



**Washington State Auditor's Office**

Government that works for citizens

## **Financial Statements and Federal Single Audit Report**

# **East Valley School District No. 361**

**Spokane County**

**For the period September 1, 2014 through August 31, 2015**

**Published May 26, 2016**

**Report No. 1016673**





## Washington State Auditor's Office

May 26, 2016

Board of Directors  
East Valley School District No. 361  
Spokane Valley, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on East Valley School District No. 361's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in blue ink that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**East Valley School District No. 361**  
**Spokane County**  
**September 1, 2014 through August 31, 2015**

The results of our audit of East Valley School District No. 361 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements.

#### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### Federal Awards

#### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.010	Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### East Valley School District No. 361 Spokane County September 1, 2014 through August 31, 2015

#### **2015-001 The District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant.**

<b>CFDA Number and Title:</b>	84.010 Title I, Part A, Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	0201771
<b>Questioned Cost Amount:</b>	\$0

#### ***Background***

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with a high concentration of low-income families. The District received \$710,821 in Title I grant funds, for the year ended August 31, 2015.

We reported a finding in the prior audit related to the District's non-compliance with schoolwide program requirements. The District changed its schoolwide program to a targeted assistance plan for the 2015-2016 school year, but due to the timing of the audit, was unable to do so for the year under audit.

#### ***Description of Condition***

##### **Schoolwide Programs**

The District operates schoolwide plans at its Trent and Trentwood elementary school buildings and spent \$275,366 and \$143,704, respectively, on salaries, benefits, supplies, purchased services and travel. The Elementary and Secondary Education Act authorizes schoolwide programs as an alternative to targeted assistance as a means to better serve all children in a school building. Unlike

targeted assistance programs, in which a school ranks and serves individual students, a schoolwide program combines federal and state resources to enhance a school's entire educational program. When a District uses this alternative, it must evaluate and revise the plan annually to ensure students continue to improve.

The District did not properly apply its established internal control and ensure a current and complete schoolwide plan was in place for services provided to two school buildings. The fiscal year 2015 schoolwide plans were based on the plans from the prior year. One school's plan was missing four key requirements, and the other school's plan was missing seven key requirements. In addition, funds included in the schoolwide programs did not specify educational needs that they would be spent on in the schoolwide plan and no annual evaluation of the results achieved by the schoolwide program were conducted. We considered this internal control weakness to be a material weakness.

#### Suspension and Debarment

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

The District awarded contracts of more than \$25,000 to three vendors during the year and did not obtain a written certification or review EPLS to determine they were not suspended or debarred prior to making either award. We consider this control deficiency to be a material weakness.

### ***Cause of Condition***

#### Schoolwide Programs

Schoolwide program requirements were brought to the attention of the District in the previous audit. Although the District was working towards compliance, it was unable to fully implement the changes to ensure schoolwide plans included all required elements in time for fiscal year 2015.

### Suspension and Debarment

The District was aware of the requirement but, due to clerical oversight, did not ensure documentation was retained to support that they ensured vendors were not suspended or debarred prior to making the awards.

### ***Effect of Condition and Questioned Costs***

#### Schoolwide Programs

If the District does not use all the required elements to evaluate the schoolwide program annually, it will not know if expected results were achieved or if the plan should be revised to better serve students.

The results of our audit found both Trent and Trentwood elementary schools' schoolwide plans, were missing four of the 10 requirements including:

- The annual evaluation of, and results achieved by, the schoolwide program and revisions to the schoolwide plan based on that evaluation.
- The transition plans for assisting preschool children in the successful transition to the schoolwide program.
- Identification of the federal grants and other State/Local resources to be used.
- Information that only allowable funding sources would be used.

In addition, Trentwood elementary school's plan was missing an additional three requirements including:

- Comprehensive needs assessment of the entire school
- Comprehensive plan based on data from the needs assessment.
- Additional support to students experiencing difficulty.

### Suspension and Debarment

The District contracted with three vendors and paid them a total of \$81,653 for the 2014-2015 school year and did not verify whether the vendors were suspended or debarred.

Payments on contracts to suspended or debarred vendors could be unallowable and cause the District to repay a portion of the funding to the grantor. We were able to verify the vendors had not been suspended or debarred; therefore, we are not questioning costs for these payments.



## ***Recommendation***

We recommend the District:

- Ensure schoolwide plans are properly evaluated, and updated with all the required criteria, annually when schoolwide plans are operated.
- Follow established internal controls to ensure vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

## ***District's Response***

*The request to change from a school-wide plan to a targeted assistance plan during the 2014-15 school year was not approved. As of the 2015-16 school fiscal year, the District operates a targeted assistance plan. Suspension and debarment procedures were reviewed and updated to ensure compliance documentation is retained.*

## ***Auditor's Remarks***

We thank the District for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

## ***Applicable Laws and Regulations***

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 34, Code of Federal Regulations, Section 200.26 Core elements of a schoolwide program, states in part:

(a) Comprehensive needs assessment.

