

To: School Board, Ferndale School District (WA)
From: Linda Quinn, Superintendent
Date: August 21, 2019
Subject: 2019 Monitoring Report
Operational Expectations Policy (OE-5)
Financial Planning

School Board's Monitoring Notes

(To be completed by each member individually prior to discussion by the whole Board)

Board Member: _____

Total Number of Monitoring Indicators = 24

Number Compliant=____ Number Partially Compliant=____ Number Non-Compliant=____

Commendations

Recommendations

Other Notes

Overall Rating: _____ Compliant _____ Non-Compliant

Superintendent's Introduction

Through Policy OE-5, the School Board has provided us with guidance about how they expect us to manage our fiscal resources to ensure (1) we are positioned to concentrate those resources on the Board's priorities, and (2) we are prepared to fund the District's commitments in the foreseeable future. We feel confident reporting to the Board that we are in compliance with the expectations set forth in Policy OE-5. As indicated in the report that follows, we have met 23 of the 24 monitoring indicators, and we have developed a plan for meeting the 24th.

Since nearly all of the evidence to support our compliance with Policy OE-5 is readily available on the District's website, we have chosen not to repeat the substance of that evidence in this report. Rather, we have asserted that it exists and stand ready to provide it upon request.

Finally, before launching into the content of this report, we want to share a few notes about its format and organization:

- First, we have included the interpretations and monitoring indicators you approved a year ago (August 2018) in our Phase One Report for Policy OE-5, so that you don't have to look back and forth between two documents. The language from the Phase One Report is written in blue.
- Second, Policy OE-5 contains nine components, each with its own monitoring indicators. The components are written in bolded black. (This language is from your adopted policy.) The interpretation of each components is written in blue. (These are the interpretations we wrote and you approved last year in our Phase One Report.) The monitoring indicators are written in bolded blue. (These are the measures of success we wrote and you approved last year in our Phase One Report.) Our response to each indicator, which follows that indicator directly, is written in black and marked with a black arrow. (This is the new work we are presenting to you as part of this year's Policy OE-5 Monitoring Report.)

Example:

1. **Component 1 of Policy OE-5**

Interpretation of Component 1

- **Monitoring Indicator for Component 1**
→ Our response to the Monitoring Indicator

Policy

The Superintendent will develop and present to the Board a multi-year financial plan that is related directly to the Board's Results priorities and Operational Expectations goals and that avoids long-term fiscal jeopardy to the District.

Interpretation

We interpret "develop and maintain a multi-year financial plan" to mean that we will provide financial information to the School Board and stakeholders at regularly scheduled reporting periods. This financial information will include Adopted and Interim Reports on

the State of the District budget as well as such debt service instruments as Certificates of Participation, General Obligation Bonds, and/or Tax Revenue and Anticipation Notes. The financial information we present to the Board will also include options for maintaining a balanced budget during the upcoming fiscal year.

We interpret “directly related to the Board’s Results priorities and Operational Expectations goals” to mean that our budget reports to the School Board and stakeholders will show how funds are being allocated in support of the District’s strategic plan for the coming year, as well as for the next three years.

Monitoring Indicator(s) are provided below for each component part of OE-5.

Component One

- 1. The Superintendent will develop a budget that is in a summary format understandable to the Board and presented in a manner that allows the Board to understand the relationship between the budget and the Results priorities and any Operational Expectations goals for the year.**

