

**Hutchinson Public Schools
Operational Expectations Monitoring Report
OE 5 – Fiscal Planning
Aug 8, 2016**

SUPERINTENDENT CERTIFICATION:

With respect to OE-5-Fiscal Planning, the Superintendent certifies that proceeding information is accurate and complete, and that the District is:

In Compliance

In Compliance, with noted exception(s):

Not in Compliance

Signed: _____ Date: _____
Superintendent of Schools

BOARD ACTION

With respect to OE-5-Fiscal Planning, the Board finds that the District and the Superintendent:

Are fully compliant

Are compliant with noted exception(s)

Are non-compliant

Comments and findings:

Date for re-monitoring: _____

Signed: _____ Date: _____
Board President

Hutchinson Public Schools
Board Monitoring Report

Re: Monitoring Report on OE-5: Fiscal Planning
 From: Dr. Shelly Kiblinger, Superintendent
 Lori Blakesley, Exec. Director of Fiscal Management & Business Operations

Monitoring of operational expectations policies is part of the ongoing process of superintendent evaluation. This operational expectation policy addresses several aspects of the superintendent’s responsibility district assets.

OE -5: Fiscal Planning	Superintendent		Board		
<p>The Superintendent shall develop and maintain 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.</p>	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
	X		X		

Superintendent Interpretation: *One of the board’s most important jobs is to approve the budget for the school district. The board depends upon and expects the superintendent and staff to prepare the budget and support the board in this critical function. The board expects the superintendent to insure that the patrons and the students of the school district receive the highest possible return on the investment of taxpayer dollars, in terms of results. In addition, the community expects to have input regarding the programs they value and results they expect of their public schools. This requires a careful planning process to align expenditures with strategic planning. The board expects that financial planning will be tied to a longer term vision rather than a year-to-year plan to the degree possible in a state where legislative actions are reactive to the budget crisis of the moment. In such a circumstance, the board expects that the approach to fiscal planning will be necessarily conservative to provide as much stability and protection from year-to-year fluctuations in state funding, assessed valuation, tax collection rates and unforeseen financial impacts. In spite of these budgetary uncertainties, the board expects adherence to the strategic plan, and that our planning processes maximize our budget resources to achieve established goals.*

OE -5: Fiscal Planning	Superintendent		Board		
<p>The Superintendent will develop a budget that:</p> <p>5.1 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.</p>	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
	X		X		

Superintendent Interpretation: *Even though the Kansas finance formula and budget documents are extremely complex, the board expects to receive information that is clear, accurate, and comprehensible. The budget will be presented so that the board can easily assess the short and long-term impacts that spending decisions will have on the strategic plan.*

Indicators of Compliance:

- a. We know we are compliant when the District has completed a balanced budget process each year which includes working with the administration, staff and community.
- b. We know we are compliant when the budget is prepared within the funding allocations and other financial changes approved by the legislature.
- c. We know we are compliant when the District has completed a Budget at a Glance, Budget Profile along with State Budget Codes and Forms.
- d. We know we are compliant when the District has summarized the budget each year for the community at the budget workshop held prior to the adoption of the budget.
- e. We know we are compliant when a public hearing **is** held prior to the board of education adopting the budget.
- f. We know we are compliant when the District’s budget is filed at the Reno County Courthouse prior to August 25th each year.

Evidence of Compliance:

- a. **The District completed and balanced the budget through a Community Budget meeting. A meeting was held on March 7, 2016. Note: Due to the block grant, only one meeting was held.**
- b. The FY 16.17 budget document was completed and balanced and complies with the **current** legislative funding and regulations. The District has completed a Budget at a Glance, Budget Profile, State Codes and Forms. Once final, all of the budget documents are located on the Districts web page under business services as well as at each board of education meeting. The items below reflect the changes in the budget from the previous year.
 - **Supplemental General, and Capital Outlay state aid are no longer posted to the General fund and transferred to the respective funds. This change causes the general fund legal max to show a decrease in expenditures from the previous year.**