(1) A school operating a schoolwide program must conduct a comprehensive needs assessment of the entire school that:

(i) Is based on academic achievement information about all students in the school, including all groups under § 200.13(b)(7) and migratory children as defined in section 1309(2) of the ESEA, relative to the State's academic standards under § 200.1 to—

(A) Help the school understand the subjects and skills for which teaching and learning need to be improved; and

(B) Identify the specific academic needs of students and groups of students who are not yet achieving the State's academic standards; and

(ii) Assesses the needs of the school relative to each of the components of the schoolwide program under § 200.28.

(2) The comprehensive needs assessment must be developed with the participation of individuals who will carry out the schoolwide program plan.

(3) The school must document how it conducted the needs assessment, the results it obtained, and the conclusions it drew from those results.

(b) *Comprehensive plan.* Using data from the comprehensive needs assessment under paragraph (a) of this section, a school that wishes to operate a schoolwide program must develop a comprehensive plan, in accordance with § 200.27, that describes how the school will improve academic achievement throughout the school, but particularly for those students furthest away from demonstrating proficiency, so that all students demonstrate at least proficiency on the State's academic standards.

(c) *Evaluation.* A school operating a schoolwide program must:

(1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement;

(2) Determine whether the schoolwide program has been effective in increasing the achievement of students in meeting the State's academic standards, particularly for those students who had been furthest from achieving the standards; and

(3) Revise the plan, as necessary, based on the results of the evaluation, to ensure continuous improvement of students in the schoolwide program.

Title 34, Code of Federal Regulations, Section 200.28 Schoolwide program components, states in part:

(d) Additional support. A schoolwide program school must include activities to ensure that students who experience difficulty attaining the proficient or advanced levels of academic achievement standards required by § 200.1 will be provided with effective, timely additional support, including measures to—

(1) Ensure that those students' difficulties are identified on a timely basis; and

(2) Provide sufficient information on which to base effective assistance to those students.

(e) Transition. A schoolwide program in an elementary school must include plans for assisting preschool students in the successful transition from early childhood programs, such as Head Start, Even Start, Early Reading First, or a preschool program under IDEA or a State-run preschool program, to the schoolwide program.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part —

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under

§180.210, and the amount of the contract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

**.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct,

noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. ...

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur. ...

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### East Valley School District No. 361 Spokane County September 1, 2014 through August 31, 2015

#### **2015-002 The District did not have adequate internal controls to ensure compliance with procurement requirements.**

<b>CFDA Number and Title:</b>	10.553 School Breakfast program 10.555 National School Lunch Program 10.559 Summer Food Service Program
<b>Federal Grantor Name:</b>	U.S. Department of Agriculture
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	32-361
<b>Questioned Cost Amount:</b>	\$0

#### ***Description of Condition***

The District participates in the National School Lunch, Breakfast and Summer Food Service programs. It received \$1,274,670 for these programs in the 2014-2015 school year. This program provides funding for free and reduced-priced meals for low-income students.

Federal grant recipients must follow the more restrictive of state or federal procurement requirements when purchasing food, equipment and supplies with federal funds.

- State law is more restrictive for larger purchases and requires the District to obtain formal bids for purchases exceeding \$75,000.
- Federal law is more restrictive for small purchases and requires the District to obtain quotes for purchases that, individually or in aggregate, are less than the \$75,000 formal bid threshold.

District employees did not obtain bids for some purchases over \$75,000, (the state law threshold.) The District also did not obtain quotes for purchases of less than \$40,000 as required by federal law.

We consider this internal control deficiency to be a material weakness.

### ***Cause of Condition***

District staff responsible for procurement procedures did not know that the federal law was more restrictive than state law for small purchases. For the District's primary food and supply vendors, the District used proper procurement practices. However, for two other vendors, District staff did not anticipate that the total purchase would exceed the \$75,000 threshold and did not obtain formal bids.

### ***Effect of Condition and Questioned Costs***

The District purchased \$85,722 from one vendor without obtaining formal bids and \$78,488 from four additional vendors without obtaining quotes. Therefore, the District cannot be sure it received the best possible price for these goods funded by the nutrition programs. Because the products purchased are allowable under the federal program, we are not questioning costs.

### ***Recommendation***

We recommend the District ensure that all purchases paid with federal grants are procured in accordance with state and federal requirements and retain documentation to demonstrate compliance.