Interpretation

We understand this component requires that the key components of the Annual Adopted Budget will be condensed and presented to the Board in a “user friendly” format. The Washington State standardized format we are required to use for the Annual Adopted Budget is detailed and voluminous, making the information it contains difficult to access by the average lay person. Since the Board places a high value on transparency, we understand they expect the Chief Business Officer or designee to create a summarized version of the budget that explains (1) the total General Fund revenues and expenditures; (2) the main type of anticipated expenditures within the General Fund; and (3) the assumptions underlying the estimated revenues and expenditures. We further understand that we need to demonstrate the relationship between the budget and the Results priorities and Operational Expectations goals by showing the percentage of funds allocated to such priorities and goals.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **A presentation has been delivered at the Annual Adopted Budget Board meeting which includes the information outlined in the interpretation above.**
→ In compliance. While our information was provided in a PDF format rather than a PowerPoint, the prescribed presentation was made to the School Board at their business meeting on July 30, 2019.
- **OSPI-generated budget documents have been presented at the Annual Adopted Budget Board meeting.**
→ In compliance. The F-195, F195f, and MSOC disclosure were presented via Board Docs as part of the July 30, 2019 meeting materials.
- **Evidence from Board meetings showing the assumptions and allocations that led to the approval of the Annual Adopted Budget have been shared.**

→ In compliance. Minutes from School Board meetings and study sessions reflect discussions about enrollment, staffing, and new state budget impacts.

Component Two

2. The Superintendent will credibly describe revenues and expenditures.

Interpretation

We understand this component requires that the Annual Adopted Budget will follow the Washington State required standardized format for documenting the various revenues the District expects to receive and the funds the District expects to expend during the period beginning September 1st of the following year and running through August 31st of the same fiscal year. We further understand the Board expects us to base our projected revenues and expenditures on realistic assumptions and the best information known at the time. Finally, we understand the Board expects us to submit our Annual Adopted Budget, along with all required supporting documentation, to the Educational Service District and/or OSPI for review in order to ensure our assumptions and predictions are valid and reasonable.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **The Annual Adopted Budget is available on the District's website.**
→ In compliance. The adopted budget is on the District website.
- **The results of the District's most recent financial audit verify that our budgeting methods are realistic and predictably attainable.**
→ In compliance. The annual audit exit materials provided to the Board by the State Auditor's Office (SAO) reflect no adverse opinions.
- **Notification from the Educational Service District and/or OSPI reveals that they have received and reviewed the District's Annual Adopted Budget.**
→ In compliance. We have notes from the ESD review of our draft budget, and we have sent the adopted budget to OSPI.

Component Three

3. The Superintendent will show the amount spent in each budget category for the most recently completed fiscal year, the amount budgeted for the current fiscal year, and the amount budgeted for the next fiscal year.

Interpretation

We understand this component requires that we regularly report to the Board a summary of General Fund budgeted and actual expenditures by major object code over a period of four years.

For this purpose, we will use the four-column General Fund format as defined by the Washington State School Accounting Manual: The first column will include actual expenditures from the prior year; the second column will include budgeted expenditures

for the current year; the third and fourth columns will include two years of projected budgeted expenditures.

We will also use major object codes defined by the Washington State School Accounting Manual, which are: Certificated Salaries, Classified Salaries, Employee Benefits, Materials, Supplies and Other Costs (MSOC), Contractual Services, Capital Outlay, and Travel.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **The Annual Adopted Budget includes all of the data outlined in the interpretation above.**
→ In compliance. The F-195 was presented to the Board and made available online in the prescribed format.
- **Interim Financial Reports include the data outlined in the interpretation above.**
→ In compliance. At each of their business meetings, the Board was presented with monthly financial statements via Board Docs.

Component Four

4. The Superintendent will disclose budget-planning assumptions.

Interpretation

We understand this component requires us to share with the Board in public meeting(s) the major assumptions we have used to determine projected revenues and expenditures. Such assumptions will reflect factors such as (1) changes in the revenue limit funding as determined by the State, (2) increases or decreases in State and Federal funding, (3) significant changes in negotiated compensation agreements (with “significant” defined as impacting the majority of the bargaining unit), (4) anticipated changes in student enrollment, and/or (5) anticipated cost increases in required commodities like insurance and utilities.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Evidence from public Board meetings reveals that we have made presentation(s) on the budgeting process, assumptions underlying that process, and research supporting our assumptions.**
→ In compliance. Minutes from Board meetings and study sessions reflect discussions about enrollment, staffing, and new state budget impacts.
- **Evidence that Annual Adopted Budget documents for the upcoming year, as required by the State of Washington, have been presented to the Board.**
→ In compliance. The F-195, F195f, and MSOC disclosure were presented via Board Docs as part of the July 30, 2019, meeting materials.

