



**Washington State Auditor's Office**

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

## **Port Angeles School District No. 121**

**Clallam County**

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

**Published May 26, 2016**

**Report No. 1016808**





## Washington State Auditor's Office

May 26, 2016

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

Please find attached our report on Port Angeles School District No. 121'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 black ink that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Port Angeles School District No. 121**  
**Clallam County**  
**September 1, 2014 through August 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Port Angeles School District No. 121 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an unmodified opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP).

##### 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 identified 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 Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with OMB Circular A-133.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
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.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2015-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Port Angeles School District No. 121 Clallam 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 program.**

<b>CFDA Number and Title:</b>	84.010 – Title I 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>	NA
<b>Questioned Cost Amount:</b>	\$67,032

#### *Description of Condition*

During fiscal year 2015, the District spent \$833,396 in Title I program funds. 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 high concentrations of children from low-income families.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District's internal controls were not adequate to ensure compliance with the allowable costs, eligibility, earmarking, and comparability requirements.

#### **Allowable Costs**

We audited the District's internal controls over payroll to determine if salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending upon the number and type of activities employees work, time and effort documentation can be on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

The District was unable to demonstrate there was an adequate internal control process in place to ensure payroll costs charged to the grant were allowable and all required time and effort documentation was obtained. The District did not obtain 66 percent of the required semi-annual certifications.

We consider this deficiency in internal controls to be a material weakness.

### **Eligibility**

The District is required to allocate grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher amount per low-income child to areas or schools with lower percentages of poverty than areas with higher percentages.

The District was unable to demonstrate there was an adequate internal control process in place to ensure the allocation of grant funds to schools was in compliance with these regulations. The District's allocation of Title I funding to five elementary schools and the alternative high school for fiscal year 2015 was not based on the higher percentage of poverty.

We consider this deficiency in internal controls to be a material weakness.

### **Earmarking**

Districts identified for school improvement are required to commit to spend not less than 10 percent of the total Title I grant award for professional development. If the District does not spend the entire amount set aside, it must carry the unspent amount over to the following year and add it to the amount set aside for that year.

The District was unable to demonstrate there was an adequate internal control process in place to ensure funds committed to be spent on professional development were either spent for that purpose or appropriately carried over. The District spent only 18 percent of the funds committed to be spent on professional development during fiscal year 2015, and did not appropriately carry over the unspent balance.

We consider this deficiency in internal controls to be a significant deficiency.

### **Comparability**

School Districts are required to use state and local funds to provide services in Title I schools that are substantially comparable to the services provided in non-Title I schools within the same grade span. If a district serves all schools

within a grade span with Title I funds, it must use state and local funds to provide services that are substantially comparable in each Title I school.

The District was unable to demonstrate there was an adequate control process in place to ensure compliance with comparability requirements. The District did not include its secondary schools in the comparability report submitted to the Office of Superintendent of Public Instruction (OSPI), and was unable to provide documentation to support the elementary school data submitted in the comparability report.

We consider this deficiency in internal controls to be a significant deficiency.

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

The District did not dedicate the necessary resources to ensure compliance with grant requirements.

Furthermore, the District experienced turnover in the positions responsible for overseeing the program requirements, and did not assign responsibility to an alternative employee during the transitions.

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

#### **Allowable Costs**

Without adequate monitoring to ensure transactions are allowable and supported by the required documentation, granting agencies cannot be assured expenditures charged to the program are accurate and allowable. The District's noncompliance with grant requirements can jeopardize future federal funding and may require them to return federal funds to the grantor.

Our audit found the District did not obtain 37 of 56 semi-annual time and effort certifications required to support payroll costs. Payroll costs associated with the missing certifications totaled \$513,701. We were able to obtain documentation to demonstrate the payroll costs charged to the grant were allowable; therefore, we did not question these costs.

However, our audit found that payroll costs totaling \$1,988 were charged to the grant for services provided to a private school which had declined Title I services; we are questioning these costs.

#### **Eligibility**

Without adequate internal controls in place to ensure funds are properly allocated based on percentage of poverty, the type and nature of services provided at schools with higher percentages of poverty may be unfairly limited.

## **Earmarking**

Without adequate internal controls in place to ensure funds committed to be spent for professional development are spent for that purpose or carried over and designated to be spent for professional development in the following year, granting agencies cannot be assured grant funds are being spent for the intended purpose. The District's noncompliance with earmarking requirements can jeopardize future federal funding and may require it to return federal funds to the grantor.

Our audit found that the District committed \$79,631 to be spent for professional development during fiscal year 2015. However, the District only spent \$14,587 for that purpose and could not demonstrate the remaining \$65,044 was carried over and designated for professional development in the following year; we are questioning these costs.

## **Comparability**

Without adequate controls in place, the District cannot ensure that schools receiving Title I funding receive services that are substantially comparable to services received by other schools.

The District's five elementary schools were all served with Title I funds. Based on the data obtained during the audit, one of the elementary schools did not receive services that were substantially comparable to services received in the other four elementary schools.

