**OE-5 Financial Administration**
Policy Type: Operational Expectation

**Annual Monitoring Report (Internal) – September 12, 2024**

*The Board believes in strong financial controls and in providing the community with an accurate, full and transparent accounting of how taxpayer dollars are spent in support of the Issaquah School District.*

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**The Superintendent certifies that the District is in compliance with OE-5 with an exception, as underlined below.**

*The Superintendent shall not cause or allow any financial activity or condition that materially deviates from the budget adopted by the Board, cause or allow any fiscal condition that is inconsistent with achieving the Board's Results priorities or meeting any Operational Expectations goals, or places the long-term financial health of the district in jeopardy.*

**Interpretation:**
I interpret this to mean that we will manage the District's program and budget to avoid any risk of fiscal jeopardy or material deviation of actual expenditures from the Board-adopted budget.

**Evidence:**
The Board has been provided electronic copies of the 2022-23 Financial Statement and Federal Single Audit Report. This report states that the District is accountable for public resources and has complied with applicable state laws, regulations and its own policies, and provided adequate controls over the safeguarding of public assets with an exception.

The District received a Federal audit finding related to the Child Nutrition Supply Chain Assistance funds.

The 2022-23 Accountability Audit Report was released on August 8th, 2024. The report states the District is accountable for public resources and has complied with applicable state laws, regulations and its own policies, and provided adequate controls over the safeguarding of public assets.

**The Superintendent will:**

**5.1 Settle payroll and legitimate debts in a timely manner.**

**Interpretation:**
I interpret this to mean that all staff salaries, payroll taxes and benefits shall be processed and paid according to timelines established by law, District regulation and negotiated agreements.

**Evidence:**
All payroll obligations, including payroll taxes and benefits were processed and paid in a timely manner during the period of July 1, 2023 to June 30, 2024.

**Additional Information:**
Payroll is processed on a monthly basis and employees are paid on the last "banking day" of the month. Contracts and timesheets submitted by the Human Resources Department and by employees are audited by the Payroll Department to ensure accuracy and appropriate authorization. The payroll process is completed at least three working days in advance of payday to ensure that all employees are paid in a timely manner. Ninety-nine percent of employees are paid by electronic deposit directly to their bank accounts. For staff participating in this process, it has eliminated late payroll checks due to delayed delivery by the postal service. Payment of income tax deductions, social security taxes and retirement taxes are also submitted electronically in order to ensure timeliness.

Payments to vendors are processed weekly in order to ensure timely payment and eligibility for discounts. All invoices are reviewed and audited to verify receipt of goods or services. All payments are separated by General Fund, Capital Projects Fund, Transportation Fund or ASB Fund in order to maintain separation of capital and operational items.

Procedures have been established to ensure compliance with generally accepted accounting principles, District regulation and governmental laws. Internal controls have been implemented to maintain separation of duties, timely depositing/processing, adequate supporting documentation, and adequate review/supervision.

Payments on principal for long-term debt along with accrued interest are processed directly by King County through the Bank of New York in the months of December and June.

**5.2 Follow aggressive bidding procedures which maximize value to the District.**

**Interpretation:**
I interpret this to mean that the District will strictly follow state law and District regulation in regard to purchasing bidding

**Evidence:**
The District maintained strict compliance with state law and District regulation regarding purchasing and bidding during the period of July 1, 2023 to June 30, 2024.

**Additional Information:**
The District maintains a very aggressive bidding and purchasing program. The vast majority of District purchases fall under the scope of items purchased under bid. State law and District regulation require that, when the cost of supplies or equipment exceeds $40,000 or a public works contract exceeds $100,000, quotes or formal bids will be called for. Supplies and equipment purchases between $40,000 and $75,000 require quotations from three different sources. Supplies and equipment purchases exceeding $75,000 require public notice in a newspaper and formal bids. Public Works projects may also utilize the District's Small Works Roster. The District also utilizes KCDA, the Washington State

Department of Enterprise Services (DES), the OMNIA purchasing co-op, and other inter-governmental agreements (piggybacking) to ensure we are complying with applicable state bid law and procuring the best product at the best price point.