Component Five

5. The Superintendent will assure fiscal soundness in future years.

Interpretation

We understand “fiscal soundness” means that the Annual Adopted Budget we present to the Board will show a positive General Fund ending fund balance. We further understand that “fiscal soundness” means the Required Reserve for Economic Uncertainties will be no less than the minimum percentage set by the Board unless an exception to that percentage has been specifically approved by the Board.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Unaudited Actuals for the prior year have a positive ending fund balance.**
→ In compliance. The beginning fund balance for the 2019-2020 budget are positive, and the monthly financial reports presented to the Board via Board Docs show a positive fund balance.
- **The Annual Adopted Budget and Interim Reports reflect, at a minimum, the Board required percentage in the Reserve for Economic Uncertainties (also known as the Undesignated/Unreserved Fund Balance), or an agenda item showing the Board has taken official action to approve a reduction in the Reserve.**
→ In compliance. Both the F-195 and monthly financial reports reflect an Undesignated/Unreserved fund balance that is in compliance with Board policy.

Component Six

6. The Superintendent will reflect anticipated changes in employee compensation, including inflationary adjustments, step increases, performance increases, and benefits.

Interpretation

We understand this component means the Annual Adopted Budget and Interim Reports need to reflect current and projected compensation agreements with each of the District’s bargaining groups, up-to-date information on anticipated step and column increases, and changes in health insurance premiums or any other benefits.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Summary information has been provided to the Board prior to ratification of any negotiated agreement with the District’s bargaining units.**
→ In compliance. Summary updates on negotiations with various labor groups were shared with the Board at their regular business meetings, along with an opportunity for questions and answers.
- **Budget projections specifically identify increased costs for employee compensation.**

→ In compliance. All of the District's budget projections have taken into account both known and estimated impacts of the increases in employee costs resulting from changes in salary and benefits.

- **Budget preparation documents reflect negotiated settlement information.**
→ In compliance. All of the District's budget projections have taken into account both known and estimated impacts of the increases in employee costs resulting from contract negotiations.
- **Interim Reports reflect the impacts of negotiated settlement information that was not available at the time of budget adoption.**
→ In compliance. The monthly financial reports provided to the Board via Board Docs reflect actual expenditures.

Component Seven

7. **The Superintendent will include such amounts as the Board determines to be necessary for its own governing function, including Board member training, consultation, attendance at professional conferences and events, and other matters identified by the Board.**

Interpretation

We understand this component requires us to develop and maintain a Budget Responsibility Center (BRC) within the District budget that provides for the operating expenses of the Board. To this end, the Board will present the Superintendent with a budget submission for the upcoming year so that it can be included in the District's budget development process.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Budget preparation documents include the Board's BRC and budget submission for the upcoming year.**
→ In compliance. The Board reviewed their budget (BRC 1110) for the 2019-2020 school year at a study session on July 8, 2019. That information was included in the District budget for 2019-2020.
- **The Board's BRC is included in the District's adopted budget.**
→ In compliance. The Board's BRC (1110) is included in the 2019-2020 District budget.
- **Interim Reports are provided to the Board with updated status of their actual expenditures compared to their budget.**
→ Not compliant. The Board's BRC (1110) is not currently being reported to the Board separately. It will be added to the monthly financial reports in the upcoming school year (2019-2020).

