

Financial Administration

EL-6

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 required amount, or that have material impacts on long term fiscal stability, must be brought to the board for budget amendment, extension or change in policy.*

In Compliance: Uncertain fiscal times over the last five 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; major operational changes due to an extended global pandemic; the substantial influx of one-time federal relief dollars, etc. In each case, the board was kept informed of impacts as they occurred and budget extensions were brought forward to the board for approval when necessary. The uncertainty involved in these situations, and the unprecedented nature of the challenges, made predicting impact to the district's finances very difficult.

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 board's stated goals for student learning, citizenship and health/fitness.*

In Compliance: The district remains in compliance with the Board's Ends policies, and continues to prioritize funding operations that have a direct impact on the Board's Ends policies. Compliance is best evidenced through the annual Ends policy reports; E-2, E-3 and E-4. One example of compliance in this area is the district's use of federal relief funding. These one-time funds are being used for academic support (E-2) and health and safety priorities (E-4). These funds will be fully expended by the end of the 2022-23 school year. As available resources to promote learning recovery fade away, it will be increasingly challenging to provide the services that students need to close achievement gaps. This will be a priority focus for the use of available fiscal resources in the coming years but these resources will be increasingly scarce and insufficient to maintain the levels of academic intervention provided in the 2021-22 and 2022-23 school years.

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: The district's budget is stable, and we are continually monitoring and responding to anticipated future fiscal changes, challenges and opportunities. Evidence of this stability can be seen in a healthy fund balance, financial indicators published by OSPI and consistent AA ratings from Moody's

national credit rating agency. This fiscal stability supports stable programming for students. Financial decisions continue to be considered in light of their impacts on the district's statutorily mandated four-year budget projection. The "affordability" of initiatives, contractual commitments and other expenditures are determined through analysis of short-term needs and long-term impacts. The district's current financial stability is evidence that the practices in place have been effective.

At the beginning of each school year, the Board is provided information about district enrollment as compared to budget. This is the best predictor of changes in annual revenues and expenditures. In 2021-22, K-12 enrollment of 5,324 FTE was 74 FTE higher than our budget of 5,250 FTE, but less than our K-12 enrollment in 2018-19 of 5,441 FTE, 2019-20 of 5,417 FTE, and 2020-21 of 5,356 FTE. It is important to note that while this continued decline is unusual, it was expected given COVID-19, school closures, and the overall economic environment. Our 2.2% decline in enrollment since 2018-19 is less severe than the 2.8% decline experienced Statewide.

Enrollment patterns in grades 8-12 are significantly impacted by growing access to a variety of online and regional options for learning and earning credits. Running Start enrollment for 2021-22 was 210 FTE compared to our budget of 215 FTE. Alternative Learning Experience (ALE) enrollment was 70 FTE compared to our budget of 5 FTE. It is important to note that ALE enrollment was significantly higher than previous years due to ongoing impacts of the pandemic and increased interest in online learning models. ALE enrollment in 2018-19 was 3 FTE, 2019-20 was 3 FTE, and 2020-21 was 2 FTE. We anticipate a return to normal ALE enrollment levels post-pandemic. Skills Center enrollment has also increased in recent years, from 6 FTE in 2018-19, 4 FTE in 2019-20, 12 FTE in 2020-21, and 16 FTE in 2021-22. The majority of enrollment revenues for these programs are passed through to the associated agency. UP students attending these programs reduce our state allocations significantly and redirect these dollars to other recipients.

Local non-tax, or over-the-counter, revenues (e.g. food service, enrichment programs, fines and fees, after school programs, facility rentals, etc.) increased year-over-year but continued to be below typical, historical amounts. This variance was expected as the district remained unable to provide its complete list of enrichment programs, and because all students were able to eat lunch for free regardless of their income level. In addition, one-time federal stabilization funds impacted both the revenue and expenditure side of the budget as the District budgeted substantial amounts on both sides to ensure it could take advantage of those resources should changes to operations require it. Federal funds are provided on a reimbursement basis, so revenues are only realized after expenditures occur. For 2021-22, only a portion of the federal funding that was budgeted was actually utilized in that year.

In the spring of 2021, the district began a contraction of programs made possible by temporary, one-time federal funds. Some of these increases will be maintained with support from local levy funding and additional state funds for nurses and counselors. However, significant funds for academic intervention will no longer be available and reductions in this area are necessary. This ongoing reduction of staffing levels is planned and progress continues to be made to ensure long-term fiscal stability.