## ***Recommendation***

We recommend the District:

- Ensure those responsible for monitoring compliance with grant requirements receive adequate training to perform their duties.
- Improve its monitoring process to ensure payroll costs charged to the grant are allowable and supported by the appropriate time and effort documentation in accordance with federal requirements.
- Design and follow internal controls to ensure Title I funds are properly allocated to school attendance areas in accordance with federal requirements.
- Design and follow internal controls to ensure funds committed to be spent for professional development are spent for that purpose or appropriately

carried over and designated to be spent for professional development in the following year.

- Design and follow internal controls to ensure the comparability report is complete, accurate and adequately supported and that schools receiving Title I funds receive services that are substantially comparable to those received by other schools.
- Contact OSPI to determine the amount of funds that should be recovered.

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

*It is the district's opinion that the Title I money we received was spent in accordance with the overall objectives of the grant in all material respects. However, the district agrees that improvements can be made to its controls over compliance requirements and pledges its support in making improvements.*

*Recent employee turnover in key positions within the district seem to be the primary cause of the conditions so noted in this finding. The district has already taken action to secure the proper training of key personnel and has retained a consultant with significant years of experience with federal Title programs to work with key personnel in determining appropriate measures of monitoring and tracking of compliance.*

*Improvements to compliance controls will be implemented as soon as possible.*

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

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

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

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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.

*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.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Attachment B, Section 8(h), states, in part:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non Federal award,

- (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after the fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

Title 34, Code of Federal Regulations, Section 200.78 – Allocation of funds to school attendance areas and schools, states in part:

- (a)(1) An LEA must allocate funds under subpart A of this part to school attendance areas and schools, identified as eligible and selected to participate under section 1113(a) or (b) of the ESEA, in rank order on the basis of the total number of children from low income families in each area or school.
- (3) If an LEA ranks its school attendance areas and schools by grade span groupings, the LEA may determine the percentage of children from low-income families in the LEA as a whole or for each grade span grouping.

Title 20 United States Code Section 6313 - Eligible school attendance areas, states in part:

- (c) Allocations

(1) In general a local educational agency shall allocate funds received under this part to eligible school attendance areas or eligible schools, identified under subsections (a) and (b) of this section, in rank order, on the basis of the total number of children from low-income families in each area or school.

Title 20 United States Code Section 6316 – Academic assessment and local educational agency and school improvement, states in part:

(c) State review and local educational agency improvement

(7) Local educational agency revisions

(A) Plan

Each local educational agency identified under paragraph (3) shall, not later than 3 months after being so identified, develop or revise a local educational agency plan, in consultation with parents, school staff, and others. Such plan shall—

(iii) address the professional development needs of the instructional staff serving the agency by committing to spend not less than 10 percent of the funds received by the local educational agency under subpart 2 of this part for each fiscal year in which the agency is identified for improvement for professional development (including funds reserved for professional development under subsection (b)(3)(A)(iii) of this section), but excluding funds reserved for professional development under section 6319 of this title;

Title 20 United States Code Section 6321 (c) Comparability of Services states:

(c) Comparability of services

(1) In general

(A) Comparable services

Except as provided in paragraphs (4) and (5), a local educational agency may receive funds under this part only if State and local funds will be used in

schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part.

(B) Substantially comparable services

If the local educational agency is serving all of such agency's schools under this part, such agency may receive funds under this part only if such agency will use State and local funds to provide services that, taken as a whole, are substantially comparable in each school.

(C) Basis

A local educational agency may meet the requirements of subparagraphs (A) and (B) on a grade-span by grade-span basis or a school-by-school basis.

(2) Written assurance

(A) Equivalence

A local educational agency shall be considered to have met the requirements of paragraph (1) if such agency has filed with the State educational agency a written assurance that such agency has established and implemented—

- (i) a local educational agency-wide salary schedule;
- (ii) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and
- (iii) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.

(B) Determinations

For the purpose of this subsection, in the determination of expenditures per pupil from State

and local funds, or instructional salaries per pupil from State and local funds, staff salary differentials for years of employment shall not be included in such determinations.

(C) Exclusions

A local educational agency need not include unpredictable changes in student enrollment or personnel assignments that occur after the beginning of a school year in determining comparability of services under this subsection.

(3) Procedures and records

Each local educational agency assisted under this part shall:

(A) develop procedures for compliance with this subsection; and

(B) maintain records that are updated biennially documenting such agency's compliance with this subsection.

(4) Inapplicability

This subsection shall not apply to a local educational agency that does not have more than one building for each grade span.