- The LOB mill levy dropped over 1.673 mills largely due to the state fully paying the amount of equalization aid.
 - The District assessed valuation is estimated to be flat for the general assessed valuation and all other funds' assessed valuation
 - The District has not settled negotiations yet. The budget does reflect the district's negotiating position.
 - The amount needed to reduce to balance the budget was \$798,000. The following cuts were made: 7 FTE with a reduction of a track at McCandless. The district also reduce/reallocated the textbook transfer. The remainder was covered through a 1.2 mill increase to capital outlay mill levy. A .5 FTE counselor position was added at Lincoln/Ave A. A 1.0 FTE was added at the ALP program.
 - Overall mill levy is estimated to decrease .305 mills to 55.649 compared to 55.954 from previous year. The decrease in mill levy was a result of equalization increase in the LOB and the increase in mill levy in capital outlay.
- c. The District held a budget workshop on **July 25th during the** board of education meeting.
 - d. The District held a public hearing on **August 8th**.
 - e. The District will file the budget at the Reno County Courthouse prior to August 25th.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will develop a budget that: 5.2. Credibly describes revenues and expenditures.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *“Credibly” means that for projected revenues there is sufficient documentation and rationale to instill confidence that the revenue can be depended upon. Although the budget must be constructed using calculated estimates of student enrollment, property tax valuations, and tax collection rates, estimates of those numbers will be conservative. On the other hand, the superintendent should not be held accountable for not foreseeing revenue-reducing circumstances that could not reasonably have been projected (i.e. mid-year cuts resulting from a recession that was not predicted at the time the budget was prepared) although in today’s economic times, reasonable reserves should be maintained to plan for mid-year budget reductions. The board also expects that expenditure projections based upon credible needs and that expenses will be controlled wherever possible.*

Indicators of Compliance:

- a. We know we are compliant when the District indicates what state and local property tax revenue is to be received in each of the District funds by estimating student enrollment, weighted enrollment, and percent of poverty, property tax valuations and mill rates. The District each year will provide a history of trends in all these areas which will aid in the credibility and reasonableness of the projections in these areas.
- b. We know we are compliant when the District’s budgeted amounts for revenue are projected conservatively in all areas and explained to the board and public in detail during the annual budget workshop.
- c. We will be compliant if the annual audit reveals no evidence of insufficient budget revenues. The District does have reserves built in the budget and cash reserves for any revenue or expense that could not be predicted at budget time.
- d. We know we are compliant when the District indicates what federal revenue is to be received in each of the District funds by estimating the Title and Head Start allocations as well as the amount of free and/or reduced lunches in the District.
- e. We know we are complaint when the District has estimated the amount of revenue received for parent paid fees, other education entities tuition, donations and interest. The District each year will provide a history of trends in all these areas which will aid in the credibility and reasonableness of projections in these areas.
- f. We know we are compliant when the District’s expenditure projections are based on credible needs and that expenses will be controlled in all areas. Budgetary control is maintained through an online accounting system that includes encumbering estimated expenditures prior to the release of purchase

orders to vendors. Management cannot overspend the budget until appropriations are made and approved by the board of education. Purchase orders that exceed available budgeted funds are not released until there are appropriate budget and cash to do so. Budgets are accounted further by assigning responsibility codes to buildings and departments. This system allows effective monitoring of expenditure of budget appropriations at the department and building level. Daily budget reports showing orders outstanding and funds are available to each manager of a specific location, function, or program. All purchases over \$1,000 provide three informal quotes and purchases over \$20,000 is formally bid to ensure the District is getting the best price for purchases made. We will know we are compliant if the auditor's report no substantial findings of instances where these procedures are not followed.

- g. We know we are compliant when the District prepares a Consolidated Annual Expenditure Report (CAFR) that includes a ten-year trend of both revenue and expenditures.

Evidence of Compliance:

- a. The Budget at a Glance shared during the budget workshop and posted on the district webpage includes enrollment, student counts, percent of poverty, tax valuation, and mill rates included. The one-page summary is posted on the District's web page. The District has a spreadsheet available in the Director of Finance office that shows trends in enrollment, weightings, percent of poverty, property tax and mill rates.
- b. The District's budget compares two years of actual revenues and expenditures to the budget which shows no shortfalls of revenues or overages in expenditures.
- c. The District CPA firm found no evidence of insufficient budgeted revenues and the expenditures within the published budget.
- d. Code 07 in the budget document has the federal revenue to be received in each of the district's federal funds. Free and Reduced Lunch data can be found on the Budget at a Glance.
- e. The District budget does have operating reserves which can be located in control lines within the budget and summarized at the budget workshop each year for any unforeseen revenue circumstances.
- f. The CPA audit did not find any expenditures that were not credible. The District's security levels in the Skyward software program allow the District's Director of Finance to monitor control over approvals and spending. The District CPA firm found no evidence of any insufficient purchases according to District purchasing guidelines. The District's Internal Control Processes related to purchasing are reviewed annually through survey and the Internal Control Committee.
- g. The District prepared a Consolidated Annual Financial Report which includes a ten-year revenue and expense trend.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will develop a budget that: 5.3 Shows the amount spent in each budget category for the last two fiscal years and the amount budgeted for the next fiscal year.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *The board expects to be able to see expenditure patterns over time so that they may analyze, question, and explain spending trends and make reasonable predictions regarding future levels of expenditures.*