Both quotation and bid processes allow vendors to bid items of different brands, but of equal quality. The Purchasing Department and Capital Projects Department (for construction-related projects) evaluates the writing of bid specifications to ensure that long-term quality is a criteria included when appropriate. The District works with architects and consultants for assistance in maintaining specifications for high quality and long-life buildings and equipment when there is a cost benefit to doing so.

One function of the Purchasing Department is to safeguard the District against conflict of interest. Staff making purchasing recommendations may not have a personal interest in recommending the award of a contract for materials or services.

Between 95% and 100% of items in the following list are purchased by bid process:

- Office supplies and equipment
- Classroom supplies and equipment
- Computers and peripheral equipment
- Vehicles
- School buses
- Fuel
- Milk
- Bread
- Pizza
- Beverages
- Audio visual equipment
- Yearbooks
- Construction projects
- Major replacement or repairs of roofs, carpets, wall coverings, parking lots, sidewalks, HVAC, etc.

**5.3 Aggressively pursue receivables after a reasonable grace period.**

**Interpretation:**
I interpret this to mean that the District will promptly discontinue services being provided for tuition or fees when there is failure to pay. The District makes a reasonable amount of attempts to set-up payment arrangements with a parent or business before turning over to a collection agency.

**Evidence:**
The District maintained a very prudent collection practice during the time period of July 1, 2023 to June 30, 2024. Customers were contacted immediately when an account became past due. All accounts were turned over to a collection agency if an individual did not make arrangements for payment of the debt. The administration also brings forward uncollected receivables to the Board on an annual basis. In December of 2023, the District via Resolution 1213 removed $27,373 of uncollectible debt. This is 0.22% of all invoiced revenue for fiscal year 2022-23.

**Additional Information:**
The District also has several online payment platforms in the areas of School Age Care, Food Service, and building related fees.

The major area generating accounts receivable issues is School Age Care. The uncollectible accounts receivable trend for School Age Care is as follows:

| | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 |
|---|---|---|---|---|---|
| **Uncollectible Amount** | $ 11,407 | $ 18,632 | $ 8,652 | $ 10,837 | $ 8,703 |
| **Revenue** | $ 10,348,225 | $ 7,251,997 | $ 3,115,767 | $ 7,489,102 | $ 8,065,183 |
| **% of Revenue** | 0.11% | 0.26% | 0.28% | 0.14% | 0.11% |

**5.4 Maintain an unrestricted reserve fund within the range of 3-7% of the general fund budget.**

**Interpretation:**
I interpret this to mean that the District will maintain an unrestricted reserve fund within the range of 3-7% of the general fund budget.

**Evidence:**

Actual Ending 2022-23

The District's actual total fund balance at the end of fiscal year 2022-23 was $44,440,114 with the following *unrestricted undesignated (unassigned)* reserve:

- $20,526,691 (5.52% of the 2022-23 general fund budget of $371,610,355)

**5.5 Coordinate and cooperate with the financial auditor for an annual audit of all district funds and accounts.**

**Interpretation**
I interpret this to mean that the District will ensure full cooperation and transparency with the auditors by providing timely access to all necessary documentation, records, and personnel in order to facilitate a thorough and accurate audit of all district funds and accounts. The District will also work to address any findings or recommendations from the audit to maintain compliance with state laws, regulations, and best practices.

**Evidence**
The District has successfully completed the 2022-23 annual financial audit conducted by the state auditor's office, as documented in the Financial Statement & Federal Single Audit and Accountability Audit Reports. Regular communication and meetings were held between the district's finance team and the auditors to ensure all inquiries and audit procedures were properly handled. The required financial records, reports, and supporting documentation were provided to the auditors within the prescribed deadlines to facilitate a smooth and timely audit process.

The District received the audit report on August 8th, 2024, which confirmed that the District complied with state laws and regulations regarding financial management, with the exception noted in the Child Nutrition Supply Chain Assistance funds. Auditors recommended the District ensure it retains sufficient documentation to demonstrate that costs charged to the federal program are supported, allowable and comply with program requirements. Specific to this grant, the recommendation was to retain all packing slips for products received. The recommendations from the audit were promptly addressed by the administration, with corrective actions implemented where necessary.

