



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Lake Chelan School District No. 129

Chelan County

For the period September 1, 2015 through August 31, 2016

Published May 22, 2017

Report No. 1019178





Office of the Washington State Auditor
Pat McCarthy

May 22, 2017

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Lake Chelan School District No. 129'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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Lake Chelan School District No. 129
Chelan County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Lake Chelan School District No. 129 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<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
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
10.665	Schools and Roads – Grants to States

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2016-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Lake Chelan School District No. 129 Chelan County September 1, 2015 through August 31, 2016

2016-001 The District did not have adequate controls in place to ensure compliance with federal child nutrition program verification requirements.

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.559 Child Nutrition Cluster – Summer Food Service Program for Children
Federal Grantor Name:	U.S. Department of Agriculture (USDA)
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	04-129
Questioned Cost Amount:	\$0

Background

The District received \$537,519 for the School Breakfast and National School Lunch programs during the 2015-2016 school year. These programs provide the funding for free and reduced-priced meals for students from low-income families.

Description of Condition

Each year, districts must select a sample of applicants and verify that family income information reported to the district is correct. OSPI instructs school districts how to verify program eligibility, including the number of applications that districts must verify. The District must complete the verification process by November 15 each year. Our audit found that while the District did have a process in place to perform the verification, internal controls were not effective to ensure that the District performed the verification steps accurately.

The District was required to verify six applications for program eligibility. OSPI requires districts to review selected applicants' income documentation and confirm students are receiving correct benefits of free or reduced-price meals or paying for meals at full price. While District staff correctly verified four of the six applications, the staff did not properly verify household income by eligible records as required for the remaining two applications. The District was also required to make changes in eligibility status of three applications, including the two applications that were verified incorrectly. We found the District did not increase or decrease the meal benefits, as applicable, for these applications.

In addition, the District did not complete the verification process by the November 15 deadline and did not accurately report the verification results to OSPI.

We consider this deficiency in internal controls to be a material weakness. This issue was reported as a finding in the prior audit as finding 2015-001.

Cause of Condition

The District experienced turnover in staff responsible for the verification process at the beginning of the 2014-2015 school year. New personnel did not have a clear understanding of verification requirements. Also, the District received a finding for verification in the prior audit after verification procedures were performed and it was unable to implement the required procedures for the 2015-2016 school year.

Effect of Condition and Questioned Costs

Lack of proper internal controls over the verification process increases the risk that the District may provide free or reduced-priced meals to children who are not eligible to receive them. The District may receive funding for households that did not qualify for free and reduced-priced meals. Further, the District did not accurately report its verification results to OSPI, which could affect the number of applications requiring verification in future school years.

Recommendation

We recommend the District establish internal controls and train staff regarding federal child nutrition program verification requirements and that District management provide oversight to confirm that the annual verification process is completed properly.

District's Response

We want to thank the State Auditor's Office for pointing out a deficiency in our internal controls over the verification process that resulted in the District

inaccurately reporting its verification results to OSPI. We have reviewed the process and have made sure staff are aware of the requirements regarding verifications. We plan to provide additional oversight over the process in subsequent years starting in the fall of 2017.

Auditor's Remarks

We thank District management and staff for their cooperation and assistance during our audit. We look forward to reviewing the District's corrective action during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) establishes reporting requirements for audit findings, and requirements for management of Federal awards to non-Federal entities.

2 CFR Section 200.303 Internal Controls, states in part:

The auditee shall:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

2 CFR 200.516 Audit Findings, states in part:

(a) Audit findings reported. The auditor must report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is

in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

(2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

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:

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

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 an event occurring 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.

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 that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit

requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program

Title 7 *U.S. Code of Federal Regulations* (CFR), Section §245.6a - Verification requirements, states in part:

(a) Definitions.

(7) Sources of information. For the purposes of this section, sources of information for verification may include written evidence, collateral contacts, and systems of records as follows:

(i) Written evidence shall be used as the primary source of information for verification. Written evidence includes written confirmation of as wage stubs, award letters, and letters from employers. Whenever written evidence is insufficient to confirm income information on the application or current eligibility, the local educational agency may require collateral contacts . . .