Local Effort Assistance (LEA), also known as levy assistance, remains an important - yet declining - funding source for the district. In 2021-22 the district collected \$1.5M in local effort assistance, down from \$2.2M in 2020-21, \$2.6M in 2019-20, and \$2.8M in 2018-19. This decrease was anticipated, as under the levy rules established by the State legislature for calendar year 2019 and beyond, the State will benefit from increasing property assessments in future years. As property values increase, the levy

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amount collected from local taxpayers will go up while the state contribution through levy equalization will go down. Property values in the District have increased 9.65%, 11.39%, 15.51%, and 19.11% in 2020, 2021, 2022, and 2023 respectively. If these increases continue we anticipate that levy equalization will be significantly reduced and/or completely eliminated by 2026. This potential was factored into the district's voter-approved levy request for the 2023-2026 years.

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 significant one-time federal stimulus funding, 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 are unknown.

The OSPI School Financial Health Indicators can be found on the OSPI School Apportionment website:

- 2020-21 OSPI School Financial Health Indicators
(<https://www.k12.wa.us/policy-funding/school-apportionment>)

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.*

In Compliance: The district did not spend unassigned fund balance without Board approval in the 2021-22 year. Board approval of the budget in August of 2021 authorized the district to use some fund balance per policy. 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, in an effort to ensure that there are sufficient funds to cover worst case scenarios. Due to economic conditions and the ongoing pandemic, the use of fund balance has been budgeted for the past several years. As part of the budget presentations and documents, beginning and ending fund balances are highlighted.

For the 2021-22 school year, fund balance decreased by \$80,490 as compared to our final budgeted decrease of \$2,083,866. Revenue was \$1,299,954 less than budget while expenditures were \$2,050,043 less than budget. The variance in both revenues and expenditures was almost exclusively driven by the "capacity" that is included in the budget and allows us to accept and utilize unanticipated revenues during the year.

Detailed information about the 2021-22 budget, revenues, expenditures and financial statements can be found using this link:

- 2021-22 F-195 Annual Budget
(https://www.upsd83.org/departments/business_services/budget)
- 2021-22 F-196 Unaudited Annual Financial Statements
(<https://hostedreports.ospi.k12.wa.us/api/0/Document/Download/79155>)

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 2021-22 was \$7,416,134. The actual ending fund balance for 2021-22 was \$8,918,426.

A detailed breakdown of fund balance is provided as part of the preliminary budget presentation, final budget presentation, and 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 the 2% "committed to economic stabilization" requirements.

It should also be noted that the decrease in fund balance this year was anticipated and is directly related to ongoing impacts of COVID-19, significant increases in salary and non-salary items due to inflation, and their impact to both our revenues and expenditures during the year.

Detailed information about the 2021-22 budget, revenues, expenditures and financial statements can be found using these links:

- 2021-22 F-195 Annual Budget
(https://www.upsd83.org/departments/business_services/budget)
- 2021-22 F-196 Unaudited Annual Financial Statements
(<https://hostedreports.ospi.k12.wa.us/api/0/Document/Download/79155>)

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. The vast majority of salaries for both contracted and substitute employees are paid via direct deposit. In keeping with good business practices and internal controls, payroll has multiple layers of verification for any changes to direct deposit information, and limited methods for requesting changes. All employee benefits, medical and retirement are paid within the following accounts payable parameters. All payroll timelines were met in the last 12 months.

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 physical checks

that need to be processed monthly. Procurement cards are currently used by all departments and schools for purchases less than \$1,500. Purchases above \$1,500 are allowed in limited circumstances where the use of a procurement card is beneficial to the district, such as paying our monthly utility bills. All purchases exceeding \$1,500 require a purchase order be created prior to purchase. This requirement applies to payments made via physical check and payments via procurement card.

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 has established high expectations around tracking purchase orders to ensure invoices are received and paid in a timely manner. If problems are identified, responsible parties are immediately notified of the issue and expectation, and additional training is provided. If problems persist the issues are documented in performance evaluations, and could ultimately lead to termination if the problems are unable to be resolved.

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 among staff to ensure that absences do not prevent filing or cause the district to fall out of compliance. 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 internal controls, legal compliance, and adherence to internal policies and procedures.

Beginning with the 2019-20 audit, the district was moved from SAO's Team Port Orchard to SAO's Team Tacoma. Historically SAO started the district audit in late December / early January. We have communicated our strong desire to be audited as early as possible to Team Tacoma, and will continue to request a late December / early January start date. Ultimately, however, the SAO will determine the timeline and timeliness of the annual audit.

In recent years, SAO has asked districts if they wanted to change from an annual accountability audit to an every other year accountability audit. Financial audits are required to be performed annually. The district feels strongly that timely auditing reduces the chances of errors, non-compliance, and/or fraud going undetected, and that the fiscal savings are not worth the increased risk. We have and will continue to request that all aspects of our financial records (Accountability and Financial) are audited on an annual basis.