**5.6 Maintain sufficient reserves for start-up operating costs associated with new schools.**

**Interpretation:**
I interpret this to mean that the District will maintain sufficient reserves to cover the initial start-up costs of opening a new school. This cost continues on a prorated basis until the District gains a growth in enrollment equal to the housing capacity of the new school.

**Evidence:**
The District opened Cougar Mountain Middle School and Cedar Trails Elementary in 2021-22. The District maintained the reservation of fund balance for the opening of a new high school of $6,000,000 in the 2023-24 and 2024-25 budget. This fund balance reservation will increase/decrease depending upon enrollment growth and the timing of the opening of the new facilities.

**5.7 Assure that any purchase is based upon prudent judgment and sound financial practice, including:**
- **a. Precaution against conflict of interest**
- **b. Comparative prices based on items of similar quality**
- **c. Balance between long-term quality and cost.**

**Interpretation**

I interpret this to mean that the District will make all purchasing decisions by prioritizing transparency, fairness, and financial responsibility. This includes:

- Ensuring that there are safeguards in place to avoid any potential conflicts of interest in procurement decisions.
- Comparing prices for goods and services from different vendors to ensure the District receives the best value for money, while also ensuring that items of similar quality are assessed.
- Considering not only the immediate cost of purchases but also their long-term value and quality to ensure sustainability and cost-effectiveness over time.

**Evidence**
The District strictly followed Regulation 6220, which governs purchasing, bids, and contracts, ensuring compliance with state law and District regulations. One function of the Purchasing Department is to safeguard the District against conflict of interest. Staff making purchasing recommendations may not have a personal interest in recommending the award of a contract for materials or services.
The District utilized purchasing cooperatives like KCDA, OMNIA, and the Washington State Department of Enterprise Services (DES) to ensure competitive pricing on bulk orders of supplies, equipment, and services. For larger purchases, the District collaborated with architects, engineers, and consultants to

evaluate bids based not only on price but also on the long-term durability and performance of materials and equipment. For example, the selection of roofing materials and HVAC systems was made with consideration of long-term maintenance and cost savings. A notable example of prudent financial management is seen in curriculum adoption, where significant payment savings were realized by purchasing materials for multiple years at once, reducing long-term costs for the District.

**5.8 Keep complete and accurate financial records by funds and accounts in accordance with generally accepted accounting principles.**

**Interpretation**
I interpret this to mean that the District will maintain financial records that are complete, accurate, and organized according to the Washington Office of Superintendent of Public Instruction (OSPI) Accounting Manual for Public School Districts in the State of Washington. This includes ensuring that all financial transactions are properly documented, classified by the appropriate fund or account, and regularly reviewed to ensure compliance with state laws, regulations, and financial reporting standards.

**Evidence**
The WA State Auditor issued an unmodified opinion of the fair presentation of the District's 2022-23 financial statements in accordance with its regulatory basis of accounting in the 2022-23 Financial Statement Audit.

**5.9 Publish a financial condition statement annually.**

**Interpretation**
I interpret this to mean the District's financial condition is assessed annually and reported upon to provide a clear picture of the District's fiscal health.

**Evidence**
The Washington State Auditor examined the District's financial condition during the 2022-23 Accountability Audit and reviewed the District for indications of financial distress. The audit did not note any indications of financial distress.

**The Superintendent will not:**

**5.10 Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.**

**Interpretation:**
I interpret this to mean that all government payments and reports shall be processed within the timelines prescribed.

**Evidence:**
All government payments and reports were processed and/or paid in a timely manner during the period of July 1, 2023 to June 30, 2024.

**Additional Information:**
The District has numerous city, county, state and federal reports, grant applications or payments to process. The Finance Department monitors reports and filings that are essential to District operations and/or have funding attached to them. During the last year the District has not lost or jeopardized any funding due to the timeliness or accuracy of these reports. Following is a list of the major required reports or grant applications:

- Budget (F195)
- Annual Financial Statement (F196)
- Enrollment reporting for funding (P223 and P223H)
- State, federal and private grant applications/claims
- Elementary and Secondary Relief Fund (ESSER) claims
- Payroll reports for taxes and benefits
- Accident and claim reports for insurance purposes

**5.11 Use the Board-designated $1,000,000 emergency reserve fund for any purpose other than emergency capital equipment or facility repair/replacement needs, nor fail to maintain the fund at an adequate level.**

**Interpretation:**
I interpret this to mean that the District will maintain an emergency reserve fund of $1,000,000 for the purposes of this monitoring period; unless otherwise authorized by the Board.