(f) Verification procedures and assistance for households, states in part:

(1) Notification of selection. Other than households verified through the direct verification process in paragraph (g) of this section, households selected for verification must be notified in writing that their applications were selected for verification.

(2) Documentation timeframe. Households selected and notified of their selection for verification must provide documentation of income. The documentation must indicate the source, amount and frequency of all income and can be for any point in time between the month prior to application for school meal benefits and the time the household is requested to provide income documentation.

(3) SNAP FDPIR or TANF recipients. On applications where households have furnished SNAP or TANF case numbers or FDPIR case numbers or other FDPIR identifiers, verification shall be accomplished by confirming with the SNAP, FDPIR, or TANF office that at least one child who is eligible because a case number was furnished, is a member of a household participating in one of the eligible programs in paragraph (a)(1) of this section. The household may also provide a copy of “Notice of Eligibility” for the SNAP, FDPIR or the TANF Program or equivalent official documentation issued by the SNAP, FDPIR or TANF office which confirms that at least one child who is eligible because a case number was provided is a member of a household receiving assistance under the SNAP, FDPIR or the TANF program. An identification card for these programs is not acceptable as verification unless it contains an expiration date. If it is not established that at least one child is a member of a household receiving assistance under the SNAP, FDPIR or the TANF program (in accordance with the timeframe in paragraph (f)(2) of this section), the procedures for adverse action specified in paragraph (j) of this section must be followed.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Lake Chelan School District No. 129 Chelan County September 1, 2015 through August 31, 2016

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Lake Chelan School District No. 129. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2014 – August 31, 2015	Report Ref. No.: 1016816	Finding Ref. No.: 2015-001	CFDA Numbers: 10.553, 10.555, 10.559
Federal Program Name and Granting Agency: School Nutrition Program (Cluster) U.S. Department of Agriculture (USDA)		Pass-Through Agency Name: Office of Superintendent of Public Instruction (OSPI)	
Finding Caption: The District does not have adequate controls in place to ensure compliance with federal child nutrition reporting, verification and suspension and debarment requirements.			
Background: The District participates in the School Breakfast and National School Lunch Programs and received \$107,721 for the breakfast program and \$398,693 for the lunch program in the 2014-2015 school year. These programs provide funding for free and reduced-priced meals for students from low-income families. <ul style="list-style-type: none">• <i>Reporting:</i> The District did not submit accurate monthly claims to OSPI; the District reported it served 220,531 meals, but we identified a discrepancy of 16,213 meals when comparing actual meals served. We consider this a significant control deficiency.• <i>Verification:</i> The District did not properly verify household income with eligible income records as required for three applications. In addition, we found that the District did not accurately report the verification results to OSPI. We consider this a material weakness. We also reported this material weakness in the prior audit in Finding 2014-001.• <i>Suspension and Debarment:</i> We reviewed one vendor contract and found that the District paid \$42,818 of federal Nutrition grant funds for goods without verifying the federal suspension and debarment status of this vendor. We consider this a significant control deficiency. We also reported this significant deficiency in the prior audit in Finding 2014-001.			

There were \$0 question costs.			
Status of Corrective Action:			
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
Corrective Action Taken:			
<i>The District initiated additional training for key staff with respect to the monthly claims and verification of household income. We also ensured that we kept our documentation where we verified the federal suspension and debarment status of our milk vendor.</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**

**Lake Chelan School District No. 129
Chelan County
September 1, 2015 through August 31, 2016**

Board of Directors
Lake Chelan School District No. 129
Chelan, 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 Lake Chelan School District No. 129, Chelan County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 15, 2017.

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.



Pat McCarthy

State Auditor

Olympia, WA

May 15, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Lake Chelan School District No. 129
Chelan County
September 1, 2015 through August 31, 2016**

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

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

We have audited the compliance of Lake Chelan School District No. 129, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

We noted certain matters that we will report to the management of the District in a separate letter dated May 17, 2017.

