

**Issaquah School District
Executive Limitations Monitoring Report**

**EL-5 ACTUAL FINANCIAL CONDITION AND ACTIVITIES
(Internal Annual Report)
August 10, 2016**

***The Superintendent certifies that the District is in compliance with EL-5
with no exceptions***

With respect to the actual, ongoing financial condition and activities of the District, the Superintendent shall not cause or allow the development of fiscal jeopardy or material deviation of actual expenditures from Board priorities established in Ends policies.

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 of Compliance

I certify that the District is not at risk of financial jeopardy as demonstrated by ongoing and periodic financial reports and compliance with the following limitations contained in this policy.

The Board was previously provided copies of the [2014-15 Accountability Audit Report](#) and the [2014-15 Financial Statements and Federal Single Audit Report](#). These reports state that the District is accountable for public resources and has "complied with state laws and regulations and its own policies and procedures. Internal controls were adequate to safeguard public assets. We noted no instances of noncompliance that were material to the financial statements of the District." The 2014-15 Annual Audit was the 14th consecutive "Clean" audit, where no findings or management letter items have been issued. This achievement was recognized during the annual audit exit conference and recognized at a business meeting of the Board.

1. The Superintendent shall not fail to settle payroll and 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 of Compliance

I certify that all payroll obligations, including payroll taxes and benefits were processed and paid in a timely manner during the period of July 1, 2015 to June 30, 2016.

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.

The District has also eliminated the mailing and printing of hardcopy remittance advice (pay stubs) for all employees. Pay information is now available on-line for District employees. This change in business practice saves the District over \$15,000 annually and conserves paper resources.

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.

The District has an excellent record of maintaining credible resource management and systems of internal control. The annual state audit summary concluded:

- “The District complied with state laws and regulations and its own internal policies and procedures.”
- “We issued an unmodified opinion on the District’s financial statements. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.”
- “We noted no instances of noncompliance that were material to the financial statements of the District.”

We issued an unmodified opinion on the District’s compliance with requirements applicable to its major federal programs.

2. *The Superintendent shall not 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 of Compliance

I certify that all government payments and reports were processed and/or paid in a timely manner during the period of July 1, 2015 to June 30, 2016.

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](#)
- Payroll reports for taxes and benefits
- Accident and claims reports for insurance purposes

3. *The Superintendent shall not fail to follow aggressive bidding procedures which maximize value to the District.*

Interpretation

I interpret this to mean that the District will strictly following state law and District regulation in regard to purchasing bidding.

Evidence of Compliance

I certify that the District maintained strict compliance with state law and District regulation regarding purchasing and bidding during the period of July 1, 2015 to June 30, 2016.

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 \$40,000, quotes or formal bids will be called for. Between \$40,000 and \$75,000 quotations from three different sources are required. Purchases exceeding \$75,000 require public notice in a newspaper and formal bids.

The District also utilizes [KCDA](#), [US Communities](#), [WSCA](#), (Washington State General Administration), [National Intergovernmental Purchasing Alliance](#), 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 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.

A major 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
- Tires
- Milk
- Bread
- Pizza
- Audio visual equipment
- Vending machine inventory
- Yearbooks
- Construction projects
- Major replacement or repairs of roofs, carpets, wall coverings, parking lots, sidewalks, HVAC, etc.

4. The Superintendent shall not fail to 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 will turn receivables over to a collection agency after a reasonable attempt to collect the amount owed.

Evidence of Compliance

I certify that the District maintained a very aggressive collection practice during the time period of July 1, 2014 to June 30, 2015. 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 November of 2015, the District via resolution 1065 wrote off \$23,963 of uncollectible receivables. This is 0.31% of all invoiced revenue for fiscal year 2014-15.

ADDITIONAL INFORMATION

The District has nearly eliminated past due accounts in the Full Day Kindergarten program by implementing the bank ACH (Automatic Clearing House) process. Under this process the District is able to withdraw monies directly from the participating family's bank account for funds owed the District. The District has also moved to several online payment platforms in the areas of [\(School Age Care\)](#), [Food Service](#), and building related fees.

The major areas generating accounts receivable issues are as follows:

- [Full Day Kindergarten](#)
- School Age Care
- [Building Rentals](#)

5. *The Superintendent shall not fail to 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 of Compliance

I certify that the District's total reserve [\(\\$24,134,653.59 was 10.96% of the 2015-16 General Fund Budget \(\\$220,224,962\) on September 1, 2015.](#) The *unrestricted undesignated (unassigned)* reserve (\$12,158,034.27) was 5.52% of the 2015-16 General Fund Budget on September 1, 2015. Total ending fund balance for fiscal year 2014-15 as a percentage of actual expenditures was 13.06%.

