

Responses by Marilyn Sollers, NWESD 189 Fiscal Services Supervisor, to Orcas Island Budget Committee questions as provided by Janet Brownell. Some questions are not answered in detail as a detailed response would require additional time from the Business Manager and the benefit of the detail would not offset the hourly cost to produce the detail.

Q1): "We are seeing that this exercise of looking for possible places to find the 7% that needs to be cut is impossible without 06-07 numbers. We need to compare last year/this year/next year in order to make any sense of this process. Could we get WHATEVER Ben has in the way of 06-07 numbers? Both budgeted numbers and his best computation of ytd?"

- 1) Every effort has been made to get 2006-2007 records up-to-date. As the year is not complete, it is impossible to tell exactly where the district will end up with expenditures. The office staff and Ben have been working diligently to make refinements and improvements to the accounting system to bring the district's accounting into line with the *State Accounting Manual*. Ben has provided the Board with multiple reports showing the district's current financial status. In examination of the budget that was initially prepared for 2006-2007 there were material deficiencies in the way the budget was prepared and Ben has also provided information to the Board on those corrections. It is my understanding that your committee has received this information. The projected ending fund balance has been revised several times as material adjustments have been made to the 2006-2007 budget. No district has complete data on the current year at the time they are preparing the budget for the next year as such projections are impossible to make.

Q2): We need a clear number for the end balance -- so we know how much to put into the reserve. This needs to be a LITTLE more specific than "anywhere from \$10000 to a minus \$100000." It doesn't make sense if you've arrived at a need for \$150,000 based on that vague a projection. If, for example, you're \$100,000 in the hole -- then that would mean a \$50k end balance which is less than the 3% you're saying you need. SO -- could we have some more specific end balance projection.

- 2) There is no way to provide a more specific number than a range of \$10,000 to a minus \$100,000. With an expenditure budget of over \$5 million, \$100,000 represents less than 2%. This 2% margin is a very tight margin in the school district accounting world (which is a contributing factor to the recommended unreserved fund balance of 5-6%). To put this into perspective this request would be similar to asking a family with a household income of approximately \$60,000 to be able to predict their bank balance at the end of the year within \$1,200 while providing for all fluctuations in groceries, gasoline, automobile repair, utilities, health care, etc. and at the same time not knowing what additional income opportunities may become available. A school district budget has the added complexity of having minimum discretionary expenditures that can be revised during the year to respond to unexpected expenditures.

Q3): Could you identify nonrecurring costs over the next two years. These would include such items as: supplies for each school and for the CTE program, and superintendent travel, and, ESD co-ops and textbook funds, etc.

- 3) Ben may be able to help identify non-reoccurring costs that are significant in size. At the same time, allowances need to be made for non-reoccurring costs that the district may have next year that they do not have this year. Several of the costs mentioned are reoccurring costs. This exercise will provide minimal useful data as most non-reoccurring costs usually are budgeted as contingencies with the exception of election and audit costs and an adequate contingency budget is required for sound budgeting and will be required by the ESD budget approval process.

Question in two parts:

Q4): When we study Ben's numbers on revenue and expenditures for 04/05-05/06 we see that we were in the black for 04/05 but our expenditures exceeded our revenue by \$140,128 in 05/06. Even this dramatic one year drop does not account for the drop we see in our general fund balance. Our general fund balance dropped 69,311 more than our deficit spending accounts for. so...

- Where specifically did we overspend in 05/06?
- How do you account for \$ 69,311 difference between over spending and reserve fund balance?

- 4) The difference between the drop in the general fund balance and the net expenditures over revenues for 05-06 is due to a prior year correction of \$51,989.25. Instead of reflecting a basically break-even year the 04-05 financial statements should have shown that expenditures exceeded revenues. We assume this error was the result of a lack of understanding rather than malicious misrepresentation. We are not sure where your \$69,311 figure comes from; the F-196 document shows that expenditures exceeded revenues in 05-06 by \$155,119.35. \$155,119.25 plus \$51,989.25 accounts for the \$207,108.50 total drop in fund balance. (The differences in reserved fund balances are due to the way in which the accounting of carryover funds with restricted uses and inventories is required.)

To compare the budget to last year's expenditures to determine where over expenditures occurred in 05-06 is not a practical exercise due to the lack of quality of the 05-06 budget. The 06-07 budget as originally prepared has the same lack of quality issues.