(5) Compliance

For the purpose of determining compliance with paragraph (1), a local educational agency may exclude State and local funds expended for:

(A) language instruction educational programs; and

(B) the excess costs of providing services to children with disabilities as determined by the local educational agency.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Port Angeles School District No. 121 Clallam 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 Port Angeles School District No. 121. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> 9/1/2013-8/31/2014	<b>Report Ref. No.:</b> 1014427	<b>Finding Ref. No.:</b> 2014-001	<b>CFDA Number(s):</b> 84.010
<b>Federal Program Name and Granting Agency:</b> Title I – 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 Title I requirements.			
<b>Background:</b> There were two issues: <ol style="list-style-type: none"> <li>1. The fiscal year 2014 audit found that the District did not adequately monitor the allocation of grant funds to ensure Title I grant funds were allocated to schools based on the higher percentage of poverty.</li> <li>2. The audit also found that the District did not have a schoolwide plan for each school in the District as required by the granting agency; instead they had one Districtwide plan which covered all the schools.</li> </ol>			
<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>Issue #2 is resolved – The district is reviewing schoolwide plans on an annual basis and setting aside goals and objectives by individual school, in accordance with the guidelines provided by the state Office of Superintendent of Public Instruction.</i>  <i>Issue #1 is being addressed – Title I grant funds were allocated with consideration for each school, but the poverty levels were not considered. This was a training issue. The district will allocate resources for administrators and staff in charge of Title I funding to receive the proper training and guidance with respect to Title I funding.</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**

**Port Angeles School District No. 121  
Clallam County  
September 1, 2014 through August 31, 2015**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, 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 Port Angeles School District No. 121, Clallam 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 23, 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

May 23, 2016

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

**Port Angeles School District No. 121  
Clallam County  
September 1, 2014 through August 31, 2015**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

We have audited the compliance of Port Angeles School District No. 121, Clallam 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 the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of 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 Award Findings and Questioned Costs as Finding 2015-001. 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 Award 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 and significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2015-001 to be material weaknesses.

*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 Award Findings and Questioned Costs as Finding 2015-001 to be significant deficiencies.

### **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 Award 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 23, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port Angeles School District No. 121 Clallam County September 1, 2014 through August 31, 2015**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

We have audited the accompanying financial statements of Port Angeles School District No. 121, Clallam 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 28.

### **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 Port Angeles School District No. 121, 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 23, 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 23, 2016

## **FINANCIAL SECTION**

**Port Angeles School District No. 121  
Clallam 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  
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### **SUPPLEMENTARY AND OTHER INFORMATION**

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

Port Angeles School District No. 121

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	1,215,952.64	10,375.00	0.00	37,303.80	0.00	0.00	1,263,631.44
Minus Warrants Outstanding	-1,164,721.32	0.00	0.00	-37,303.80	0.00	0.00	-1,202,025.12
Taxes Receivable	3,832,636.65		537,667.97	0.00	0.00	0.00	4,370,304.62
Due From Other Funds	0.00	0.00	0.00	24,036.84	0.00	0.00	24,036.84
Due From Other Governmental Units	791,468.87	0.00	0.00	0.00	0.00	0.00	791,468.87
Accounts Receivable	44,415.52	0.00	0.00	0.00	0.00	0.00	44,415.52
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	148,650.36	0.00		0.00			148,650.36
Prepaid Items	99,634.51	0.00			0.00	0.00	99,634.51
Investments	4,355,388.53	419,309.86	1,670,935.06	1,150,007.72	377,585.37	0.00	7,973,226.54
Investments/Cash With Trustee			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>9,323,425.76</b>	<b>429,684.86</b>	<b>2,208,603.03</b>	<b>1,174,044.56</b>	<b>377,585.37</b>	<b>0.00</b>	<b>13,513,343.58</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>9,323,425.76</b>	<b>429,684.86</b>	<b>2,208,603.03</b>	<b>1,174,044.56</b>	<b>377,585.37</b>	<b>0.00</b>	<b>13,513,343.58</b>
<b>LIABILITIES:</b>							
Accounts Payable	399,743.74	-26.81	0.00	37,397.69	0.00	0.00	437,114.62
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Port Angeles School District No. 121

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	42,998.67	0.00		0.00			42,998.67
Due To Other Governmental Units	5,790.12	0.00		0.00	0.00		5,790.12
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	24,036.84	0.00	0.00	0.00	0.00	0.00	24,036.84
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>472,569.37</b>	<b>-26.81</b>	<b>0.00</b>	<b>37,397.69</b>	<b>0.00</b>	<b>0.00</b>	<b>509,940.25</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	31,256.28	0.00	0.00	0.00	0.00	0.00	31,256.28
Unavailable Revenue - Taxes Receivable	3,832,636.65		537,667.97	0.00	0.00		4,370,304.62
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>3,863,892.93</b>	<b>0.00</b>	<b>537,667.97</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4,401,560.90</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	248,284.87	0.00	0.00	0.00	0.00	0.00	248,284.87
Restricted Fund Balance	113,485.97	429,711.67	1,670,935.06	0.00	377,585.37	0.00	2,591,718.07
Committed Fund Balance	1,589,701.00	0.00	0.00	0.00	0.00	0.00	1,589,701.00
Assigned Fund Balance	250,000.00	0.00	0.00	1,136,646.87	0.00	0.00	1,386,646.87
Unassigned Fund Balance	2,785,491.62	0.00	0.00	0.00	0.00	0.00	2,785,491.62
<b>TOTAL FUND BALANCE</b>	<b>4,986,963.46</b>	<b>429,711.67</b>	<b>1,670,935.06</b>	<b>1,136,646.87</b>	<b>377,585.37</b>	<b>0.00</b>	<b>8,601,842.43</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>9,323,425.76</b>	<b>429,684.86</b>	<b>2,208,603.03</b>	<b>1,174,044.56</b>	<b>377,585.37</b>	<b>0.00</b>	<b>13,513,343.58</b>