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 the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-001, to be a material weakness.

We also noted certain matters that we will report to the management of the District in a separate letter dated May 17, 2017.

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 the Uniform Guidance. 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.



Pat McCarthy

State Auditor

Olympia, WA

May 15, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Chelan School District No. 129 Chelan County September 1, 2015 through August 31, 2016

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Lake Chelan School District No. 129, Chelan County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 22.

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 Lake Chelan School District No. 129, as of August 31, 2016, 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 and Fiduciary 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, Transportation Vehicle and Fiduciary funds as of August 31, 2016, 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 for governmental and fiduciary funds.

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Long-Term Liabilities is 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 15, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

May 15, 2017

FINANCIAL SECTION

Lake Chelan School District No. 129
Chelan County
September 1, 2015 through August 31, 2016

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2016
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental
Funds – 2016
Statement of Fiduciary Net Position – Fiduciary Funds – 2016
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016
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SUPPLEMENTARY AND OTHER INFORMATION

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Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	775,599.32	17,113.63	1,023.69	109,653.91	153,219.32	0.00	1,056,609.87
Minus Warrants Outstanding	-812,097.86	-8,542.09	0.00	-72,653.99	-112,829.10	0.00	-1,006,123.04
Taxes Receivable	1,408,509.91		1,221.65	577,406.86	0.00		1,987,138.42
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	105,288.34	0.00	0.00	0.00	0.00	0.00	105,288.34
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	3,606.38	0.00		0.00			3,606.38
Prepaid Items	153,376.07	0.00			0.00	0.00	153,376.07
Investments	1,125,159.13	114,159.37	17,624.36	421,288.61	77,932.45	0.00	1,756,163.92
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	2,759,441.29	122,730.91	19,869.70	1,035,695.39	118,322.67	0.00	4,056,059.96
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2,759,441.29	122,730.91	19,869.70	1,035,695.39	118,322.67	0.00	4,056,059.96
LIABILITIES:							
Accounts Payable	103,019.51	4,601.42	0.00	63,219.21	0.00	0.00	170,840.14
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	14,229.21	0.00		0.00			14,229.21
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Balance Sheet

Governmental Funds
August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	2,761.09	0.00		0.00			2,761.09
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	120,009.81	4,601.42	0.00	63,219.21	0.00	0.00	187,830.44
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	1,408,509.91		1,221.65	577,406.86	0.00		1,987,138.42
TOTAL DEFERRED INFLOWS OF RESOURCES	1,408,509.91	0.00	1,221.65	577,406.86	0.00	0.00	1,987,138.42
FUND BALANCE:							
Nonspendable Fund Balance	3,606.00	0.00	0.00	0.00	0.00	0.00	3,606.00
Restricted Fund Balance	206,761.01	118,129.49	18,648.05	0.00	118,322.77	0.00	461,861.32
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	395,069.32	-0.10	0.00	395,069.22
Unassigned Fund Balance	1,020,554.56	0.00	0.00	0.00	0.00	0.00	1,020,554.56
TOTAL FUND BALANCE	1,230,921.57	118,129.49	18,648.05	395,069.32	118,322.67	0.00	1,881,091.10
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	2,759,441.29	122,730.91	19,869.70	1,035,695.39	118,322.67	0.00	4,056,059.96