Indicators of Compliance:

- a. We know we are compliant when the District by law prepares the KSDE budget, Budget at a Glance and Budget Profile which trends two years of actual expenditures compared to the current year budget.
- b. We will know we are in compliance when the CAFR shows ten years of trends of actual expenditures and revenues.
- c. We know we are compliant when the District prepares comparisons of expenditures and future plans for spending for the capital outlay fund.
- d. We know we are compliant when the District prepares comparisons of expenditures and future plans for spending for the textbook fund.
- e. We know we are compliant when the District prepares comparisons of expenditures and future plans for spending for the bond and interest funds.

Evidence of Compliance:

The following budget documents are distributed during the Budget Workshop and are all available on the District’s web page – business services:

- a. Budget at a Glance, Budget Profile, Forms and Codes for every fund shows two years of spending trends.
- b. [The CAFR details ten years of trends of actual expenditures and revenues in the statistical section and is located on the district web site.](#)
- c. Spreadsheet showing the capital outlay expenses and future plans for the remainder of the current capital outlay resolution. [The capital outlay report has been projected out 10 years.](#)
- d. Spreadsheet showing the textbook fund expenses and future plans for the remainder of the textbook purchasing cycle.
- e. Bond and Interest Debt Schedule along with the mill levy projections and debt payments for the District’s bond debt fund.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will develop a budget that: 5.4 Discloses budget-planning assumptions.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *Ultimately a budget is an expenditure plan which is based upon assumptions regarding revenues and expenses. The budget also makes assumptions regarding what the board values. For example, an assumption may be that reasonable end-of-year fund balances should be maintained, so that funds do not go into deficit; another assumption may be that increases in mill levies will be kept to an absolute minimum; another assumption may be that when cuts are necessary they will be made so as to minimize the impact on classroom instruction. Such assumptions that have guided the parameters of the budgeting process will be fully disclosed to the board. Assumptions regarding expenditures due to rising fixed costs (insurance, utilities, materials) and revenues (changes in state formulas, enrollment, etc.) will also be disclosed to the board.*

Indicators of Compliance:

- a) We know we are compliant when throughout the budget process each year administration discloses to the board information regarding budget assumptions related to District’s strategic plan, current legislation, changes in enrollment and weightings, class sizes, personnel, mill levies, cash balances, fixed cost increases, salaries, debt schedules, and capital projects.

Evidence of Compliance:

- a) The Districts final results of the budget process which include several documents showing the new revenue gain/losses based on legislation, estimated enrollments, expense imperatives (fixed costs, payroll assumptions), needed budget reductions, use of cash balance, estimated mill levies and the community budget recommendations are all incorporated into the final budget documents.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will develop a budget that: 5.5- Assures fiscal soundness in future years.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *Superintendent Interpretation: The board expects that the staff will not knowingly recommend a budget to the board which will create fiscal difficulties in subsequent years. However, in today's economic climate, calculated reductions in cash balances and cash reserves may be recommended to the board. When such recommendations are made, the board will be fully advised of how this impacts the long-term financial outlook of the district.*

Indicators of Compliance:

- a) We know we are compliant when the budget presented assures strong cash balances compared to expenditures.