Component Eight

8. **The Superintendent may not develop a budget that plans for the expenditure in any fiscal year of more funds than are conservatively projected to be available during the year.**

Interpretation

We understand this component prohibits us from developing a budget that projects spending to be higher than anticipated revenue plus available fund balance in any fiscal year. Furthermore, we understand the Board expects anticipated revenues for the year to be based on factual information wherever possible and to be estimated conservatively wherever factual information is not available. By “conservatively,” we believe the Board means that, when there might be a range of possible revenue from a particular source, our estimate will be from the low end of the range.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Evidence in the Annual Adopted Budget and Interim Reports reveals that expenditures have not exceeded the total of budgeted revenues plus the portion of beginning fund balance that State law, accounting standards, and/or Board direction have deemed available for specified expenditures.**
→ In compliance. Both the F-195 and the monthly financial reports reflect an Undesignated/Unreserved fund balance that is positive and complies with Board policy.
- **A positive financial health ranking from OSPI signifies that the District is not insolvent or in binding conditions.**
→ In compliance. The Financial Indicator Report on OSPI’s website shows that Ferndale has a positive score and that the District is not in binding conditions.

Component Nine

9. **The Superintendent may not develop a budget that provides for an anticipated year-end fund balance of less than four percent (4%).**

Interpretation

We understand this component requires us to create a budget that has at least 4% of the total General Fund in reserves at the end of the fiscal year. In other words, the Board expects us to set aside sufficient funds to protect the District from unforeseen circumstances, delayed apportionment payments, and/or any other emergencies that could put the District in financial jeopardy.

Monitoring Indicator(s)

We will know we are in compliance with this component when we can show:

- **Evidence in the Annual Adopted Budget and Interim Reports reveals that the reserve accounts have balances that are sufficiently high to comply with this policy.**
- → In compliance. Both the F-195 and the monthly financial reports reflect an Undesignated/Unreserved fund balance that complies with board policy.

- **The District's credit rating has remained above average.**
→ In compliance. The District's bond rating, provided by Moody's Financial Services, was upgraded in May 2019 and is above the average for districts our size.
- **The year-end financial reports and financial statements reflect a cash balance that is in compliance with this policy.**
→ In compliance. Both the F-195 and the monthly financial reports reflect an Undesignated/Unreserved fund balance that complies with Board policy.

Superintendent's Final Remarks

In summary, we feel confident asserting to the School Board that the financial health of the Ferndale School District is strong. We have had to learn a whole new funding system and set of rules from the State this past year (a process that is ongoing). However, we navigated these waters in such a way that we reached the end of 2018-2019 in a fiscally sound position.

We offer the following summary of the evidence reference in this report in support of our claim:

- We earned an excellent audit from the State Auditor's Office with no findings or management issues. According to a letter signed by Washington State Auditor Pat McCarthy, *"Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources."* We take transparency and stewardship of public resources very seriously. Our financial management team (Mark Deebach and Holly Graham) work hard to ensure we *always* operate according to sound financial principles.
- In preparation for selling the first batch of capital projects bonds authorized by the February 2012 election, we had our credit rating re-evaluated by Moody's Investors Services. This re-evaluation resulted in our being upgraded from Aa3 to Aa2, partially on the strength of our District's financial health. Our financial consultant from DA Davidson told us we "are in rare company being upgraded." Although a better credit rating does not generate additional money for the District, it does benefit the community by translating into lower bond interest rates.
- In a year when school districts across the State had to issue RIF notices to balance their budget under the State's new school funding plan, we have been able to add staff and programs. We did not RIF a single employee.
- The passage of the bond has allowed us to redirect dollars from anticipated FHS maintenance issues to facilities projects in other schools across the District.
- Finally, we have made progress this past year toward our ultimate aim of matching expenditures with goals and priorities. During 2018-2019, we dedicated more of our resources to such mission-critical initiatives as expanded Social & Emotional Learning programs, additional counselors, more early learning programs, and alternative pathways for getting students to graduation. We are committed to finding more explicit

ways to show the alignment of our budget allocations and expenditures with the Board's goals and priorities.