

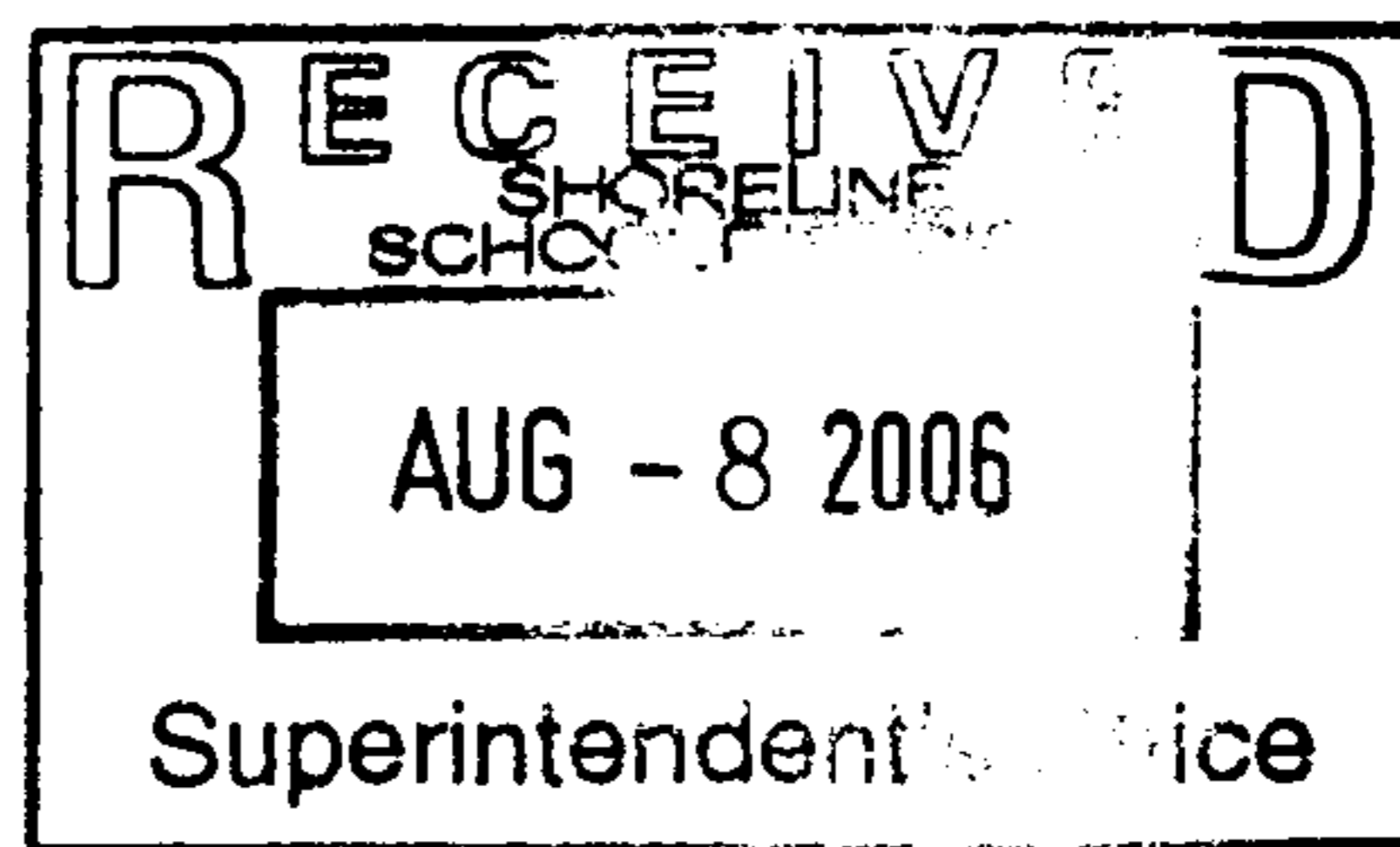


SUPERINTENDENT OF PUBLIC INSTRUCTION

DR. TERRY BERGESON OLD CAPITOL BUILDING • PO BOX 47200 • OLYMPIA WA 98504-7200 • <http://www.k12.wa.us>

August 3, 2006

Ms. Sue Walker, Superintendent
Shoreline School District No. 412
18560 1st Ave N.E.
Shoreline, WA 98155-2148



Dear Ms. Walker:

The petition by the Shoreline School District Board of Directors to include receivables collectible in future periods in the FY 2005-06 General Fund Budget is hereby approved. Per our discussion with the school district, we understand that an additional request, to budget receivables will be received by this office for the 2006-07 budget.

The general financial condition of the school district has been reviewed. We view the current financial position of the district as serious. The budgeted expenditures for FY 2005-06 will exceed the current year's revenues and consume all of the district's fund balance, plus \$4,005,728 of FY 2006-07 receivables.

When a local school district balances its budget by including receivables from a future year, the district's finances are subject to ongoing scrutiny and binding conditions until the financial difficulties are resolved. Therefore, the responsibility for administering the binding conditions as set forth below is assigned to Mr. Harvey Erickson, Assistant Superintendent, Puget Sound Educational Service District, hereafter referred to as the "Administrator". This responsibility will be in place through August 31, 2007, and may be extended should the district fail to adhere to the binding conditions set forth below. As well, if the district should end FY 2006-07 with a positive fund balance sufficient to meet the board's current adopted reserve level, the binding conditions will be removed.

To enforce this authority, if the Administrator reports to the Office of Superintendent of Public Instruction (OSPI) that the district is not fulfilling any of the below conditions, OSPI reserves the right to withhold apportionment payments until such conditions are satisfactorily addressed.