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	3,426,795.32	153,930.73	8,552.13	1,469,268.73	425.21		5,058,972.12
State	11,958,075.13		0.00	0.00	145,719.32		12,103,794.45
Federal	1,579,869.36		0.00	0.00	0.00		1,579,869.36
Federal Stimulus	0.00						0.00
Other	415,242.77			0.00	0.00	0.00	415,242.77
TOTAL REVENUES	17,379,982.58	153,930.73	8,552.13	1,469,268.73	146,144.53	0.00	19,157,878.70
EXPENDITURES:							
CURRENT:							
Regular Instruction	8,956,755.09						8,956,755.09
Federal Stimulus	0.00						0.00
Special Education	1,598,519.71						1,598,519.71
Vocational Education	747,912.75						747,912.75
Skill Center	0.00						0.00
Compensatory Programs	1,598,708.71						1,598,708.71
Other Instructional Programs	218,449.04						218,449.04
Community Services	34,043.93						34,043.93
Support Services	4,239,834.84						4,239,834.84
Student Activities/Other		146,164.29				0.00	146,164.29
CAPITAL OUTLAY:							
Sites				81,446.14			81,446.14
Building				812,562.41			812,562.41
Equipment				156,906.06			156,906.06
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					225,658.21		225,658.21
Sales and Lease				0.00			0.00
Other	0.00						0.00
DEBT SERVICE:							
Principal	0.00		700,000.00	0.00	0.00		700,000.00
Interest and Other Charges	0.00		21,262.50	0.00	0.00		21,262.50
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	17,394,224.07	146,164.29	721,262.50	1,050,914.61	225,658.21	0.00	19,538,223.68

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-14,241.49	7,766.44	-712,710.37	418,354.12	-79,513.68	0.00	-380,344.98
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00	0.00	0.00
Long-Term Financing	0.00			0.00	0.00	0.00	0.00
Transfers In	0.00		721,262.50	0.00	0.00	0.00	721,262.50
Transfers Out (GL 536)	-21,262.50		0.00	-700,000.00	0.00	0.00	-721,262.50
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00	0.00	0.00
Other	0.00		0.00	0.00	7,500.00		7,500.00
TOTAL OTHER FINANCING SOURCES (USES)	-21,262.50		721,262.50	-700,000.00	7,500.00	0.00	7,500.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-35,503.99	7,766.44	8,552.13	-281,645.88	-72,013.68	0.00	-372,844.98
BEGINNING TOTAL FUND BALANCE	1,298,762.50	111,222.07	10,095.92	676,715.20	190,336.35	0.00	2,287,132.04
Prior Year(s) Corrections or Restatements	-32,336.94	-859.02	0.00	0.00	0.00	0.00	-33,195.96
ENDING TOTAL FUND BALANCE	1,230,921.57	118,129.49	18,648.05	395,069.32	118,322.67	0.00	1,881,091.10

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

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2016

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	24,171.45	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	24,171.45	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	24,171.45	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	24,171.45	0.00

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2016

ADDITIONS:			
Contributions:			
Private Donations	Private Purpose Trust	0.00	0.00
Employer			0.00
Members			0.00
Other		0.00	0.00
TOTAL CONTRIBUTIONS		0.00	0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value		0.00	0.00
Interest and Dividends		52.12	0.00
Less Investment Expenses		0.00	0.00
Net Investment Income		52.12	0.00
Other Additions:			
Rent or Lease Revenue		0.00	0.00
Total Other Additions		0.00	0.00
TOTAL ADDITIONS		52.12	0.00
DEDUCTIONS:			
Benefits			0.00
Refund of Contributions		0.00	0.00
Administrative Expenses		25.69	0.00
Scholarships		1,000.00	
Other		0.00	0.00
TOTAL DEDUCTIONS		1,025.69	0.00
Net Increase (Decrease)		-973.57	0.00
Net Position--Prior Year August Beginning		25,145.02	0.00
Prior Year F-196 Manual Revision		0.00	0.00
Net Position - Total		25,145.02	0.00
Prior Year(s) Corrections or Restatements		0.00	0.00
NET POSITION--ENDING		24,171.45	0.00

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

Lake Chelan School District No. 129
Notes to Financial Statements
September 1, 2015 Through August 31, 2016

Note 1: SUMMARY OF SIGIFICANT ACCOUNTING POLICIES

Description of the government-wide financial statements.

The Lake Chelan School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose 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 Office of 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 practices (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 supplementary information.
- (3) Supplementary information required by GAAP is not presented.

Fund Accounting

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

GOVERNMENTAL FUNDS

General Fund

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

Capital Projects 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 funds 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 Funds

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

Permanent Funds

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

FIDUCIARY FUNDS

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund.