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

Port Angeles School District No. 121

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	9,264,568.83	316,547.83	1,223,653.86	24,420.10	3,131.05		10,832,321.67
State	28,143,174.80		12,628.03	0.00	133,434.16		28,289,236.99
Federal	3,548,970.37		112.54	0.00	0.00		3,549,082.91
Federal Stimulus	0.00						0.00
Other	7,682.02			0.00	0.00	0.00	7,682.02
<b>TOTAL REVENUES</b>	<b>40,964,396.02</b>	<b>316,547.83</b>	<b>1,236,394.43</b>	<b>24,420.10</b>	<b>136,565.21</b>	<b>0.00</b>	<b>42,678,323.59</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	20,624,693.84						20,624,693.84
Federal Stimulus	0.00						0.00
Special Education	5,545,676.58						5,545,676.58
Vocational Education	1,095,627.46						1,095,627.46
Skill Center	1,232,490.49						1,232,490.49
Compensatory Programs	2,174,730.28						2,174,730.28
Other Instructional Programs	521,724.79						521,724.79
Community Services	0.00						0.00
Support Services	8,280,958.26						8,280,958.26
Student Activities/Other		292,374.87				0.00	292,374.87
<b>CAPITAL OUTLAY:</b>							
Sites				120,189.58			120,189.58
Building				275,534.53			275,534.53
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					135,557.27		135,557.27
Sales and Lease				0.00			0.00
Other	266,624.14						266,624.14
<b>DEBT SERVICE:</b>							
Principal	0.00		1,290,000.00	0.00	0.00		1,290,000.00
Interest and Other Charges	0.00		58,053.64	0.00	0.00		58,053.64
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>39,742,525.84</b>	<b>292,374.87</b>	<b>1,348,053.64</b>	<b>395,724.11</b>	<b>135,557.27</b>	<b>0.00</b>	<b>41,914,235.73</b>

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

Port Angeles School District No. 121

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	1,221,870.18	24,172.96	-111,659.21	-371,304.01	1,007.94	0.00	764,087.86
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	1,000,000.00	0.00		1,000,000.00
Transfers Out (GL 536)	-1,000,000.00		0.00	0.00	0.00	0.00	-1,000,000.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-1,000,000.00</b>		<b>0.00</b>	<b>1,000,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>221,870.18</b>	<b>24,172.96</b>	<b>-111,659.21</b>	<b>628,695.99</b>	<b>1,007.94</b>	<b>0.00</b>	<b>764,087.86</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>4,765,093.28</b>	<b>405,538.71</b>	<b>1,782,594.27</b>	<b>507,950.88</b>	<b>376,577.43</b>	<b>0.00</b>	<b>7,837,754.57</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>4,986,963.46</b>	<b>429,711.67</b>	<b>1,670,935.06</b>	<b>1,136,646.87</b>	<b>377,585.37</b>	<b>0.00</b>	<b>8,601,842.43</b>

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

**Port Angeles School District**  
**Notes to the Financial Statements**  
**September 1, 2014 through August 31, 2015**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Port Angeles School District (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) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplemental information.
- (3) Supplemental information required by GAAP is not presented.

**Fund Accounting**

The accounts of the district are organized on the basis of funds. Government resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent. The operations of each fund are accounted for with 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 are grouped into governmental funds as follows:

**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 Funds**

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 principal and interest.

### Special Revenue Fund

In the State of Washington, 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 financial resources legally belonging 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**

Current financial resources are used as the measurement focus for governmental fund financial statements. The modified accrual basis of accounting is used to prepare the governmental fund financial statements. 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 90 days after year-end. Property taxes receivable are measurable, but not available and are, therefore, not accrued. Categorical program claims and inter-district 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. An 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 of the Washington Administrative Code (WAC) mandate school district budget policies and procedures. A budget is required for all governmental funds. The district board adopts an annual appropriated budget after public hearing, which is submitted to the state's Office of the Superintendent of Public Instruction.

An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period. Annual appropriated budgets are adopted at the fund level.

Management may transfer appropriations within the approved budget for each fund without prior approval of the board. For this reason, differences of budgeted revenues and expenditures within a fund may be the result of management transfers within the fund.

Some grants are based on reimbursable expenditures. The budget is typically set at the maximum allowable, but if the district spends less than allowable, there will be a difference in the budget for both revenues and expenditures.