### ***District's Response***

*District purchasing procedures were reviewed and revised to ensure compliance with State, Federal, and Local procurement requirements.*

### ***Auditor's Remarks***

We thank the District for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

## ***Applicable Laws and Regulations***

U.S. Office of Management and Budget Circular A-133, Audits of states, Local Governments, and Non-Profit Organizations, § \_\_.300 Auditee responsibilities, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs

Title 7, Code of Federal Regulations, Section 3016.36 – Procurement, states in part:

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures



are used, price or rate quotations shall be obtained from an adequate number of qualified sources . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price . .

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids . . .

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate . . .

Revised Code of Washington 28A.335.190 Advertising for bids — Competitive bid procedures – Purchases from inmate work programs – Telephone or written quotation solicitation, limitations -- Emergencies, states in part:

(2) Every purchase of furniture, equipment or supplies, except books, the cost of which is estimated to be in excess of forty thousand dollars, shall be on a competitive basis. The board of directors shall establish a procedure for securing telephone and/or written quotations for such purchases. Whenever the estimated cost is from forty thousand dollars up to seventy-five thousand dollars, the procedure shall require quotations from at least three different sources to be obtained in writing or by telephone, and recorded for public perusal. Whenever the estimated cost is in excess of seventy-five thousand dollars, the public bidding process provided in subsection (1) of this section shall be followed.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur....

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

## STATUS OF PRIOR FEDERAL AUDIT FINDINGS

### East Valley School District No. 361 Spokane County September 1, 2014 through August 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of East Valley School District No. 361. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> September 1, 2013 through August 31, 2014	<b>Report Ref. No.:</b> 1016060	<b>Finding Ref. No.:</b> 2014-001	<b>CFDA Number(s):</b> 84.010
<b>Federal Program Name and Granting Agency:</b> Title I, Part A, Grants to Local Educational Agencies U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant.			
<b>Background:</b> Four of the ten required elements were missing from the Trent and Trentwood elementary schools' schoolwide plans including: <ul style="list-style-type: none"> <li>The annual evaluation of, and results achieved by, the schoolwide program and revisions to the schoolwide plan based on that evaluation.</li> <li>The transition plans for assisting preschool children in the successful transition to the schoolwide program.</li> <li>Identification of the federal grants and other State/Local resources to be used.</li> <li>Information that only allowable funding sources would be used.</li> </ul>			
<b>Status of Corrective Action:</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input checked="" type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> No Corrective Action Taken</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
<b>Corrective Action Taken:</b> <i>The District operated the Title I program as a targeted assistance program from the 2015-16 school fiscal year forward. No funds were co-mingled during this time span. Although a plan change from school-wide to targeted assistance was requested January 2015, the formal plan change was approved for the 15-16 school year.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**East Valley School District No. 361  
Spokane County  
September 1, 2014 through August 31, 2015**

Board of Directors  
East Valley School District No. 361  
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 4, 2016. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

May 4, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**East Valley School District No. 361  
Spokane County  
September 1, 2014 through August 31, 2015**

Board of Directors  
East Valley School District No. 361  
Spokane, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of East Valley School District No. 361, Spokane County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

### **District's Response to Findings**

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal



control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 2015-001 and 2015-002 to be material weaknesses.

### **District's Response to Findings**

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

May 4, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **East Valley School District No. 361 Spokane County September 1, 2014 through August 31, 2015**

Board of Directors  
East Valley School District No. 361  
Spokane, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of East Valley School District No. 361, Spokane County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 30.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)**

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Valley School District No. 361, as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions on the Governmental Funds Based on U.S. GAAP**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects and Transportation Vehicle funds as of August 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.


## Other Matters

### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

May 4, 2016

## **FINANCIAL SECTION**

**East Valley School District No. 361  
Spokane County  
September 1, 2014 through August 31, 2015**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2015  
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental  
Funds – 2015  
Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedules of Long-Term Liabilities – 2015  
Schedule of Expenditures of Federal Awards – 2015  
Notes to the Schedule of Expenditures of Federal Awards – 2015

East Valley School District (Spokane) No. 361

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	89,439.73	23,449.88	0.00	0.00	0.00	0.00	112,889.61
Minus Warrants Outstanding	-1,790,279.72	-4,956.19	0.00	0.00	-2,200.00	0.00	-1,797,435.91
Taxes Receivable	5,069,518.70		1,678.01	0.00	0.00		5,071,196.71
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	187,844.49	0.00	0.00	0.00	0.00	0.00	187,844.49
Accounts Receivable	81,679.51	0.00	0.00	0.00	4,000.00	0.00	85,679.51
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	75,033.55	0.00		0.00			75,033.55
Prepaid Items	559,258.86	0.00			949,196.48	0.00	1,508,455.34
Investments	4,881,690.19	139,459.89	103,397.98	5,706.12	137,052.90	0.00	5,267,307.08
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>9,154,185.31</b>	<b>157,953.58</b>	<b>105,075.99</b>	<b>5,706.12</b>	<b>1,088,049.38</b>	<b>0.00</b>	<b>10,510,970.38</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>9,154,185.31</b>	<b>157,953.58</b>	<b>105,075.99</b>	<b>5,706.12</b>	<b>1,088,049.38</b>	<b>0.00</b>	<b>10,510,970.38</b>
<b>LIABILITIES:</b>							
Accounts Payable	501,712.31	3,653.40	0.00	0.00	0.00	0.00	505,365.71
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	39,893.58	0.00		0.00			39,893.58
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

The accompanying notes are an integral part of this financial statement.