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of 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 30 days after year-end. Property taxes receivable are measurable but are considered available if they are collected within 60 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures

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

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

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

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

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

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for

expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The board, superintendent and business manager are the only persons who have the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Receivable and Payables

All of the receivable and payables are expected to be collected or paid within one year in all the funds.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase this inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

NOTE 2: DEPOSITS AND INVESTMENTS

The Chelan 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.

The district's deposits and certificates of deposit are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All of the District's investments during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

Washington State statutes authorize the district to invest in the following types of securities

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System
- Banker's acceptances purchased on the secondary market

- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities.
- Investment deposits with qualified public depositories,
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

The District's investments as of August 31, 2016 are as follows:

County Treasurer's Investment Pool	Number of Securities	Carrying Amount	Market Value
General Fund			
ASB Fund		\$1,125,159.41	\$1,125,159.41
Capital Projects Fund		114,159.37	114,159.37
Transportation Vehicle Fund		421,288.61	421,288.61
Deb Service Fund		77,932.45	77,932.45
Trust Fund		17,624.36	17,624.36
		24,171.45	24,171.45
Total Investments		\$1,780,335.65	\$1,780,335.65

The County Treasurer invests all of the district's investments in the state pool. The Washington State Local Government Pool (LGIP) is operated by the Washington State Treasurer and is managed generally consistent with SEC regulated Rule 2a-7 money market funds. Participation in the pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NCSRO). Fair value of the district's investment in the pool is measured using a Net Asset Value (NAV) calculation based on the amortized of all securities held such that the securities will be valued at their acquisition cost, plus accrued income, amortized daily. The pool maintains a Weighted Average Maturity (WAM) of 60 days or shorter.

NOTE 3: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 4: PENSIONS PLANS

General Information

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

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

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

Membership Participation

Substantially all 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 by retirement system program as of June 30, 2016:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
PERS 1	49,417	827	3,230
SERS 2	7,391	5,704	26,127
SERS 3	6,715	7,899	32,409
TRS1	34,859	223	962
TRS2	4,700	2,443	17,612
TRS3	8,866	8,373	53,417

The latest actuarial valuations for all plans were 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 of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefits portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefits 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 for those that 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 the 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 at 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 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 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. Retirement before age 65 is considered an early retirement, SERS members, who have least 20 years of service credit 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 the 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 one-time duty-related death benefit, if found to be eligible by the Department of Labor and Industries.

Plan Contribution

The employer contribution rates for PERS, TRRS and SERC (Plans 1, 2 and 3) and the TRS and SERS plan 2 employee contribution rates are established by the Pension Funding Counsel based upon the rates set by the Legislature. The methods 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 2016) were as follows:

Pension Rates			
	7/1/2016 Rate	7/1/2015 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	11.18%	
Pension Rates			
	9/1/2016 Rate	9/1/2015 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	13.13%	
TRS 2			
Member Contribution Rate	5.95%	5.95%	
Employer Contribution Rate	13.13%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	13.13%	**
SERS 2			
Member Contribution Rate	5.63%	5.63%	
Employer Contribution Rate	11.58%	11.58%	

SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58	11.58	**
<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 Collective Net Pension Liability as of June 30, 2016:				
	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,496,872	\$4,870,806	\$9,001,257	\$12,172,222
Plan fiduciary net position	(\$7,126,401)	(\$4,214,039)	(\$5,587,020)	(\$110,798,925)
Participating employers' net pension liability	\$5,370,471	\$656,767	\$3,414,237	\$1,373,297
Plan fiduciary net position as a percentage of the total pension liability	57.03%	86.52%	62.07%	88.72%

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

At June 30, 2016, the school district reported a total liability of \$8,269,029 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability are based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2016, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2016	PERS 1	SERS 2/3	TRS 1	TRS 2/3	Totals
District's Annual Contributions	119,929	167,280	395,338	421,566	1,104,113
Employer Allocation Percentage	0.021148%	0.139826%	0.130081%	0.129155%	
Proportionate Share of the Net Pension Liability	1,135,571	918,330	4,441,276	1,773,682	8,269,029

