

**SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT #2
LOPEZ ISLAND HOSPITAL DISTRICT
(LIHD)**



FINANCIAL MANAGEMENT POLICIES

ADOPTED
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TABLE OF CONTENTS

SECTION I. INTRODUCTION	2
SECTION II. BUDGETING	2
SECTION III. RESERVES	3
SECTION IV. ACCOUNTING, AUDITS & REPORTING	5
SECTION V. CREDIT CARDS	5

Section I. Introduction

General Financial Goals

The stewardship of public funds is one of the greatest responsibilities given to the Board of Commissioners of the Lopez Island Hospital District (LIHD). Thus, the establishment and maintenance of fiscal policies enables the LIHD to protect public interests and maintain public trust. This document incorporates policies used by the LIHD to meet its obligations and operate in a financially responsible manner. These policies have been developed to provide general fiscal guidelines to guide the Board, Superintendent and Finance Committee in the management of the LIHD's financial affairs.

The Financial Management policies for San Juan County Public Hospital District #2, hereby referred to as LIHD, are established to ensure the District exercises sound judgement in the conduct of all business affairs. Through prudent financial stewardship, the LIHD is committed to maintaining a financial base sufficient to sustain services that support the health and well-being of the Lopez Island community for years to come.

Section II. Budgeting

The LIHD budget is a legal, public document that forecasts the District's financial resources and authorizes the spending of those resources for the fiscal year (calendar year). A budget provides both the right to spend and limits the amount to be spent. It is also a tool used by the Commissioners to monitor operations throughout the year. The Superintendent manages the LIHD finances to ensure end-of-year operating expenditures are less than or equal to the total District Operating Budget for that calendar year. The Superintendent shall provide monthly reports on the status of the Operating Budget to keep the Board informed of the status of the LIHD finances, calling attention to anything that could indicate a negative financial trend.

Development of and adherence to the Budget Policy ensures the LIHD:

1. Aligns the budget with LIHD priorities;
2. Measures progress towards priorities;
3. Gets the best value for each tax dollar;
4. Ensures anticipated revenues equal forecasted expenditures; and
5. Builds regional collaboration to leverage resources across all stakeholders.

Budget Calendar

The LIHD shall comply with the requirements of Washington state law and the State Auditor's Office (SAO) in regard to annual budget development and public hearings. RCW 70.44.060(6) requires the Superintendent annually prepare and file a budget with the LIHD Board on or before November 1st. The LIHD will hold a public hearing on the proposed budget annually, before November 15th. An additional public hearing on the setting of the property tax levy will also be held annually, on or before November 30th.

Budget Process

The drivers and assumptions used in the annual budgeting process will take into account historical costs and anticipated future economic changes, where appropriate. The LIHD will strive to structure services and contracts in the context of financial sustainability.

While the Superintendent is generally expected to stay within budgeted amounts at the account level, if she/he deems appropriate and necessary, she/he may move expenditures between accounts so long as total budgeted expenditures in the LIHD Operating Budget do not increase. The Superintendent shall promptly communicate in writing all such budget changes to the Board, but in any case, not later than the next regular Board meeting following the budget change. All increases in budget accounts that increase the total annual expenditures in the LIHD Operating Budget require specific Board approval to amend said Budget.

Revenue Policy

The following guidelines are established in regard to the LIHD sources of revenue:

1. All revenues will be conservatively estimated as a basis for preparation of the annual budget;
2. Current revenues will be sufficient to support current expenditures;
3. All fees for services will be reviewed on an annual basis;
4. Only items with a limited term or one-time cost will be funded with limited term revenue streams. This is to avoid losing an ongoing service or program when such revenues are reduced or eliminated; and
5. Grant applications to fund new services or programs will be reviewed with due consideration being given to whether ongoing revenues will be available and sufficient to support these programs when outside funding is no longer available.

Expenditure Policy

The following guidelines are established in regard to the LIHD expenditures:

1. The LIHD will maintain an operating philosophy of cost control and responsible financial management; and
2. Budgeted annual expenditures will be maintained within the limitations of annual revenues.

III. Reserves

Adequate General Fund and Reserve Fund levels are a necessary component of the LIHD's overall financial management strategy. Reserves are necessary to enable the LIHD to deal with unforeseen emergencies or sudden changes in economic conditions.

Reserve Policy

A Reserve Fund shall be created to:

1. Provide sufficient cash flow to meet daily financial needs;
2. Ensure availability of funds to meet long-term debt obligations; and
3. Sustain LIHD services in the event of a catastrophic event such as a natural/manmade disaster or a major downturn in the economy.

After taking into account the various risks and associated obligations of the District, the LIHD seeks to establish and maintain an unallocated Reserve Fund balance at no less than three (3) months of budgeted income, exclusive of income derived from debt funding.

Beginning with the 2019 budget development process, the Board will determine amounts to be directed to the Reserve Fund in order to reach the target fund balance by the close of the 2021 fiscal (calendar) year. The Board will review the reserve target annually and if it is determined that conditions have changed which render the policy no longer appropriate for the level of risk and obligations, the Finance Committee will review and recommend an adjustment to the target reserve funding level for the subsequent fiscal year.

Reserve Deposits

A fund called Reserve Fund will be created and will be where reserves are held. Funding of reserves will generally come from excess revenues over expenditures or one-time revenues.

Unless otherwise directed by the Board, one-half of the appropriated funds shall be deposited in May and the remainder shall be deposited in November of each year. Reserves shall accumulate from year to year until the fund balance exceeds 50 percent of the prior years' General Fund income, exclusive of debt funding. In such a case, the Board may appropriate all or part of the accumulated reserves in excess of reserve ceiling.

Reserve Usage

The LIHD will avoid utilizing reserves to fund recurring operating expenditures. The Superintendent is responsible for monitoring reserve levels and reporting to the Board on a quarterly basis. If, at any time, the utilization of reserves to pay for operating expenditures is necessary to maintain the quality or level of existing services, the Superintendent will provide the Chair of the Finance Committee with an explanation of the circumstances. After review, the Superintendent will bring a recommendation to the Board, including a strategy to mitigate the future use of the reserves and restoration of the reserve balance.

All expenditures drawn from the reserve fund shall require prior approval from the Board of Commissioners unless previously authorized for expenditure within the annual budget development process. If a decision is made to utilize reserves, or if reserves fall below required minimum level as set by this policy, the fund balance shall be restored to the minimum target in the following fiscal year. If significantly or fully depleted, restoring the reserve fund will be accomplished within three (3) years of use.

IV. Accounting, Audits & Financial Reporting

The LIHD recognizes the need to be accountable for the collection, management and expenditure of all public funds. The LIHD will establish and maintain the highest standards of accounting practices. The District accounts for revenues and expenditures on a cash basis, and has established protocols to ensure adherence to all applicable state laws, regulations and internal policies and procedures.

Accounting Policy

The LIHD is committed to ensuring public funds are fully accounted for and has established controls to protect public resources from misappropriation and misuse. This includes:

1. Establishing and maintaining a high standard of internal controls and accounting practices;
2. Maintaining accounting records consistent with accepted standards for special purpose districts as contained in the State of Washington Budgeting, Accounting and Reporting Systems (BARS) Manual; and
3. Providing transparency into annual financial reports, summarizing of financial activity by major types of funds for ease of understanding, and making reports available via the LIHD website (www.lopezislandhd.org).

Audit Types and Frequency

The LIHD is committing to adhering to the SAO auditing requirements. These include:

1. Filing an annual Financial Audit with the SAO within 150 days of fiscal year end;
2. Participating in an Accountability Audit at least every three years; and
3. Scheduling Performance Audits, in accordance with the U.S. General Accounting Office auditing standard, to verify tax dollars are spent as cost-efficiently as possible.

V. Credit Cards

Under the authority of RCW 43.09.2855, the District authorizes the establishment of a Credit Card Account and the issuance of a credit card. A credit card will be issued to the Superintendent for the purpose of covering expenses incident to authorized travel and enabling a cost-effective, convenient and expedited method of purchasing items for District use.

Card Use

The District authorizes the use of the credit card for the following purposes:

1. Travel expenses for authorized District travel; and
2. The purchase of authorized supplies and equipment.

The primary credit card issued to the Superintendent shall have a maximum credit limit of \$10,000. If requested, any supplemental credit card(s) issued to a Commissioner shall have a maximum credit limit of \$5,000.

Process

The cardholder is responsible for:

1. Ensuring District credit cards are only used for authorized business expenses and not used for expenses of a personal nature;
2. Retaining detailed receipts and providing explanations for all District credit card transactions; and
3. Ensuring the Board of Commissioners reviews the credit card payments as part of the monthly AP Voucher approval process.