The total expenditures for each governmental fund cannot exceed the formal adopted appropriation for each fund unless the board amends the budget by submitting a supplemental appropriation to the state.

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed for all governmental funds. Fund balance is budgeted as available resources, and pursuant to state law, the budgeted ending fund balance cannot be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

## **Cash and Cash Equivalents**

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

## **Inventory**

Inventories recorded as assets for the district consists of food, mechanical transportation parts, and fuel. A periodic method is applied to inventories. Inventories are valued at cost. Inventory for fuel is approximated by using the last purchase price to value the periodic inventory count. The food inventory is from federal USDA commodities, consisting of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

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 to be "nonspendable".

## **Deferred Outflows and Inflows of Resources**

As per the Governmental Accounting Standards Board (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, certain items related to the consumption or the acquisition of net assets that are applicable to a future period are reported as deferred outflows of resources and deferred inflows of resources.

Deferred Outflows and Inflows of Resources are reported as separate sections in the district's balance sheet.

A *deferred outflow of resources* is considered to be a consumption of assets by the government that is applicable to a future reporting period. The district did not have any items that qualified for reporting in the category of a deferred outflow of resources.

A *deferred inflow of resources* is considered to be an acquisition of assets by the government that is applicable to a future reporting period. The district has two items, which arises under a

modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements:

- Certain services owed by other parties and earned, but for which funds are not yet available, as the services have not yet been paid.
- Property taxes earned, but not yet available, as the taxes have not yet been paid.

Under the modified-accrual method of accounting used in the governmental fund financial statements, these items are not reported as revenue until they are also available. Accordingly, these items are reported as deferred in the governmental funds balance sheet.

## **Fund Balance Classifications, Policies, and Procedures**

In the fund financial statements, the district reports fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources:

- *Nonspendable Fund Balance* – This classification is used for that portion of net resources that cannot be spent because of their form or because they must remain intact, such as items relating to inventory or expenses that have been prepaid for consumption in a subsequent year.
- *Restricted Fund Balance* – This classification is used when there are enforceable limitations on the use of certain funds from external sources, such as by creditors, grantors, contributors, or from regulations of oversight government agencies. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.
- *Committed Fund Balance* – This classification is used when there are limitations imposed on funds by formal action of the district's board of directors and use of those funds cannot be changed without formal action of the same. Currently, the board has directed management, in its policy #6020, that the district shall end each year with a portion of the general fund balance at least equal to four percent of that year's general fund operating expenditures. This is intended to recognize the importance of maintaining a prudent fund balance in the general fund to ensure operational cash flow needs are met, to set aside resources for known obligations and to help protect against unforeseen circumstances. Rescinding this policy would require a formal hearing and resolution by the board.
- *Assigned Fund Balance* – This classification is used to describe the portion of fund balance that reflects the district's intended use of resources, but are neither restricted or committed.

In the general fund, according to district practice, these funds are established by the superintendent to achieve the objectives of the district, in accordance with good fiscal management. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Any change in this direction for these funds would require approval by the superintendent.

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.

- *Unassigned Fund Balance* – This classification is used for the net resources in excess of the other four categories previously described and represent funds that could be used for any purpose. Typically, only the general fund will report an unassigned fund balance, since other funds would have fund balances at least assigned to that fund's purpose, unless the fund were in a deficit position.

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

Typically, it is the district's practice to use funds in the following order: Nonspendable, restricted, committed, and assigned, before using the unassigned fund balance, as long as the intended purpose of the funds are met.

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.

### **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. See, also, *Note 5 Pension Plans*, for more information.

## **NOTE 2: DEPOSITS AND INVESTMENTS**

The Clallam 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.

State law limits investments that can be held by government agencies. State law is designed to minimize the risk to a municipal corporation. The investments authorized under state law, with the exception of private purpose trust funds, are limited to:

- Savings or time accounts in qualified public depositories
- Certificates, notes, or bonds of the U.S.
- Other obligations of the U.S. or its agencies, or any corporation owned by the U.S. government
- Bankers' acceptances purchased on the secondary market
- Federal home loan bank notes and bonds
- Federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation

- Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the federal reserve system.
- Bonds of the state or any local government in the state that have one of the three highest credit ratings of a nationally recognized rating agency
- General obligation bonds of another state, or local government in another state, that has one of the three highest credit ratings of a nationally recognized rating agency
- Any registered warrants of any government located in the same county as the government making the investment
- Any investment authorized by law for the treasurer of the state of Washington or any local government in the state, other than metropolitan municipal corporations

Most of the district's operating funds are invested by the Clallam County Treasurer in the Local Government Investment Pool (LGIP) managed by the State of Washington Treasurer. The policy of the LGIP is to invest funds according to the types of instruments allowable by law as noted above.