The change in the allocation percentage from the prior year is illustrated below:

Change in Proportionate shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.021148%	0.139826%	.0130081%	0.129155%
Prior year proportionate share of the Net Pension Liability	0.021363%	0.140857%	0.130951%	0.130288%
Net difference percentage	-0.000215%	-0.001031%	-0.000870%	-0.001133%

Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2015, 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, 2016, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation Percentage	% 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 Lake Chelan 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 (6.5 percent) or one percentage-point higher (8.5 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 (7.5%)	1% Increase (8.5%)
PERS1 NPL	\$6,476,248,000	\$5,370,471,000	\$4,418,882,000
Allocation Percentage	0.021148%	0.021148%	0.021148%
Proportionate Share of Collective NPL	\$1,369,590	\$1,135,741	\$934,500
SERS2/3 NPL	\$1,600,655,000	\$656,767,000	(\$75,324,000)
Allocation Percentage	0.139826%	0.139826%	0.139826%
Proportionate Share of Collective NPL	\$2,238,142	\$918,330	(\$105,322)
TRS1 NPL	\$4,197,137,000	\$3,414,237,000	\$2,739,882,000
Allocation Percentage	0.130081%	0.130081%	0.130081%
Proportionate Share of Collective NPL	\$5,459,680	\$4,441,276	\$3,564,068
TRS2/3 NPL	\$3,107,958,000	\$1,373,297,000	(\$1,595,357,000)
Allocation Percentage	0.129155%	0.129155%	0.129155%
Proportionate Share of Collective NPL	\$4,014,084	\$1,773,682	(\$2,060,484)

NOTE 5: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

The State, through the Health Care Authority (HCA), administers and agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee

participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance).

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015-16, the District was required to pay the HCA \$65.25 per month per full-time equivalent employee to support the program, for a total payment of \$128,364.42. 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 had no control over the benefits offered to retirees, the rates charge to retirees, or the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 6: COMMITMENTS UNDER NON-CAPITALIZED (OPERATING) LEASES:

For the fiscal year ended August 31, 2016, the District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Lease-Purchase Commitments					
Ricoh MP 7502	\$30,637.20	\$6,127.44	04/2021	0	\$28,594.72
Ricoh MP 4503	\$12,802.80	\$2,560.56	08/2021	0	\$12,802.80
Ricoh MPC 6502	\$45,001.20	\$9,000.24	03/2021	0	\$41,251.10
Ricoh MPC 4503	\$13,848.60	\$2,769.72	09/2020	0	\$11,309.69
Ricoh Pro C51000S	\$38,339.40	\$7,667.88	08/2019	0	\$23,003.64
Ricoh PC C7501	\$45,001.20	\$9,000.24	12/2019		\$30,000.80
Ricoh MP 6002 SP	\$16,847.40	\$3,369.48	08/2019	0	\$13,477.92
Total Lease-Purchase Commitments					\$160,440.67
Other Long-Term Commitments					
City of Chelan Bldg Lease	\$15,000.00	\$7,500.00	July 1, 2017	0	\$7,500.00
Total Other Long-Term Commitments					\$7,500.00

NOTE 7: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount \$65,203,522 for fiscal year 2016. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 8: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Bonds and notes payable at August 31, 2016, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2014 Non-Voted Bonds	\$2,100,000	\$700,000	June 2017	1.35	\$1,050,000
Total General Obligation Bonds	\$2,100,000				\$1,050,000

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2016:

Long-Term Debt Payable at 9/1/2015	\$1,750,000
New Issues	\$ 0
Debt Retired	\$ 700,000
Long-Term Debt Payable at 8/31/2016	\$1,050,000

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2016:

Years Ending August 31,	Principal	Interest	Total
2016	\$ 350,000	\$ 7,087.50	\$ 357,087.50
2017	\$ 700,000	\$ 7,087.50	\$ 707,087.50
Total	\$1,050,000	\$14,175.00	\$1,064,175.00

As of August 31, 2016, the District had \$18,648.05 available in the Debt Service Fund to service the general obligation bonds.