East Valley School District (Spokane) No. 361

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	5,097.18	0.00		0.00			5,097.18
Due To Other Governmental Units	3,563.72	238.77		0.00	0.00		3,802.49
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	35,011.07						35,011.07
Due To Other Funds	0.00	0.00	0.00	0.00	0.00		0.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>585,277.86</b>	<b>3,892.17</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>589,170.03</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Unavailable Revenue - Taxes Receivable	5,069,518.70		1,678.01	0.00	0.00		5,071,196.71
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>5,069,518.70</b>	<b>0.00</b>	<b>1,678.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>5,071,196.71</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	634,292.41	0.00	0.00	0.00	0.00		634,292.41
Restricted Fund Balance	11,978.29	154,061.41	103,397.98	0.00	1,088,049.38		1,357,487.06
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00		0.00
Assigned Fund Balance	1,287,073.00	0.00	0.00	5,706.12	0.00		1,292,779.12
Unassigned Fund Balance	1,566,045.05	0.00	0.00	0.00	0.00		1,566,045.05
<b>TOTAL FUND BALANCE</b>	<b>3,499,388.75</b>	<b>154,061.41</b>	<b>103,397.98</b>	<b>5,706.12</b>	<b>1,088,049.38</b>	<b>0.00</b>	<b>4,850,603.64</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>9,154,185.31</b>	<b>157,953.58</b>	<b>105,075.99</b>	<b>5,706.12</b>	<b>1,088,049.38</b>	<b>0.00</b>	<b>10,510,970.38</b>

The accompanying notes are an integral part of this financial statement.



East Valley School District (Spokane) No. 361

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	10,904,735.77	274,733.09	-24.24	247.60	2,826.15		11,182,518.37
State	33,657,573.48		0.00	0.00	200,335.97		33,857,909.45
Federal	3,215,221.18		0.00	0.00	0.00		3,215,221.18
Federal Stimulus	0.00						0.00
Other	0.00			0.00	0.00	0.00	0.00
<b>TOTAL REVENUES</b>	<b>47,777,530.43</b>	<b>274,733.09</b>	<b>-24.24</b>	<b>247.60</b>	<b>203,162.12</b>	<b>0.00</b>	<b>48,255,649.00</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	23,174,040.55						23,174,040.55
Federal Stimulus	0.00						0.00
Special Education	5,634,195.90						5,634,195.90
Vocational Education	1,440,719.02						1,440,719.02
Skill Center	0.00						0.00
Compensatory Programs	3,390,173.83						3,390,173.83
Other Instructional Programs	269,986.02						269,986.02
Community Services	54,383.77						54,383.77
Support Services	11,209,242.84						11,209,242.84
Student Activities/Other		279,440.27				0.00	279,440.27
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				0.00			0.00
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					323,171.91		323,171.91
Sales and Lease				0.00			0.00
Other	121,781.82						121,781.82
<b>DEBT SERVICE:</b>							
Principal	0.00		551,361.83	0.00	0.00		551,361.83
Interest and Other Charges	0.00		227,410.65	0.00	0.00		227,410.65
Bond/Levy Issuance			0.00	0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>45,294,523.75</b>	<b>279,440.27</b>	<b>778,772.48</b>	<b>0.00</b>	<b>323,171.91</b>	<b>0.00</b>	<b>46,675,908.41</b>

The accompanying notes are an integral part of this financial statement.

East Valley School District (Spokane) No. 361

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	2,483,006.68	-4,707.18	-778,796.72	247.60	-120,009.79	0.00	1,579,740.59
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	915,000.00		915,000.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		721,101.00	0.00	0.00		721,101.00
Transfers Out (GL 536)	-665,000.00		0.00	-35,000.00	-21,101.00	0.00	-721,101.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	700.00		0.00	0.00	0.00		700.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-664,300.00</b>		<b>721,101.00</b>	<b>-35,000.00</b>	<b>893,899.00</b>	<b>0.00</b>	<b>915,700.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>1,818,706.68</b>	<b>-4,707.18</b>	<b>-57,695.72</b>	<b>-34,752.40</b>	<b>773,889.21</b>	<b>0.00</b>	<b>2,495,440.59</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>1,680,682.07</b>	<b>158,768.59</b>	<b>161,093.70</b>	<b>40,458.52</b>	<b>314,160.17</b>	<b>0.00</b>	<b>2,355,163.05</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>3,499,388.75</b>	<b>154,061.41</b>	<b>103,397.98</b>	<b>5,706.12</b>	<b>1,088,049.38</b>	<b>0.00</b>	<b>4,850,603.64</b>

The accompanying notes are an integral part of this financial statement.