The State Auditor's Office audit of the district's 2021-22 financial records is in progress. We expect the audit to be completed and all reports filed by May 2023.

In their examination of the district's 2020-21 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, that we were out of compliance with any laws, or that we were not following internal policies and procedures. These results are considered a "clean" audit report.

Detailed information about the 2020-21 audit can be found using these links:

- 2020-21 Financial Statement & Federal Audit
(<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1030387&isFinding=false&sp=false>)
- 2020-21 Accountability Audit
(<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1030426&isFinding=false&sp=false>)

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 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.

When families struggle to pay fees and fines, experience a sudden financial crisis or when there is a dispute concerning what funds are owed to the district, we work with families and community partners to resolve these issues and support students. These resolutions may include having third parties' step in to pay fines on behalf of families, ensuring fees (not fines) are forgiven or payment plans are put in place, or paying the fine or fee from the UP Children's Fund, which many staff contribute to and allows us to support students in ways that State and Federal dollars do not.

In accordance with the 2021-22 fees schedule approved by the Board, the district offers reduced curricular fees to students qualifying for free or reduced meals. Fee reductions apply for items such as classroom supplies, instrument rentals, field-trips, etc. In June 2020 the legislature passed House Bill 1660, which prevents the district from collecting certain extracurricular fees from students qualifying for free or reduced meals. Fee waivers apply for items such as extracurricular programs, ASB cards, and game tickets. Due to limited on-campus activity during 2020-21 and 2021-22, the full impact of this change remains unknown, 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 and Educational Services Center (ESC). In 2020-21 and 2021-22 we installed credit card readers at the pool, selected primary locations, and our mobile work-stations for use at locations such as the stadium, allowing these items to be paid in-person by credit card. Beginning in 2020-21, and as part of our response to HB 1660, we added the ability for the system to automatically reduce fees at the point-of-sale. Students who qualify for free or reduced lunch, and whose family has completed the required Consent to Share form, are automatically charged the reduced amount without needing to provide additional proof of qualification.

The use of credit card payments has reduced the number of insufficient funds (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.

In response to COVID, federal waivers were granted to allow students to eat breakfast and lunch for free, regardless of their free or reduced meal status during the 2020-21 and 2021-22 school year. While this has greatly reduced the amount of local revenue collected for meals, the associated increase in the federal reimbursement rates for meals served is expected to completely offset the reduction.

With the passage of HB 2610 in 2018-19, students can receive a full meal even if they do not have money on their account. The cost of the meal is added to their account putting it into a negative status. In addition, between March 2020 and August 2022, all students received free meals. Families did not need to submit a free or reduced lunch application form and did not need to pay any copay. These changes greatly increase the likelihood that a student's food service account will go negative in the future as the system reverts back to its fee-based structure. 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 the end of the first semester, and again at the end of the year, negative food balances are moved into our InTouch fines and fees system.

Preschool 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 seeks to improve procedures. If the district identifies areas of improvement, we are open with SAO about our concerns and welcome their feedback. Best practices continue to be our standard for all accounting procedures. It is also helpful in building and maintaining trust with the SAO as we routinely demonstrate evidence of both high-quality 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. Beginning in the 2018-19 school year, all districts in Washington State were 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. For 2021-22, the district implemented several adjustments to our Chart of Accounts that defines what is, and is not, a levy expenditure. We anticipate these changes to continue into subsequent years as "enrichment" is further defined, both internally by the district and externally by agencies such as OSPI and SAO. Because clear definitions of basic education and "enrichment" have yet to be established at the state level, all districts continue to use discretion in determining what costs will land in the sub-fund. Guidelines are in place, but they are quite general.

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 adjust as necessary, as well as streamline the entire conversion by working on both sides of the books at the same time. The district continues to be in compliance with state and federal accounting requirements.

For 2021-22 numerous changes were made to the accounting manual, including the incorporation of Government Accounting Standards Body (GASB) No. 87, which modified how the district must account for leases. The district fully implemented these required changes and will be audited on our implementation by SAO during the audit of our 2021-22 fiscal records.

Detailed information about the 2020-21 audit and changes to the 2021-22 accounting manual can be found using these links:

- 2020-21 Audited Financial Statements
(<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1030387&isFinding=false&sp=false>)

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- 2020-21 Accountability Audit
(<https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1030426&isFinding=false&sp=false>)
- 2021-22 Revisions to the Accounting Manual
(<https://www.k12.wa.us/policy-funding/school-apportionment/instructions-and-tools/accounting-manual>)

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