All of the district's investments (except for investments of deferred compensation plans) during the year and at year-end were either 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:

<b>Type of Investment</b>	<b>District's own investments</b>	<b>Investments held by District as an agent for other organizations</b>	<b>Total</b>
State Local Government Investment Pool	\$7,871,561.41	\$ 0.00	\$7,871,561.41
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 0.00
Other:	\$ 0.00	\$ 0.00	\$ 0.00
Time Deposits (Certificates)	\$ 101,665.13	\$ 0.00	\$ 101,665.13
Total	\$7,973,226.54	\$ 0.00	\$7,973,226.54

Statutes restrict the deposit of funds to financial institutions that are physically located in Washington unless otherwise expressly permitted and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

## **NOTE 3: PENSION PLANS**

### **General Information**

The district does not sponsor its own retirement plan, but participates in plans offered by the Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington.

The DRS 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.

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 writing or accessing the internet at:

State of Washington  
Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, Washington 98504-8380  
<http://www.drs.wa.gov/>

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 DRS plan collective net pension liability.

## 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 \$18,274,977 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	\$ 245,597	\$ 324,818	\$ 790,381	\$ 923,676
Proportionate Share of the Net Pension Liability	\$2,795,270	\$1,356,951	\$11,189,897	\$2,932,859

At June 30, 2015, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change 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	0.053437%	0.334100%	0.353201%	0.347577%
Prior year proportionate share of the Net Pension Liability	0.049984%	0.341116%	0.343871%	0.344418%
Net difference percentage	<b>0.003453%</b>	<b>-0.007016%</b>	<b>0.009330%</b>	<b>0.003159%</b>

## Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class is 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 Port Angeles 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	0.053437%	0.053437%	0.053437%
Proportionate Share of Collective NPL	\$3,403,248	\$2,795,270	\$2,272,464
<b>SERS2/3 NPL</b>	\$1,282,039,000	\$406,151,000	(\$273,474,000)
Allocation Percentage	0.334100%	0.334100%	0.334100%
Proportionate Share of Collective NPL	\$4,283,295	\$1,356,951	(\$913,677)
<b>TRS1 NPL</b>	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
Allocation Percentage	0.353201%	0.353201%	0.353201%
Proportionate Share of Collective NPL	\$14,066,466	\$11,189,897	\$8,716,289
<b>TRS2/3 NPL</b>	\$3,570,229,000	\$843,802,000	(\$1,183,066,000)
Allocation Percentage	0.347577%	0.347577%	0.347577%
Proportionate Share of Collective NPL	\$12,409,282	\$2,932,859	\$4,112,061

## **NOTE 4: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The district does not offer post-employment benefits to its retired employees.

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 state collects a fee from all school districts for its active employees that is intended 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 state HCA \$66.64 per month per full-time equivalent employee to support the program, for a total payment of \$352,135. 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

## **NOTE 5: OTHER SIGNIFICANT COMMITMENTS**

### **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:

<b>Fund</b>	<b>Amount</b>
General	\$ 49,782
ASB Fund	\$ 7,027
Capital Projects Fund	\$285,118
Transportation Vehicle Fund	\$ 0

## **NOTE 6: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$500,000,000 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 7: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Bonds Payable**

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

<b>Issue Name</b>	<b>Principal Amount Authorized</b>	<b>Annual Installments*</b>	<b>Final Maturity</b>	<b>Interest Rate(s)</b>	<b>Principal Amount Outstanding</b>
General Obligation Bonds – 2009 Series Refunding Bonds	\$6,270,000	1,084,722 – 1,394,650	12/01/2015	2.25%-4.00%	\$1,355,000

*\* principal and interest payments both included in installment amount*

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

Long-Term Debt Payable at 9/1/2014	\$2,645,000
Add: New Issues	-0-
Deduct: Debt Retired	1,290,000
Long-Term Debt Payable at 8/31/2015	\$1,355,000

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

<b>Years Ending August 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$1,355,000	\$19,825	\$1,374,825
Total	\$1,355,000	\$19,825	\$1,374,825

At August 31, 2015, the District had \$2,208,603 available in the Debt Service Fund to service the general obligation bonds.

## **NOTE 8: INTERFUND BALANCES AND TRANSFERS**

The following table depicts interfund transfer activity: ⑧

<b>Transferred From (Fund) 535 or 536</b>	<b>Transferred To (Fund) 965 9900</b>	<b>Amount</b>	<b>Description</b>
General Fund	Capital Projects Fund	\$1,000,000	For future building needs

## **NOTE 9: 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.

The district is a member of the Washington Schools Risk Management Pool (Pool). 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 Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown, and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement, if the assets of the Pool were exhausted.

## **NOTE 10: 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 unavailable revenue.

## **NOTE 11: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

### **Skill Center**

The District operates a skill center in cooperation with four neighboring districts and a local college for the purpose of training students of all five districts and the college in certain vocational skills. This skill center is known as the North Olympic Peninsula Skills Center. The proportionally larger financial operations of this facility are included in these financial statements. For the fiscal year 2014-15, revenues totaled \$932,753 while expenditures totaled \$1,236,242.