Q5) What is the cost of the superintendent's office this year?

- 5) Refer to the data to be provided by Ben.

Q6) What is the cost of the business office this year?

- 6) Refer to the data to be provided by Ben.

Q7) What is the projected cost of each of these offices for next year?

- 7) The budget is not prepared at this time.

Q8): There seems to be a jump in the funds for the Board of Directors next year -- what accounts for the jump?

- 8) I am not aware of the document you are referring to.

Q9): Why are we projecting that we will have less than half of the current enrollment in the ALE program for next year? What is the financial difference between an estimate of 20FTE (which would be a conservative estimate of ALE enrollment next year) and Ben's estimate of 10FTE for the ALE program? Can he get a real answer to this please, instead of "we're having an audit?"

- 9) The NWESD will look at the total enrollment projection by grade level and require a conservative estimate. Any over or under estimation in the ALE program will need to be offset in the school programs to arrive at the total projected enrollment. When projecting school FTE for budgetary purposes, the total cohort survival FTE is relied upon.

Q10) What real property does the district own? IE: Does it still own the land in Doe Bay? Could we sell that to the fire department and Doe Bay Water users -- and rent back the firehall for the bus?

- 10) Any sale of property or revenue generated through the lease of real property must be deposited to the Capital Projects fund and does not solve any problems of the General Fund.

Q11) What would be the financial impact if every staff member, (Superintendent to Principal to teacher to bus driver) took a 5% cut in pay? Then add on a 5% cut to NERCS. It seems if everyone, across the board, took a cut -- then NO ONE WOULD HAVE TO BE RIF'd on 5/15. The private money could then be used to pay back that 5% in the form of "bonuses."

- 11) The S-275 report shows total salaries including both certificated and classified of \$2,463,266. Five percent of this figure would be \$123,163.30. The average certificated salary according to the report is \$50,748 which would not quite cover 2 FTE as the insurance and L&I costs would not be effected by the 5% reduction. Also it is unrealistic to assume that the negotiated agreements could be revised to allow the 5% reductions and it is doubtful that WEA would allow payments to teachers that are below the State compliance levels. A 5% cut in NERCS probably is not achievable since NERCS have already been reduced in prior budgets and much of NERC costs are not discretionary such as insurance, utilities and fuel. The NWESD would not approve a budget that assumed the 5% cut in salaries without the signed agreements fully executed. Bonuses are not allowed by state law as they would be considered gifts of public funds. (If the community donates the money to the district it would become "public funds" and must comply with public law. The community could donate directly to the staff, although this would be a challenge to administer and we cannot foresee any union agreeing to such an approach.)

Questions from charts:

Why are 2003-04 BEA less Extra curricular expenditures so much less than the other years?

In 2002-03 the fund balance dropped by \$154,000 (expenditures exceeded revenues). In 2003-04 the district responded by reducing expenditures overall by \$75,000. To determine the rest of the difference would take detailed analysis that would not be worth the time expended as there have been significant differences in the way expenditures have been accounted for.

Why is Vocational Education separated into Federal and State?

There are two sources of funding for Vocational Education. One being the basic education portion through State apportionment and the other through the Federal Carl Perkins grant. The Federal program must be accounted for separately by Federal regulations.

What are Other instructional programs?

These are grants that fall under the accounting program code of program 79 and the funded programs under these grants can vary from one year to the next. In general these are programs that the funding does not come through OSPI.

Why did plant supervision costs increase?

Plant Supervision increase in cost has to do with correction of account coding. Overall the cost of plant and plant supervision decreased in 05-06.

Why did property and liability insurance increase in 2002-03?

The school district uses the Washington Schools Risk Management Pool to provide its insurance coverage. The Pool negotiates insurance rates for multi-year periods and distributes the cost of the insurance based on several factors for each district. The Pool had to renegotiate rates for the period starting with the 2002-03 year and the industry-wide increases in liability insurance extended to all members of the Pool (this was just after the insurance industry losses resulting from 9/11).

What are information systems and isn't the levy paying for this?

The information system expenses in the General Fund are primarily for connecting and using the Washington Schools Information Processing Cooperative (WSIPC) software and for the Northwest Regional Data Center (NWRDC) mainframe computer use and software support. These are not allowable expenses under the technology levy.

Comments on Jerry Jenkins replies to the 15 questions provided in an e-mail.

I concur with Dr. Jenkins comments on the questions provided.