# EAST VALLEY SCHOOL DISTRICT

## Notes To Financial Statements

September 1, 2014 Through August 31, 2015

### **Note 1: Summary of significant accounting policies (SSAP)**

The East Valley School District is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in Grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) District wide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplemental information.
- (3) Supplementary information required by GAAP is not presented.

### **Fund Accounting**

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

### **Governmental Funds**

#### *General Fund*

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

### *Capital Projects Fund*

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

### *Debt Service Fund*

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principle and interest.

### *Special Revenue Fund*

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

### *Permanent Funds*

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual.

### **Measurement focus, basis of accounting and fund financial statement presentation.**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

## **Budgets**

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

**The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.**

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

**The government's fund balance classifications policies and procedures.**

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Superintendent and Assistant Superintendent of Operations are the only persons who have the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

## **Cash and Cash Equivalents**

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

## **Inventory**

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities Accounting and Reporting Changes for 2014–15

## **Accounting and Reporting Changes for 2014-15**

Effective for the 2014–15 school year, the district implemented provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a result, the Schedule of Long-Term Liabilities now includes the district's proportionate share of the net pension liability for the cost-sharing, multiple-employer plans in which the district participates.

## **Note 2: Cash deposits with financial institutions**

The Spokane County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District's investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

The District's investments as of August 31, 2015, are as follows:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	GF 4,881,690.19	GF 4,881,733.48
	CPF 5,706.12	CPF 5,706.17
	DSF 103,397.98	DSF 103,398.90
	ASB 139,459.89	ASB 139,461.13
	TVF 137,052.90	TVF 137,054.12
Total Investments	5,267,307.08	5,267,353.80

## **Note 3: Significant contingent liabilities**

The District received notice of a basic education finding on October 6, 2014. The finding is in regards to the St. Charles/Keys cooperative. School Year 2012-13 apportionment for the program, amounting to \$1,165,096, is questioned due to the inability to separately identify basic education instruction from private school coursework. The matter has been referred to the Office of the Superintendent of Public Instruction under the Audit Resolution Process, chapter 392-115 WAC.

There were no other events after the balance sheet date that would have a material impact on the next or future fiscal years.

### **Litigation**

The District has no known legal obligations that would materially impact the financial position of the District.

## **Note 4: Significant effects of subsequent events**

There were no significant effects of subsequent events at the balance sheet date that would have a material impact on the next or future fiscal years.

## **Note 5: Annual pension cost and net pension obligations**

### **General Information**

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

### **Membership Participation**

Substantially all school district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2015, was as follows:

Plan	Active Members	Inactive Vested Members	Retired Members
PERS 1	4,782	1,178	51,070
SERS 2	22,950	5,357	5,796
SERS 3	30,832	6,963	4,825
TRS 1	1,824	323	35,639
TRS 2	13,632	2,357	3,894
TRS 3	51,837	7,655	6,094

The latest actuarial valuation date for all plans was June 30, 2014.

Source: Washington State Office of the State Actuary

### **Membership & Plan Benefits**

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.



TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

## Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Pension Rates			
	7/1/15 Rate	7/1/14 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	9.21%	
Pension Rates			
	9/1/15 Rate	9/1/14 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	10.39%	
<b>TRS 2</b>			
Member Contribution Rate	5.95%	4.96%	
Employer Contribution Rate	13.13%	10.39%	
<b>TRS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	10.39%	**
<b>SERS 2</b>			
Member Contribution Rate	5.63%	4.64%	
Employer Contribution Rate	11.58%	9.82%	
<b>SERS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	9.82%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

## The Collective Net Pension Liability

The collective net pension liabilities for the pension plans districts participated in are reported in the following tables.