In May 2004, the District (as host of the North Olympic Peninsula Skills Center), Peninsula College, and the Clallam Business Incubator (a not-for-profit), formed an alliance to own the building known as the Lincoln Center in which the North Olympic Peninsula Skills Center operates. This alliance was formed under the Washington Condominium Act (RCW 64.34). Its purpose was to acquire funding to build and operate the Lincoln Center Complex to support the

cooperative programs of the three entities. The Clallam Business Incubator was formally dissolved with the State of Washington in March of 2013 and only the Port Angeles School District and Peninsula College remain as condominium owners. Under agreement with the various entities involved, Port Angeles School District assumed ownership of the Clallam Business Incubator share of the Lincoln Center building.

#### KCDA

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 by passing a resolution prior to 1973 and has remained in the joint venture ever since. The District's current equity of \$59,462 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 12: FUND BALANCE CLASSIFICATION DETAILS**

The District's financial statements include the following amounts for fund balance, presented in the aggregate.

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Transportation Vehicle Fund</b>
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$248,284.87				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$113,485.97				
Fund Purpose		\$429,711.67			\$377,585.37
Debt Service				\$1,670,935.06	
Other Items					
Committed Fund Balance					
Fiscal Stability	\$1,589,701.00				
Other Commitments					
Assigned Fund Balance					
Contingencies	\$250,000.00				
Other Capital Projects					
Other Purposes					
Fund Purposes			\$1,136,646.87		
Unassigned Fund Balance	\$2,785,491.62				
<b>TOTAL FUND BALANCE</b>	<b>\$4,986,963.46</b>	<b>\$429,711.67</b>	<b>\$1,136,646.87</b>	<b>\$1,670,935.06</b>	<b>\$377,585.37</b>

On June 23, 2008, the Board of Directors adopted a policy that was intended to provide for better financial stability within the district. In policy #6020, the board directs that the District shall end each year with an unreserved portion of the general fund balance at least equal to 4.0 percent (4%) of that year's general fund operating expenditures. This intent is reflected in the budgeted expenditures of the general fund each year and reviewed as part of the budget process by the board. Any deviation from this policy would require approval from the district's board of directors per board policy #6000. For that reason, portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of committed fund balance for the general fund.

## **NOTE 13: 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 through the Department of Retirement Systems.

### **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 the TSA Consulting Group. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. Deductions are typically the responsibility of the employee, but certain payments are the responsibility of the district as per negotiated contracts. For the year ended August 31, 2015, the District made \$8,396 in discretionary employer contributions to the plan.

## **NOTE 14: TERMINATION BENEFITS**

### **Compensated Absences**

Compensated Absences are reported in governmental funds only if they have matured.

#### **Sick Leave**

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

Accrued vested sick leave for employees is recorded as a long-term debt liability on the Schedule of Long Term Liabilities for the general fund. Expenditures for vested sick leave are recorded when paid. Due to considerations of prior employment credits in the state's retirement system, the district is unable to determine which employees are actually eligible for retirement at the end of a given fiscal year. The district assumes that all employees over the age of 55 are vested and will become eligible for retirement, and so calculates an estimated vested sick-leave liability of one hour for each four hours of accrued sick-leave for all current employees over the age of 55 as of the end of the fiscal year. The amount of accrued sick leave reflected as a long term liability as of August 31, 2015 is \$910,179.97.

#### **Vacation**

An employee can be compensated for earned vacation leave up to 240 hours at any time upon termination. Vacation leave that is expected to be liquidated with expendable, available financial resources; i.e., expected compensation that has matured, is reported as an expenditure and a fund liability of the fund that will pay it. Amounts not exceeding 240 hours,

and not expected to be liquidated with expendable, available financial resources are reported as long-term debt in the Schedule of Long Term Liabilities for the general fund. The amount reflected as a long term liability for accrued vacation leave as of August 31, 2015 is \$345,013.44.

The sick and vacation leave accruals reflect all salary related long term liabilities. No unrecorded long term liability exists for other employee benefits.

## **NOTE 15: OTHER DISCLOSURES**

### **Skill Center Core Campus Note**

The Port Angeles School District is a host district for the North Olympic Peninsula Skill Center, a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a skill center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The North Olympic Peninsula Skill Center was created through an agreement of five member school districts and a local college. The Skill Center is governed by an administrative council, comprised of the superintendents, or their appointed representatives, of all member districts. The Skill Center administration is handled through a director, employed by the Port Angeles School District.

As host district, the Port Angeles School District has the following responsibilities:

1. Employ staff of the Skill Center.
2. Act as fiscal agent for the Skill Center and maintain a separate accounting for the skill center operations.
3. Review and adopt the Skill Center budget as a part of the District's overall budget.
4. Provide such services as may be mutually agreed upon by the District and the Skill Center.