**Evidence:**
The District emergency reserve fund is $1,000,000, as demonstrated by the most recent financial report.

**5.12 Undertake capital building projects without assurance of available funding.**

**Interpretation:**
I interpret this to mean that the administration will not recommend that the Board award a bid for a building project without assurance of available funding.

**Evidence:**
All current building projects have sufficient available funding to complete the projects. Current projects and resources are reflected in the most recent financial report.

**Additional Information:**
Funding for all projects is determined prior to a bid award. The Board receives monthly Budget Status Reports detailing current projects and resources. In instances where the District anticipates available funding is inadequate, additional funding is acquired or a plan is put in place prior to a bid award.

**5.13 Expend more funds than have been received in the fiscal year unless revenues are made available through other legal means, including the use of fund balances and the authorized transfer of funds from reserve funds.**

**Interpretation:**
I interpret this to mean that the administration will not manage the budget of the District in a manner that causes the depletion of fund balances and reserve funds to a greater degree than the parameters established in #5 of this delineation.

**Evidence:**

Actual Ending 2022-23
Unrestricted, undesignated (unassigned) reserves at fiscal year-end 2022-23 were within the 3% to 7% target set by the Board and parameters established in #5 of this delineation. The District finished the year with fund balance as a percentage of 2022-23 operating budget ($371,610,355) as follows:

| | | |
|---|---|---|
| ***Unreserved/Unassigned Fund Balance*** | ***20,526,691*** | ***5.52%*** |
| Restricted for Carryover of Food Service Revenue, Other | 928,378 | 0.25% |
| Emergency Board Reserve | 1,000,000 | 0.27% |
| Restricted for Inventory/Prepaids | 7,876,325 | 2.12% |
| Building Carryover | 1,500,000 | 0.40% |
| Reserve for Uninsured Risks | 500,000 | 0.13% |
| Reserve for Facility Assessments, Future Schools, Other | 12,000,000 | 3.23% |
| Imprest Cash Reserve | 108,720 | 0.03% |
| **Total Fund Balance** | **$44,440,114** | **11.95%** |

*Note: All reservations of fund balance are evaluated on an ongoing basis, depending on financial volatility and District needs assessment. Equity reserves are adjusted at fiscal year-end pursuant to the approved budget and final financial statement amounts.*

**5.14 Indebt the organization or create obligations over a longer term than revenues can be safely projected or fail to establish provisions for modifying obligations in the event of revenue loss.**

**Interpretation:**
I interpret this to mean that the administration will not recommend approval of contracts or other obligations that would draw the District's unrestricted undesignated fund balance below 3%.

**Evidence:**
All current obligations can be met within parameters of projected revenues.

**5.15 Permanently transfer unencumbered monies from one fund to another.**

**Interpretation:**
The District budget is made up of five funds: General, Capital Projects, Debt Service, ASB, and Transportation. I interpret this to mean that, without Board action, the administration will not transfer money from one fund to another in an amount that exceeds the amount authorized in the annual budget.

**Evidence:**
The District administration has not transferred unencumbered money from one fund to another that exceeds the amount authorized by the Board in the annual budget.

**5.16 Receive, process or disburse funds under controls that are insufficient under generally accepted accounting principles.**

**Interpretation**
I interpret this to mean that the District will implement and maintain internal controls that ensure all funds received, processed, or disbursed are managed in accordance with its regulatory basis of accounting. This includes proper documentation, authorization, segregation of duties, and regular reviews to prevent errors, fraud, or mismanagement of District resources.

**Evidence**
The District received an unmodified opinion on the fair presentation of the District's Financial Statements in accordance with its regulatory basis of accounting, according to the Washington Office of Superintendent of Public Instruction (OSPI) Accounting Manual for Public School Districts in the State of Washington, for the 2022-23 Financial Statement Audit. This includes ensuring that all financial transactions are properly documented, classified by the appropriate fund or account, and regularly reviewed to ensure compliance with state laws, regulations, and financial reporting standards.

*Board Approval: 9/12/2024*