The Net Pension Liability as of June 30, 2015:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,789,242	\$4,473,428	\$9,237,730	\$11,220,833
Plan fiduciary net position	(\$7,558,312)	(\$4,067,277)	(\$6,069,588)	(\$10,377,031)
Participating employers' net pension liability	\$5,230,930	\$406,151	\$3,168,142	\$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

## The School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the school district reported a total liability of \$21,834,195 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$288,399	\$397,573	\$943,713	\$1,111,791
Proportionate Share of the Net Pension Liability	\$3,282,427	\$1,660,893	\$13,360,711	\$3,530,164

At June 30, 2015, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the changed in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.062750%	0.408935%	0.421721%	0.418364%
Prior year proportionate share of the Net Pension Liability	0.055735%	0.397854%	0.409655%	0.404588%
Net difference percentage	<b>0.007015%</b>	<b>0.011081%</b>	<b>0.012066%</b>	<b>0.013776%</b>

## Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

## Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

## Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return;
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50% percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

### **Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the East Valley School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>PERS1 NPL</b>	\$6,368,671,000	\$5,230,930,000	\$4,252,577,000
Allocation Percentage	0.062750%	0.062750%	0.062750%
Proportionate Share of Collective NPL	\$3,996,363	\$3,282,427	\$2,668,507
<b>SERS2/3 NPL</b>	\$1,282,039,000	\$406,151,000	(\$273,474,000)
Allocation Percentage	0.408935%	0.408935%	0.408935%
Proportionate Share of Collective NPL	\$5,242,703	\$1,660,893	(\$1,118,330)
<b>TRS1 NPL</b>	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
Allocation Percentage	0.421721%	0.421721%	0.421721%
Proportionate Share of Collective NPL	\$16,795,327	\$13,360,711	\$10,407,228
<b>TRS2/3 NPL</b>	\$3,570,229,000	\$843,802,000	(\$1,183,066,000)
Allocation Percentage	0.418364%	0.418364%	0.418364%
Proportionate Share of Collective NPL	\$14,963,555	\$3,530,164	(\$4,949,523)

**Note 6: Annual other post-employment benefit cost and net OPEB obligations**

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life insurance and long-term disability insurance.



Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2014-15, the District was required to pay the HCA \$66.64 per month per full-time equivalent employee to support the program, for a total payment of \$398,907.04. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

#### **Note 7: Commitments under noncapitalized (operating) leases**

For the fiscal year ended August 31, 2015, the District has not incurred additional long-term debt.

#### **Note 8: Construction and other significant commitments, including encumbrances, if appropriate**

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/15 (Final)	Additional Local Funds Committed	Additional State Funds Committed
N.A.	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0



## Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2015:

Fund	Amount
General	\$0.00

## **Note 9: Required disclosures about capital assets**

The District's capital assets are insured in the amount of \$180,077,439 for fiscal year 2015. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **Note 10: Required disclosures about long-term liabilities**

### **Long-Term Debt**

Bonds payable at August 31, 2015, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2004 LGO	\$ 210,000	\$12,000-\$21,000	12/01/17	4.43%	\$ 60,000
2006 LGO	\$ 1,000,000	\$13,911-\$89,800	12/01/21	4.82%	\$ 526,425
2011 LGO	\$ 87,000	\$0	12/01/16	3.00%	\$ 87,000
2012 LGO	\$ 6,200,000	\$247,092-\$526,349	12/01/27	3.25%	\$ 5,195,751
2015 LGO	\$ 915,000	\$65,000-\$450,000	12/01/16	.72%	\$ 915,000
Total General Obligation Bonds	\$ 8,412,000				\$ 6,784,176

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2015:

Long-Term Debt Payable at 9/1/2014	\$ 6,420,538.24
New Issues	\$ 915,000.00
Debt Retired	\$ 551,361.83
Long-Term Debt Payable at 8/31/2015	\$ 6,784,176.41

The following is a schedule of annual requirements to amortize debt at August 31, 2015:

Years Ending August 31	Principal	Interest	Total
2016	\$ 965,162	\$ 201,031	\$ 1,166,193
2017	\$ 953,422	\$ 179,367	\$ 1,132,789
2018	\$ 483,237	\$ 159,886	\$ 643,123
2019	\$ 478,629	\$ 143,021	\$ 621,650
2020	\$ 495,618	\$ 126,032	\$ 621,650
2021	\$ 513,228	\$ 108,422	\$ 621,650
2022	\$ 483,831	\$ 90,168	\$ 573,999
2023	\$ 451,630	\$ 74,719	\$ 526,349
2024	\$ 466,427	\$ 59,922	\$ 526,349
2025	\$ 481,709	\$ 44,640	\$ 526,349
2026	\$ 497,492	\$ 28,857	\$ 526,349
2027	\$ 513,791	\$ 12,558	\$ 526,349
Total	\$6,784,176	\$1,228,623	\$8,012,799

At August 31, 2015, the District had \$103,397.98 available in the Debt Service Fund to service the general obligation bonds.