### ***Sources of Funding***

The Skill Center is primarily funded by state apportionment, based on the number of students who attend the Skill Center. Other sources of income include federal grants from the Carl D. Perkins program, tuition and fees, and payments from member districts.

### ***Unspent Funds***

Any funds remaining at the end of the year from Skill Center operations are recorded as a restriction of the District's General Fund balance, and are to be used for financing future operations of the Skill Center. Member districts do not have claim to any unspent funds of the Skill Center.

The following organizations are members of the Skill Center: Port Angeles School District, Cape Flattery School District, Crescent School District, Quillayute Valley School District, Sequim School District, and Peninsula College.

The Quillayute Valley and Sequim School Districts operate satellite campuses of the North Olympic Peninsula Skill Center. A satellite campus is not eligible to claim those students who attend for purposes of receiving direct funding from the state. The Port Angeles School District is required to provide the staffing for the satellite campus programs. As the fiscal agent for the Skill Center, the Port Angeles School District reimburses the satellite district for their costs through interlocal agreements.

Port Angeles School District No. 121  
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	1,216,764.76	38,428.65	0.00	1,255,193.41	175,727.00
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	11,189,897.00	0.00	11,189,897.00	
Net Pension Liabilities TRS 2/3	0.00	2,932,859.00	0.00	2,932,859.00	
Net Pension Liabilities SERS 2/3	0.00	1,356,951.00	0.00	1,356,951.00	
Net Pension Liabilities PERS 1	0.00	2,795,270.00	0.00	2,795,270.00	
Total Long-Term Liabilities	1,216,764.76	18,313,405.65	0.00	19,530,170.41	175,727.00

Port Angeles School District No. 121  
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	2,645,000.00	0.00	1,290,000.00	1,355,000.00	1,355,000.00
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	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	2,645,000.00	0.00	1,290,000.00	1,355,000.00	1,355,000.00

**Port Angeles School District #121**  
**Clallam County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ending August 31, 2015**

Federal Agency Name	Pass-Through Agency	Federal Program Title	Federal CFDA Number	Other Identification Number	Expenditures		Foot-note Ref.
					From Direct Awards	From Pass-Through Awards	
U.S. Department of Agriculture							
WA OSPI		School Breakfast Program	10.553	N/A		351,185	
		National School Lunch Program:	10.555	N/A		-	
WA OSPI		Cash Assistance	10.555	N/A		716,945	
WA OSPI		Non-Cash Assistance (Commodities)	10.555	N/A		83,570	
State Treasurer		School & Roads - Grants to States	10.665	N/A		200,119	
U.S. DEPT OF AGRICULTURE SUBTOTAL					-	1,351,819	
Department of Housing and Urban Development							
		Low Rent Public Housing (Federal in-lieu of taxes)	14.850	N/A	916	916	
U.S. DEPT OF HOUSING AND URBAN DEVELOPMENT SUBTOTAL					916	-	916
U.S. Department of Education							
WA OSPI		Title I Grants to Local Educational Agencies	84.010	N/A		833,396	3
WA OSPI		Special Education-Grants to States	84.027	N/A		767,061	2
		Impact Aid	84.041	N/A	87,644	87,644	
WA OSPI		Career and Technical Education-Basic Grants to States	84.048	N/A		52,971	2
		Indian Education Grants to LEAs	84.060	N/A	76,547	76,547	2
WA OSPI		Special Ed - Preschool Grants	84.173	N/A		34,507	2
WA OSPI		Improving Teacher Quality State Grants	84.367	N/A		212,096	2
U.S. DEPT OF EDUCATION SUBTOTAL					164,191	1,900,031	2,064,222
U.S. Department of Health & Human Services							
WA HCA		Medical Assistance Program	93.778	N/A		105,428	
U.S. DEPT OF HEALTH AND HUMAN SERVICES SUBTOTAL					-	105,428	
TOTAL FEDERAL AWARDS EXPENDED					165,107	3,357,278	3,522,385

**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 modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine the amounts expected or matched from non-federal sources.

**NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTION** - The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the district's local matching share, may be more than shown.

**NOTE 3 - SCHOOLWIDE PROGRAMS** - The District operates a "schoolwide program" in five elementary buildings. 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 funds were expended by the district in its schoolwide programs: Title I (84.010) of \$780,914.

**NOTE 4 - FEDERAL INDIRECT RATE** - The district used a federal indirect rate of 3.47% for expenditures noted above.

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

**Port Angeles School District No. 121**  
**Clallam 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 Port Angeles School District No. 121.

<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 program.
<b>Name, address, and telephone of auditee contact person:</b> David Knechtel 216 E. 4th Street Port Angeles, WA 98362 (360) 565-3755	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Recent employee turnover in key positions within the district seem to be the primary cause of the conditions so noted in this finding. The district has already taken action to secure the proper training of key personnel and has retained a consultant with significant years of experience with federal Title programs to work with key personnel in determining appropriate measures of monitoring and tracking of compliance.</i>	
<b>Anticipated date to complete the corrective action:</b> October 2016	

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