Note 9: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity:

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900	Amount	Description
General	Debt Service	\$ 21,262.50	Bond Interest Payment
Capital Projects	Debt Service	\$700,000.00	Bond Principal Payment

Note 10: 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 Lake Chelan School District is a member of the United Schools Insurance Program. 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-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985 when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 full member school districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims made basis. All other coverages are on an occurrence basis. The program provides the following forms of group insurance coverage for its members: Property, General Liability, Automobile Liability, Wrongful Acts Liability and Crime.

Liability Insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$967,749 as an additional layer of protection of its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for a \$1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the \$100,000 SIR.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

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

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2016, were \$1,681,707.94.

A Board of Directors of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Risk Pools – Workers Compensation and Unemployment Pools

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organizations for the joint self-insuring to the same extent that they may individually self-insure. Separate agreements to form a workers' compensation pool and an unemployment pool were made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The North Central Washington Workers' Compensation Pool was formed on January 1, 1984, when school districts and North Central Educational Service District (NCESD) in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses. The North Central Unemployment Cooperative was formed on July 1, 1988, when school districts and NCESD in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses. Twenty-nine school districts and NCESD have joined the worker's compensation pool, while twenty six school districts and NCESD have joined the unemployment pool. These pools are operated for the Lake Chelan School District's benefit in lieu of the district having to make monthly premium payments to the State of Washington for industrial insurance and unemployment. Membership automatically renews each year. Even after termination, members are still responsible for contributions for unresolved claims occurring during a period when the district was a member of the pools.

The pools are governed by a board of directors which is comprised of one designated representative from each participating member. An executive committee is elected for conducting the business affairs of the pool.

Each member's contributions to the pools are determined by an annual actuarial study. In fiscal year ending August 31, 2016, Lake Chelan School District made payments totaling \$128,782.33 to the industrial insurance pool and \$20,834.43 to the unemployment insurance pool.

NOTE 11: 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 on-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. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end.

NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperation designed to pool the member districts' purchasing power. The board authorized joining the association by passing a resolution and has remained in the joint venture ever since. The District's current equity of \$5,611.42 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 13: FUND BALANCE CLASSIFICATION DETAILS

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

	GENERAL FUND	ASB FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TRANSPORATION VEHICLE FUND
Nonspendable FB					
Inventory	\$ 3,606				
Restricted FB					
Prepaid Exp	\$153,376.07				
Debt Service				\$18,648.05	
For Fund Purposes		\$118,129.49			\$118,322.77
Carryover of Revenues	\$ 53,384.94				
Committed FB					
Debt Service					
Other Items					
Minimum FB Per Policy					
Assigned FB					
Other Purposes					
Fund Purposes			\$395,069.32		
Unassigned Fund Balance	\$1,020,554.56				

The Capital Projects Fund did not have any Restricted and Committed Fund Balances as the revenue sources are both local.

NOTE 15: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS- BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYERS STATEMENTS

457 Plan – Deferred Compensation Plan

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

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

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

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

NOTE 16: TERMINATION BENEFITS

Compensated Absences

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

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

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

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

No unrecorded liability exists for other employee benefits.

NOTE 17: CONDITION AND EVENTS GIVING RISE TO SUBSTANTIAL DOUBT ABOUT THE GOVERNMENT'S ABILITY TO CONTINUE AS A GOING CONCERN

There are no conditions or events that give rise to any doubt as to the District's ability to continue as a going concern

Lake Chelan School District No. 129
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2016

Description	Beginning Outstanding Debt September 1, 2015	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2016	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	1,750,000.00	0.00	700,000.00	1,050,000.00	700,000.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
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	642,740.40	47,390.56	0.00	690,130.96	54,575.32
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
Other Liabilities					
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	4,148,716.00	292,560.00	0.00	4,441,276.00	
Net Pension Liabilities TRS 2/3	1,099,374.00	674,308.00	0.00	1,773,682.00	
Net Pension Liabilities SERS 2/3	572,093.00	346,237.00	0.00	918,330.00	
Net Pension Liabilities PERS 1	1,117,472.00	18,269.00	0.00	1,135,741.00	
Total Long-Term Liabilities	9,330,395.40	1,378,764.56	700,000.00	10,009,159.96	754,575.32