### **Note 11: Interfund balances and transfers**

The following table depicts interfund loan activity:

Debtor Fund	Due To	Balance at 9/1/2014	Loan Activity		Balance at 8/31/2015
			New Loans	Repayments	
Transportation Vehicle Fund	General Fund	\$0	\$35,000	\$35,000	\$0
Totals		\$0	\$35,000	\$35,000	\$0

The following table depicts interfund transfer activity:

Transfer From	Transfer To	Transfer Amount
General Fund	Debt Service Fund	\$665,000
Capital Projects Fund	Debt Service Fund	\$ 35,000
Transportation Vehicle Fund	Debt Service Fund	\$ 21,101
Total		\$721,101

## **Note 12: Entity Risk Management Activities**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

### **WORKERS COMPENSATION COOPERATIVE**

The District made payments totaling \$309,541.43 to the industrial insurance pool, which is administered by Educational Service District No. 101 on behalf of several local school districts for fiscal year 2015. These funds are operated for the District's benefit in lieu of the District having to make monthly premium payments to the State of Washington for industrial insurance beneficiaries as they occur and minimizes the District's cost for the programs.

### **UNEMPLOYMENT COOPERATIVE**

The District is a self-insurer of unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington Department of Employment Security and then reimbursed by the District. This self-insurance program costs the District less than full participation in the state unemployment compensation program. The District made unemployment compensation payments totaling \$28,264 in fiscal year 2015, and has set aside \$35,011 in payables for fiscal year 2015 to ensure payment of these claims.

### **VISION SELF-INSURANCE PROGRAM**

The District is a self-insurer providing vision benefits to all its eligible employees. Pre-established premiums were deducted from each employee's paycheck and remitted to Northwest Administrators, Inc, which provided administrative services and paid claims for the District. Northwest Administrators, Inc. reported plan income of \$117,737.70 and claims expenses of \$125,569.80. The cash balance is composed of premiums paid for their personal benefit and is considered an asset of the District. Reserve balance held by Northwest Administrators, Inc as of August 31, 2015 is \$44,745.81.

### **CASUALTY INSURANCE**

The East Valley School District is a member of Schools Insurance Association of Washington (SIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995 when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW program has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for

Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, Earthquake, Liability, Automotive Liability, Equipment Breakdown, Crime, Employee Benefits, and Wrongful Act Liability.

The program acquires Liability insurance through their Administrator, Canfield, that is subject to a per-occurrence of \$100,000. Members are responsible for a \$2,500 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,105,342, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence self-insured retention of \$250,000. Members are responsible for a \$10,000 deductible amount for each claim. The program is responsible for the remaining \$250,000 self-insured retention. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000.00. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for a minimum of one year, and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2015, were \$3,207,420.39.

A Board of Directors of eight members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

### **Note 13: Property taxes**

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

## **Note 14: Joint ventures and jointly governed organizations**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association on October 14, 1987, and has remained in the joint venture ever since. The District's current equity of \$3,951.28 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

## **Note 15: Fund balance classification details**

The District's financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
<b>Nonspendable Fund Balance</b>					
Inventory and Prepaid Items	\$634,292				
<b>Restricted Fund Balance</b>					
Carryover of Restricted Revenues	\$11,978				
Debt Service				\$103,398	
Other Items		\$154,061			1,088,049
<b>Committed Fund Balance</b>					
<b>Assigned Fund Balance</b>					
Other Purposes	\$1,287,073		\$5,706		
Fund Purposes					
<b>Unassigned Fund Balance</b>	\$1,566,045				

## **Note 16: Post-employment benefit plans other than pension plans—both in separately issued plan financial statements and employer statements**

### **457 Plan – Deferred Compensation Plan**

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan.

### **403(b) Plan – Tax Sheltered Annuity (TSA)**

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by CPI Qualified Plan Consultants, Inc. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

## **Note 17: Termination benefits**

### **Compensated Absences**

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

## **Note 18: Other Items**

There are no other items to disclose.

East Valley School District (Spokane) No. 361  
Schedule of Long-Term Liabilities: GENERAL FUND  
For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,437,753.08	75,561.60	18,678.57	1,494,636.11	352,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	13,360,711.00	0.00	13,360,711.00	
Net Pension Liabilities TRS 2/3	0.00	3,530,164.00	0.00	3,530,164.00	
Net Pension Liabilities SERS 2/3	0.00	1,660,893.00	0.00	1,660,893.00	
Net Pension Liabilities PERS 1	0.00	3,282,427.00	0.00	3,282,427.00	
Total Long-Term Liabilities	1,437,753.08	21,909,756.60	18,678.57	23,328,831.11	352,000.00

East Valley School District (Spokane) No. 361

Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	6,420,538.24	915,000.00	551,361.83	6,784,176.41	965,161.96
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	6,420,538.24	915,000.00	551,361.83	6,784,176.41	965,161.96



