffing. Historically SAO started the district audit in late December / early January. The district
feels strongly that timely auditing reduces the chances of errors and/or fraud going undetected. We have communicated our strong desire to be audited as early as possible to Team Tacoma.

The State Auditor’s Office audit of the district’s 2019-20 financial records is in progress. In their examination of the district’s 2018-19 financial records, SAO did not find anything to indicate our financial statements were not fairly presented, that our internal controls were not of high quality, or that we were non-compliant with internal policies and procedures. These results are considered a “clean” audit report.

The district’s audit of the 2019-20 school year is in progress. We expect the audit to be completed and all reports filed by May 2021. Detailed information about the 2018-19 audit can be found using these links:

- 2018-19 Financial Statement & Federal Audit
- 2018-19 Accountability Audit

6. Fail to aggressively pursue receivables after a reasonable grace period;

**Interpretation:** I interpret this to mean the district has procedures in place to collect all money owed to it.

**In Compliance:** The district has an established system for collecting all rents, tuition, fees, fines and NSF check reimbursement which includes notification and may ultimately include debt collection services. Our cash receipting system (InTouch) allows fines and fees to stay on the student’s account as they move from school to school.

Payment of fines and fees is required before students can participate in sports and other school activities. Reminders of outstanding student account balances are sent to parents multiple times throughout the school year. There is a major emphasis on these in May as the district is nearing the end of the school year, especially for our seniors.

The district offers reduced fees to students qualifying for free or reduced meals for classroom supplies, instrument rentals, etc. In June 2020 the legislature passed House Bill 1660, which severely limits the amount of fees (not fines) districts can collect for participation in extracurricular activities from students qualifying for free or reduced meals. The full impact of this change is not yet known, but we anticipate a significant reduction in revenues for the Associated Student Body (ASB) fund.

TouchBase, another module of InTouch, was added during 2010-11. This system allows class fees, field trips, and other items to be added to the student’s account and parents to pay these fees online by credit card. During the 2019-20 school year the district installed credit card readers at our secondary schools, allowing these items to be paid in-person by credit card. House Bill 1660 does not impact fees for curricular based activities.
The use of credit card payments has reduced the number of NSF checks. If we do receive an NSF check, the amount of the NSF check is removed from the student’s account immediately upon notification from the bank and a $10.00 NSF fee is added to the student account to cover district cost.

Food Service receives online payments via RevTrak. Payments made by parents are immediately posted to the student’s lunch account. With the passage of HB 2160, students can receive a full meal even if they do not have money on their account. This change greatly increases the likelihood that students’ food service account will go negative. The district continues to work within these new mandates to collect all money owed for food purchases by students. To help prevent negative balances the district has increased communications directly to parents, through both email notifications and phone calls. At semester switch and at year end, negative food balances are moved into our InTouch fines and fees system.

Pre-School tuition and other district provided services can be paid through TouchBase, in person, or by mail.

7. **Fail to keep complete and accurate financial records by funds and accounts in accordance with established fiscal accounting procedures as reflected in the Accounting Manual for Public School Districts in the State of Washington.**

*Interpretation*: I interpret this to mean the district must follow fiscal accounting procedures as outlined in the “Accounting Manual for Public School Districts in the State of Washington” published jointly by OSPI & SAO.

*In Compliance*: The district maintains strong internal controls, continuously monitors its performance against the Accounting Manual, and continually tries to identify areas of improvement. If the district identifies areas of improvement, we are open with SAO about our concerns and welcome their feedback or best practices. It is also helpful in building and maintaining trust with the SAO as we routinely demonstrate evidence of both internal controls and prompt response whenever a problem is identified.

Part of our continuous monitoring is a review of the annual revisions to the Accounting Manual. During the 2018-19 school year, the district was required to implement a new levy “sub-fund” to account for local revenues separately from state and federal. In the 2019-20 school year, the “sub-fund” requirements were expanded to account for local expenditures separately from state and federal. The sub-fund was one of the many changes stemming from the McCleary decision and recent legislative changes. The district was ahead of the required timeline for the “sub-fund,” and fully implemented revenue and expenditure tracking during the 2018-19 school year. This early implementation allowed us to monitor this change for unexpected impacts and make adjustments as necessary, as well as streamline the entire conversion by working on both sides of the books at the same time. The district is in compliance with state and federal accounting requirements.

As noted in #5, the SAO audit of the district’s 2019-20 school year is in progress. We expect the audit to be completed and all reports filed by May 2021. Detailed information about the 2018-19 audit can be found using these links:
Policy Type: Executive Limitations
Financial Administration EL-6

- 2018-19 Audited Financial Statements
- 2018-19 Accountability Audit
- 2019-20 Revisions to the Accounting Manual

Adopted: June 12, 2019
Monitoring Method: Internal Report
Monitoring Frequency: Annually in February