Evidence of Compliance:

- a) The District's budget is fiscally sound when reserves in the contingency fund, operational contingencies are built into the budget along with budget reserves built into the transfer funds. These will be presented each year as part of the budget presentation. They are also located in the District Annual Budget Document. The District reserves local option budget authority for a necessary additional revenue source for future years. The Board of Education will review monthly the cash balances and annually review the fiscal year end cash balances to average expenditures.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
<p>The Superintendent will develop a budget that: 5.6 Reflects anticipated changes in employee compensation, including inflationary adjustments, step increases, performance increases and benefits</p>	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
	X		X		

Superintendent Interpretation: *The budget should accurately account for and reflect all changes in compensation dictated by the negotiated agreement with teachers and changes in benefits and/or compensation agreed to by the board for all employee groups for each subsequent fiscal year. Furthermore, the staff should carefully advise the board prior to making such agreements or commitments regarding the fiscal impact of these decisions on the subsequent budget.*

Indicators of Compliance:

- a) We know we are compliant when the District includes increases in health benefits, additional or reduced staff positions, employment fixed costs (social security, unemployment and workers compensation) and retirement benefits as “budget priorities/imperative” or “budget reductions” throughout all budget documents.

Evidence of Compliance:

- a) All budget options presented through the community budget process and the board of education reflected funds needed for anticipated changes to employment costs.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will develop a budget that: 5.7 Maintains the projected year-end fund balances.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *The board expects that neither the planned budget, nor the expenditures of our annual operation should jeopardize necessary fund balances required to “cash flow” our operations during down times in revenue receipts. Due to recent delayed payments in state aid and federal aid which historically lags behind year-end expenditure requirements, the board expects that cash balances and contingency funds will be maintained to cover such cash flow interruptions. A minimum of two-months of expenses will be budgeted to meet cash flow needs.*

Indicators of Compliance:

- a) We know we are compliant when the board of education receives a cash balance report within the budget document each year. Each fund shows the beginning and ending actual unencumbered cash for two years.
- b) We know we are compliant when the budget projections will show the cash balances are not below the minimum of two-months of current average expenses.
- c) We know we are complaint when the board of education receives a monthly treasurer’s report listing cash balances by fund reconciled to the banks.

Evidence of Compliance:

- a) The District completes a Form 149 and each fund code within the budget document showing unencumbered cash balances.
- b) The District prepares an all fund and operating fund cash balance report at the first July meeting each year showing how much cash reserve the district has compared to average monthly expenditures. The district has board approval for any budget actions which drop the operating cash reserve balance below the two-month minimum. (Note: future operating cash reserve balance to average monthly expenditure is estimated to drop below the two-month minimum with the current budget projections shared with the board of education.)
- c) The board receives a Monthly Treasurer’s report at the second board meeting each month which shows all cash balances.

Capacity Building:

OE -5: Fiscal Planning	Superintendent		Board		
The Superintendent will not develop a budget that: 5.8- Plans for the expenditure in any fiscal year of more funds than are conservatively projected to be available during the year.	Compliant	Not Compliant	Compliant	Not Compliant	Compliant with Exceptions
		X		X	

Superintendent Interpretation: *The superintendent will carefully explain to the board any plans to “deficit spend” by reducing cash balances or contingency reserves of the district. Such expenditures jeopardize the future financial health of the district and will be done only with careful consideration. In tough economic times, the board expects the superintendent to balance the use of cash reserves with increased Local Option Budget (L.O.B.) to meet the financial shortfalls of the district. When deficit spending must occur, the superintendent will keep the board informed regarding the “life expectancy” of the district’s cash balances and contingency reserves.*

Indicators of Compliance:

- a) We know we are compliant when the budget presented is a balanced budget.
- b) There are no major findings by auditor indicating that budgets have not been balanced.
- c) We know we are complaint if funds are spent within the budget and cash on hand.
- d) We know we are complaint if necessary adjustments are made to the budget mid-year if enrollment or legislative actions change the amount of the budget after publication. (a reduction in base state aid per pupil, enrollment or weighting adjustments; special education teacher entitlement, SB155 funds) Or any increases to fixed costs cause budgeted reserves to be used.

Evidence of Compliance:

- a) [The FY 16.17](#) published District budget shows a balanced budget.
- b) The District audit each year audits for compliance with expenditures within the budget authorities and that there is cash in the fund. There have been no findings of a budget or cash basis violation by the District auditors.
- c) The treasurer’s report each month shows spending to be within cash and published budgets for each fund.
- d) [The legal max letter from the state department](#) reflects any changes made throughout the year which adjusts the budget authority for the district. [The District’s CPA firm](#) found no budgetary violations.