**EAST VALLEY SCHOOL DISTRICT #361**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ending August 31, 2015

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Department of Agriculture								
	OSPI	School Breakfast Program	10.553	32-361		\$ 241,711.22	\$ 241,711.22	
	OSPI	National School Lunch Program - Cash Assistance	10.555	32-361		\$ 857,237.29	\$ 857,237.29	
	OSPI	National School Lunch Program - Non-Cash (Commodities)	10.555	32-361		\$ 132,221.24	\$ 132,221.24	3
		Subtotal National School Lunch Program				\$ 989,458.53	\$ 989,458.53	
	OSPI	Child and Adult Care Food Program	10.558	32-361		\$ 12,669.26	\$ 12,669.26	
	OSPI	Summer Food Service Program for Children	10.559	32-361		\$ 43,500.84	\$ 43,500.84	
	OSPI	NSLP Equipment Assistance Grant	10.579	710126		\$ 44,307.00	\$ 44,307.00	
	OSPI	Fresh Fruit and Vegetable Grant	10.582	32-361		\$ 30,146.45	\$ 30,146.45	
		Subtotal Other Food and Nutrition Program				\$ 130,623.55	\$ 130,623.55	
		<b>USDA Subtotal</b>				<b>\$ 1,361,793.30</b>	<b>\$ 1,361,793.30</b>	
U.S. Department of Interior								
		Payment in Lieu of Taxes	15.226	N/A	\$ 2.52		\$ 2.52	
		<b>Department of Interior Subtotal</b>			<b>\$ 2.52</b>		<b>\$ 2.52</b>	
U.S. Department of Education								
	OSPI	Title I Grants to Local Educational Agencies	84.010	0201771		\$ 710,821.19	\$ 710,821.19	4,5
	OSPI	Special Education - Grants to State Agencies (IDEA, Part B)	84.027A	0305074		\$ 776,148.52	\$ 776,148.52	2,4,5
	OSPI	Career and Technical Education - Basic Grants to State Agencies	84.048	0173361		\$ 29,682.00	\$ 29,682.00	2,5
	ESD 101	WaKIDS	84.412	0619901		\$ 1,724.24	\$ 1,724.24	2
	OSPI	Special Education - Preschool Grants (IDEA Preschool)	84.173A	0363073		\$ 25,720.00	\$ 25,720.00	2,5
	OSPI	English Language Acquisition State Grants	84.365	0402124		\$ 2,919.02	\$ 2,919.02	5
	OSPI	Special Education Safety Net IDEA Part B	84.027A	0337718		\$ 10,834.00	\$ 10,834.00	5
	OSPI	Improving Teacher Quality State Grants	84.367	0523644		\$ 226,405.00	\$ 226,405.00	5
		<b>Department of Education Subtotal</b>				<b>\$ 1,784,253.97</b>	<b>\$ 1,784,253.97</b>	
<b>Total</b>					<b>\$ 2.52</b>	<b>\$ 3,146,047.27</b>	<b>\$ 3,146,049.79</b>	

*The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

# **EAST VALLEY SCHOOL DISTRICT NO. 361**

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

### NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District's financial statements. The East Valley School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

### NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, may be more than shown.

### NOTE 3 - NONCASH AWARDS

The amount of food commodities reported on the schedule is the market value of commodities distributed by the East Valley School District during the current year. The USDA determines the value.

### NOTE 4 - SCHOOLWIDE PROGRAMS

The District operates a "schoolwide program" in two K-8 buildings (Trent and Trentwood K-8 Schools). Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide program: Title I (84.010) \$419,069.77; IDEA Part B (Title 84.027) \$208,511.43.

### NOTE 5 - FEDERAL INDIRECT RATE

The East Valley School District used the federal restricted rate of 3.62 percent for this program.

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

### East Valley School District No. 361 Spokane County

**September 1, 2014 through August 31, 2015**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the East Valley School District No. 361.

<b>Finding ref number:</b> 2015-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant.
<b>Name, address, and telephone of auditee contact person:</b> Brian Aiken, Assistant Superintendent of Operations 3830 North Sullivan Spokane Valley, WA 99216 (509) 241-5025	
<b>Corrective action the auditee plans to take in response to the finding:</b> The request to change from a school-wide plan to a targeted assistance plan during the 2014-15 school year was not approved. As of the 2015-16 school fiscal year, the District operates a targeted assistance plan. Suspension and debarment procedures were reviewed and up-dated to ensure compliance documentation is retained.	
<b>Anticipated date to complete the corrective action:</b> <i>Completed.</i>	
<b>Finding ref number:</b> 2015-002	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with procurement requirements.
<b>Name, address, and telephone of auditee contact person:</b> Brian Aiken, Assistant Superintendent of Operations 3830 North Sullivan Spokane Valley, WA 99216 (509) 241-5025	
<b>Corrective action the auditee plans to take in response to the finding:</b> District purchasing procedures were reviewed and revised to ensure compliance with State, Federal, and Local procurement requirements.	
<b>Anticipated date to complete the corrective action:</b> <i>Completed.</i>	

## ABOUT THE STATE AUDITOR'S OFFICE

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