In accordance with RCW 28A.505.110, the following binding conditions are placed upon the Shoreline School District through the 2006-07 school year and potentially, subsequent school years as required:

Fund Balance:

1. For FY 2006-07, every effort must be made to limit expenditures to the revenues available. As a result, the actual ending General Fund fund balance should not be negative by more than the ending FY 2005-06 fund balance as reported on the District's F-196 report.
2. Fund balance reserves (including the reserve for inventory) are to be maintained at the appropriated amounts.
3. The district will attain an ending fund balance adequate to meet the district's current adopted reserve policy.

Cash Management:

1. An emergency advance of apportionment may be requested, if necessary, by school board resolution for fiscal year starting September 1, 2006.
2. The district shall reconcile monthly to the County Treasurer's statement, using the general ledger trial balance, within 7 calendar days of receipt of the statement.

Budget Control:

1. The district shall make no interfund loans or equity transfers without prior approval by the Administrator.
2. The district shall review key resource assumptions made in their adopted budget as follows:
 - a. In September 2006, the district will compare the actual student enrollment to the budgeted enrollment. The actual September enrollment is expected to equal or exceed the level assumed in the budget. The district will continue to monitor this throughout the year, and;
 - b. In October 2006, the beginning fund balance for 2006-07 in the adopted budget will be compared to the ending fund balance reported on the F196 for 2005-06. The F-196 fund balance is expected to equal or exceed the budgeted fund balance, and;
 - c. In January 2007, the actual staff mix factor reported on the S-275 will be compared to the factor assumed in the budget. The S-275 factor is expected to equal or exceed the budgeted factor.If the district fails to meet one or more of these expected conditions, the district shall take immediate action to further reduce expenditures in FY 2006-07.
3. Any increases in budgetary authority during this period (as set forth in the General Fund Budget) must be reviewed and approved by the Administrator and incorporated in an approved General Fund Budget Extension. As a reminder, Budget Extensions must be approved by the school board and ESD before incurring expenditures in excess of the current appropriation level.
4. The district superintendent shall conduct monthly budget meetings or briefings with district building administrators and the district finance officer with the purpose of reviewing the current budget and maintaining control of expenditures.
5. The district superintendent shall be notified of and approve all budget and financial adjustments.

Reporting:

1. Financial reports are to be presented to the board of directors and the Administrator on or before the 15th of each month or at the next regularly scheduled Board Meeting thereafter. Additional reports must be made to the school board and the Administrator as may be necessary to fulfill this plan and its stewardship.
2. The district shall provide monthly cash flow statements to the board of directors and the Administrator on or before the 15th of each month or at the next regularly scheduled Board Meeting thereafter.
3. The district shall comply with all timelines for financial and other required reports per laws, rules and regulations.

Purchasing:

The district will establish and administer an effective system to control purchasing; including:

1. The district shall continue to use an encumbrance method for all purchase orders. All purchase orders will be encumbered at the time they are submitted.
2. Based on a submitted purchase order, a determination will be made as to whether or not budget capacity exists and whether the proposed purchase meets the prioritized needs of the district.

Staffing:

1. The district shall not issue staff contracts, to include hourly personnel and supplemental contracts, beyond those established in the adopted budget without prior board approval and input from the Administrator.
2. Each month the district will produce the Personnel Budget Status Report described in WAC 392-123-125 and provide a copy to the board of directors and also submit one copy to the Administrator.
3. A staffing report by program, name, FTE, and total pay shall be provided to the Administrator no later than September 1, 2006.

Monitoring, Consulting, and Interpretation:

1. The district shall develop and submit a plan to the Administrator and OSPI which portrays how the district will eliminate the existing deficit fund balance and cash flow problems. This plan shall be submitted no later than September 1, 2006.

2. The school district administration and board of directors shall utilize the services and advice of the Administrator in administering this plan and implementing any new or revised financial and administrative policies, systems, and procedures that are necessary to fulfill the objectives of this plan.
3. The district shall participate in periodic on-site reviews of all accounting and financial records by the Administrator and/or OSPI. This shall include monthly or more frequent meetings to review the district's financial status in conjunction with at least the district's business manager.
4. The District shall submit agendas for all board meetings and workshops to the Administrator in advance of the meetings.
5. All questions and interpretations of the terms established in this letter will be made by the Administrator. Appeals of his/her interpretations will be made in writing to the Director, School Apportionment and Financial Services, OSPI.

A copy of this letter must be included with the district's FY ~~2005-06~~ and 2006-07 budget and any extensions thereto must include a reference to this request to budget receivables.

In closing, in addition to the binding conditions stated above, we would also reiterate that good accounting practices are also essential for the district to ensure future financial stability, including:

- The district should follow the Accounting Manual for Public School Districts in the State of Washington, published by the Office of Superintendent of Public Instruction.
- The district should enter invoices and "commit" all financial activities into the WSIPC computer file upon receipt in the appropriate month.
- The district should review for significant deviations from the original budget plan by program, activity or object, and if appropriate, a budget revision be done immediately. This would require the district's business office to monitor budget to actual expenditures on an ongoing basis and report any variances to the district superintendent, board and the Administrator.

Sincerely,



Calvin W. Brodie
Director, School Apportionment and Financial Services
Office of Superintendent of Public Instruction

CWB:rld

cc: Mr. Mike Jacobs, President
Shoreline School District Board of Directors

Ms. Marcia Harris, Deputy Superintendent
Shoreline School District

Mr. Harvey Erickson, Assistant Superintendent
Puget Sound Educational Service District

Mr. Marty Daybell, Deputy Superintendent
Office of Superintendent of Public Instruction

Ms. Jennifer Priddy, Assistant Superintendent
Office of Superintendent of Public Instruction

Mr. Mike Dooley, Supervisor, School District/ESD Budgeting
Office of Superintendent of Public Instruction