ADDITIONAL INFORMATION

The proposed 2016-17 General Fund operating Budget targets an unassigned (unreserved) ending fund balance of 5.78% (of budgeted expenditures); additionally, the budget sets aside \$2,500,000 for a pending decrease in local levy funding, \$2,000,000 for curriculum/assessment priorities, and \$4,000,000 for future school facilities. \$1,000,000 is reserved for unexpended and obligated building funds, Board emergency contingency of \$1,000,000, reserves \$88,220 for district imprest accounts, \$750,000 is also designated for uninsured risk and inventory and the budget also sets aside \$500,000 for other contingencies. Additionally, accounting standards require the District to set aside food service revenue that accumulates above operating expense; this amount is budgeted at \$1,051,192. Total equity reserves will remain stable at an estimated 11.26% of operating expenses.

- 6. *The Superintendent shall not fail to 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 of Compliance

The District has had sustained sufficient enrollment growth since the opening of our last new school (Creekside Elementary) to absorb the operating cost of the building into the annual budget. During the monitoring period (July 1, 2015 to June 30, 2016) the District did reserve \$1,500,000 in fund balance for facility start-up. Following the passage of the 2016 bond measure that funds four new schools the District has increased this fund balance reservation to \$4,000,000 in the proposed 2016-17 operating budget. The timing and location of these facilities is yet unknown and the set aside will currently cover the opening cost of a Middle School (\$2M) and an Elementary (\$1.5M). This fund balance reservation will increase/decrease depending upon enrollment growth and the timing of the opening of the new facilities. The District's 4th comprehensive high school will require an additional \$3 to \$3.5M in fixed operating cost annually.

- 7. *The Superintendent shall not 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 of Compliance

I certify that the District emergency reserve fund is \$1,000,000, as demonstrated by our June 30th, 2016 financial report. The Board authorized the use of the \$1,000,000 reserve fund for the purchase of portable classrooms in support of the implementation of "State Funded" Full Day Kindergarten. If these monies are used during fiscal year 2015-16, they will be replenished (as is demonstrated by the draft 2016-17 Budget) on 9-1-2016.

- 8. *The Superintendent shall not 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 of Compliance

I certify that all current building projects have sufficient available funding to complete the projects. Funding for all projects is demonstrated in the June 30, 2016 financial report.

ADDITIONAL INFORMATION

The funding for all projects is determined prior to a bid award. The Board is given Budget Status reports reconciling all sources of funding with the District's Capital Facilities Plan.

9. The Superintendent shall not 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 of Compliance

I certify that unreserved fund balances at fiscal year-end will be within the 3% to 7% target proscribed by the Board. The fund balance as a percentage of the 2015-16 Operating Budget (\$220,224,962) as of June 30, 2016 is detailed as follows:

• Unreserved/Undesignated Fund Balance	\$24,823,658 (11.28%)
• Emergency Board Reserve	\$1,000,000 (0.46%)
• Reserved for Inventory/Uninsured Risks	\$750,000 (0.34%)
• Building Carryover	\$1,000,000 (0.46%)
• Reserved for other contingencies	\$500,000 (0.23%)
• Reserved for Food Service	\$788,399 (0.36%)
• Reserved for Curriculum Priorities	\$2,000,000 (0.91%)
• Levy Cliff Reserve	\$2,000,000 (0.91%)
• Reserve for Future Schools	\$1,500,000 (0.69%)
• Imprest Fund Reserve	\$88,220 (0.04%)

Total Fund Balance as of 6/30/2016: \$34,450,277 (15.65%)

Note: All reservations of fund balance are evaluated on an ongoing basis, depending on financial volatility and District needs assessment. Equity reserves will be adjusted at fiscal year-end pursuant to the approved 2015-16 budget and final financial statement amounts. 2016-17 fund balance designations will be considered during budget adoption.

10. The Superintendent shall not 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 of Compliance

I certify that all current obligations can be met within parameters of projected revenues.

11. The Superintendent shall not 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 of Compliance

I certify that the administration has not transferred unencumbered money from one fund to another that exceeds the amount authorized by the Board in the annual budget.

Board Approval: