

ORCAS ISLAND HEALTH CARE DISTRICT

FINANCIAL MANAGEMENT POLICIES

Section I. General Financial Goals

The stewardship of public funds is one of the greatest responsibilities given to the Board of Commissioners (the "Board") of the Orcas Island Health Care District (the "District"). Thus, the establishment and maintenance of sound fiscal policies enables the District to protect public interests and maintain public trust. This document incorporates policies used by the District 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, the District's superintendent (the "Superintendent") and the Board's finance committee (the "Finance Committee") in the management of the District's financial affairs. Through prudent financial stewardship, the District is committed to maintaining a financial base sufficient to sustain services that support the health and well-being of the Orcas Island community for years to come.

Section II. Budgeting

2.1. Purpose. The District's operating budget is a legal, public document that forecasts the District's financial resources and authorizes the spending of those resources for the District's fiscal year (the "Operating Budget". The Operating Budget provides both the right to spend and limits the amount to be spent. It is also a tool used by the Board to monitor operations throughout the year.

The Superintendent manages the District's finances to ensure end-of-year operating expenditures are less than or equal to the total 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 District's finances, calling attention to anything that could indicate a negative financial trend.

Development of and adherence to the Operating Budget ensures the District:

1. Aligns the budget with District priorities;
2. Measures financial impact of meeting priorities; and
3. Ensures anticipated revenues equal forecasted expenditures.

2.2. Budget Calendar. The District shall comply with the requirements of Washington state law and the State Auditor's Office (SAO) in regard to the annual development of, and public hearings to adopt, its Operating Budget. RCW 70.44.060(6) requires that the Superintendent annually prepare and file a budget with the District Board on or before November 1st. The District 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.

2.3. 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 District will strive to structure services and contracts in the context of financial sustainability.

The Operating Budget shall be accompanied by a five-year forecast of the District's revenues and expenses, so the Board can make current budget decisions in the context of the District's long-term financial conditions.

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 Operating Budget do not increase. The Superintendent shall promptly communicate in writing all such budget changes to the Board, but in any case no later than the next regular Board meeting following the budget change. All increases in budget accounts that increase the total annual expenditures in the Operating Budget require specific Board approval to amend the Operating Budget.

2.4. Revenue Policy. The following guidelines are established in regard to the District's sources of revenue:

1. All revenues will be conservatively estimated as a basis for preparation of the annual budget;
2. Current revenues plus beginning cash 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.

2.5. Expenditure Policy. The following guidelines are established in regard to District expenditures:

1. The District will maintain an operating philosophy of cost control and responsible financial management; and
2. Budgeted annual expenditures, including capital expenditures, will be maintained within the limitations of annual revenues including the proceeds of any debt issuances.
3. All documents, whether warrants, checks, vouchers, invoices, payroll forms, employee benefit enrollment forms, correspondence, claims or other documents, submitted to the District's Treasurer that affect or result in the investment or expenditure of District funds must be certified in advance of the investment or expenditure by one of the District's appointed Auditing Officers as provided in Chapter 42.24 RCW and as being in compliance with the District's budget and its policies.

Section III. Reserves

3.1. Purpose. Adequate reserves are a necessary component of the District's overall financial management strategy. Reserves are necessary to enable the District to deal with unforeseen emergencies or sudden changes in economic conditions.

3.2. Reserve Policy.

One or more Reserve Funds shall be created to:

- 1) Sustain District services in the event of a significant change in available revenues or required expenditures due to unforeseen changes the “Contingency Reserve Fund”) such as one of the following:
 - a) a catastrophic event such as a natural or manmade disaster;
 - b) a major downturn in the economy;
 - c) a major change in insurance reimbursement rates; or
 - d) a change in clinic operator at the medical building,
- 2) Meet short term and long-term capital needs (the “Capital Reserve Fund”) for
 - a) District Buildings; and
 - b) Equipment

After taking into account the various risks and associated obligations of the District, the District seeks to establish and maintain an unallocated general fund balance to provide cash flow to pay expenditures when due while the District waits to receive tax revenues. The general fund unassigned fund balance shall not be less than three (3) months of budgeted income, exclusive of income derived from grants or debt funding, unless authorized by the Board.

During the annual budgeting process, the Board will determine amounts to be directed to the two Reserve Funds in order to reach the target fund balance. The Board will review the reserve targets 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.

3.3. Reserve Deposits. The District’s reserves shall be held in the Contingency Reserve Fund and the Capital Reserve Fund. 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 Contingency Fund balance equals \$650,000 and the Capital Reserve Fund balance equals \$350,000. In such a case, the Board may appropriate all or part of the accumulated reserves in excess of reserve ceiling.

3.4. Reserve Usage. The District 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 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 balances.

All expenditures drawn from a reserve fund shall require prior approval from the Board 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 levels as set by this policy, the fund balances shall be restored to the minimum target in the following fiscal year. If the Capital Fund is significantly or fully depleted, restoring the reserve fund will be accomplished within three (3) years of use. If the Contingency Fund is significantly or fully depleted, restoring the reserve fund will be accomplished within five (5) years of use.

Section IV. Accounting, Audits & Financial Reporting

4.1. Purpose. The District recognizes the need to be accountable for the collection, management and expenditure of all public funds. The District 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.

4.2. Accounting Policy. The District 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. Complying with the systems and controls prescribed by the SAO which establishes procedures and records that reasonably assure safeguarding of assets and the reliability of financial reporting;
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 District website (www.orcashealth.org).

4.3. Audit Types and Frequency. The District is committed to adhering to the SAO auditing requirements. These include:

1. Filing an annual financial report with the SAO within 150 days of fiscal year end;
2. Participating in an accountability audit at least once 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.

Section V. Investment Policy

5.1. Investment of Funds. The District will direct the County Treasurer to invest the funds in its Reserve Funds and its cash balances in compliance with the San Juan County Investment Policy and in a manner designed primarily to ensure monies are available for their intended purposes when they are needed and also to ensure that any earnings on those investments will be allocated to the District. The District shall periodically review the San Juan County Investment Policy to ensure that its objectives remain aligned with the District's objectives related to safety, liquidity, and yield.

5.2. Cash Flow Budget. To aid the Finance Committee in determining the timing and amounts of investments, the Superintendent shall maintain a 12-month rolling cash flow budget which will be reviewed monthly with the Finance Committee.

Reserve Funds. The Superintendent shall keep the Reserve Funds fully invested at all times unless the Board approves the use of Reserve Funds as provided in Section 3.4. Each month the Finance Committee shall determine the District's cash flow needs for the following month. The Superintendent shall invest all

unallocated funds in excess of the projected cash flow needs for the next month together with a \$25,000 contingency amount.

Section VI. Capital Assets

6.1. Capital Asset Defined. A capital asset is defined as an asset or a group of similar assets with a cost of \$5,000 or more and an estimated service life of three (3) years or more.

6.2. Inventory. The District will maintain a current inventory of its capital assets and will have a physical inventory of its assets made every two (2) years. Certain capital assets that are stationary, such as land, infrastructure, buildings, and improvements other than buildings, do not require a physical inventory.

6.3. Repair and Maintenance. The District will repair and maintain its capital assets on a periodic and regular basis to protect its investment and to minimize future maintenance and replacement costs.

6.4. Replacement Planning. Although it may not always be possible to replace capital assets on a consistent basis, the District will plan for and budget for replacement costs in its Operating Budget.

6.5. Capital Expenditure Planning. The District will plan for capital expenditures over a 5-year period. When capital improvements are being planned, operating costs will be identified and included in the Operating Budget.

Section VII. Credit Cards

7.1. Authority. Under the authority of RCW 43.09.2855, the District authorizes the Superintendent to establish a credit card account to enable a cost-effective, convenient and expedited method for purchasing items for the District's use and covering expenses incident to authorized travel. Only the Superintendent shall be authorized to order the issuance of credit cards. Each credit card shall bear the name of the District and the name of the cardholder.

7.2. Authorized Users. A credit card will be issued to the Superintendent and may be issued to one or more of the District's Commissioners if the Board determines that issuance of a credit card to the Commissioner(s) would aid the District.

7.3. Card Use. The District authorizes the use of the credit card for the following purposes:

1. Travel expenses for authorized District travel;
2. The purchase of authorized supplies and equipment; and
3. The payment of invoices for goods and services.

7.4. Credit Limits. The credit card issued to the Superintendent shall have a maximum credit limit of \$5,000. Any credit card(s) issued to a Commissioner shall have a maximum credit limit of \$2,500.

7.5. 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;
3. Ensuring the Board reviews the credit card payments as part of the monthly Accounts Payable Voucher approval process; and
4. Promptly repaying any disallowed charges before the credit card bill payment is due.

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