LAKE CHELAN SCHOOL DISTRICT No. 129
Schedule of Expenditures of Federal Awards
For The Year Ending August 31, 2016

Federal Agency Name	Pass-Through Agency	Federal Program Title	CFDA Number	Other Identification Number	Direct Awards	Expenditures		Passed Through to Subrecipients	Footnote Reference
						Pass Through Awards	Total		
U.S. Department of Agriculture	WA OSPI	School Breakfast Program	10.553	04-129		121,893	121,893		
	WA OSPI	National School Lunch Program	10.555	04-129		415,626	415,626		
	WA OSPI	National School Lunch Program - Non Cash Contributions	10.555	04-129		34,665	34,665		
	WA OSPI	Summer Food Service Program for Children	10.559	04-129		13,521	13,521		3
		Subtotal Child Nutrition Cluster					585,705		
	State Treasurer	School and Roads - Grants to States	10.665	N/A		70,153	70,153		
Total U.S. Department of Agriculture						0	655,868	0	
U.S. Department of Education	WA OSPI	Title I Grants to Local Education Agencies	84.010	Grant No. 0201970		377,720	377,720		
	WA OSPI	Title I Grants to Local Education Agencies	84.010	Grant No. 0263054		13,847	13,847		4
		Subtotal Title I Cluster					391,567		
	WA OSPI	Migrant Education - State Grant Program	84.011	Grant No. 0282186		43,836	43,836		
	WA OSPI	Special Education - Grants to States	84.027	Grant No. 0305489		262,741	262,741		
	WA OSPI	Special Education - Preschool Grants	84.173	Grant No. 0363480		11,665	11,665		
Subtotal Special Education Cluster							274,406		
U.S. Department of Health and Human Services	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	Grant No. 0173468		12,508	12,508		
	CWU	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A		42,198	42,198		
	WA OSPI	English Language Acquisition State Grants	84.365	Grant No. 0402230		83,593	83,593		
	WA OSPI	Supporting Effective Instruction State Grant	84.367	Grant No. 0523791		62,205	62,205		4
		Total U.S. Department of Education				0	910,313	0	
Medical Assistance Program						13,699	13,699		
Total U.S. Department of Health and Human Resources						0	13,699	0	
TOTAL FEDERAL AWARDS EXPENDED						\$0	\$1,679,869	\$0	

The accompanying Notes to the Schedule are an integral part of this schedule.

**Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2016**

Notes to the Schedule

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COST/MATCHING REQUIREMENTS

The amounts show as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including Lake Chelan School District's local matching share, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles of State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – NON CASH AWARDS – FOOD COMMODITIES

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

NOTE 4 – SCHOOLWIDE PROGRAMS

The district operates a "schoolwide program" in one elementary building, one middle school, and two high school 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 amounts were expended by the District in its schoolwide programs: Title I, A Improving Basic Programs (84.010) – \$377,720; and Title II A, School Improvement (84.367) – \$62,205.

NOTE 5 – FEDERAL INDIRECT RATE

The Lake Chelan School District used the federal restricted rate of 5.12%. The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Lake Chelan School District No. 129
Chelan County
September 1, 2015 through August 31, 2016

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Lake Chelan School District No. 129.

Finding ref number: 2016-001	Finding caption: The District did not have adequate controls in place to ensure compliance with federal child nutrition program verification requirements.
Name, address, and telephone of auditee contact person: Scott Renick P.O. Box 367 Chelan, WA 98816 (509) 682-3515	
Corrective action the auditee plans to take in response to the finding: <i>We have made sure that staff responsible for verifications are familiar with the requirements and will provide additional oversight to ensure compliance in the Fall of 2017.</i>	
Anticipated date to complete the corrective action: Fall of 2017	

ABOUT THE STATE AUDITOR'S OFFICE

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We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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