Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Tukwila School District No. 406

King County

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

Published October 26, 2017

Report No. 1020126

Office of the Washington State Auditor
Pat McCarthy

October 26, 2017

Board of Directors
Tukwila School District No. 406
Tukwila, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Tukwila School District No. 406'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

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Tukwila School District No. 406 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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed 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.

CFDA No.	Program or Cluster Title
10.553	Child Nutrition Cluster – National School Lunch Program
10.555	Child Nutrition Cluster – National School Lunch Program
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) – Grants to States
84.173	Special Education Cluster (IDEA) – Preschool Grants

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 findings 2016-001, 2016-002 and 2016-003.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Tukwila School District No. 406
King 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
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:	NA NA
Questioned Cost Amount:	$ 0

Background

The District received $1,477,943 for the School Breakfast and National School Lunch Programs in the 2015-2016 school year. These programs provide 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 the reported family income information is correct. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility. Our audit found that while the District had a process in place to perform the verification, internal controls were not effective to ensure the District performed the verification steps accurately.

Federal regulations require the District to notify households selected for verification that they have been selected and to give them information on documents that must be returned. The District must review selected applicants' income documentation to confirm students are receiving correct benefits of free or reduced-price meals. If the verification results in a reduction or termination of benefits, a written notice informing the household of adverse action must be sent 10 days in advance of the change.

Direct verification is an optional method to verify free and reduced-price income applications using Medicaid and other data. Districts that use this method to verify a student's eligibility do not have to contact the household to obtain income documentation unless the direct verification process results in a decreased benefit to the household. A decrease in benefits to the household requires the district to continue with the regular verification process.

The District was required to verify 13 applications. We found two of the applications were marked for free meal benefits, but the direct verification result was reduced meal benefits. The district did not request income documentation from the family as required. Additionally, three other applications verified required a benefits reduction. The District did not retain documentation to demonstrate it sent the advance notification letter to the five households before terminating or reducing the benefits.

Finally, the District must provide the results of its verification process to OSPI each year. We found the District did not accurately report the verification results to OSPI.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

The District experienced turnover in key staff responsible for the verification process at the beginning of the 2015-2016 school year. As a result, new District personnel responsible for this process did not have a clear understanding of verification requirements. In addition, District personnel were not aware they must retain documentation to demonstrate advance notification letters were sent to households as required.

Effect of Condition and Questioned Costs

Lack of proper internal controls over the verification process increases the risk that free or reduced-priced meals could be provided 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.

Because the District did not retain the advance notification letters sent to households, it cannot demonstrate it met this requirement. Failure to properly notify households regarding termination or reduction of benefits makes it more difficult for the household to obtain resources for the child's meals. In addition, without property notification, the household misses the opportunity to appeal the District's decision or provide the additional information for consideration.

Recommendation

We recommend the District establish internal controls and train staff to ensure the District accurately performs the verification process, including reporting results to OSPI and retaining copies of letters sent to families.

District's Response

We concur with the Auditor's finding on food service verifications. We appreciate the Auditor's recommendations and are already working to implement them into our procedures.

Auditor's Remarks

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

Applicable Laws and Regulations

Title 2 Code of Federal Regulations, Section § 200.303 – Internal controls, states in part:

The non-Federal entity must:

(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 or 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.

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

> .11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:
>
> **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 2 U.S. Code of Federal Regulations, Section 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.

Title 7 Code of Federal Regulations, 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.

(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.

(g) *Direct verification.* Local educational agencies may conduct direct verification activities with the eligible programs defined in paragraph (a)(1) of this section and with the public agency that administers the State plan for medical assistance under title XIX of the Social Security Act (42 U.S.C. 1396 *et seq.*), (Medicaid), and under title XXI of the Social Security Act (42 U.S.C. 1397aa *et seq.*), the State Children's Health Insurance Program (SCHIP) as defined in §245.2. Records from the public agency may be used to verify income and program participation. The public agency's records are subject to the timeframe in paragraph (g)(5) of this section. Direct verification must be conducted prior to contacting the household for documentation.

(h) *Verification reporting and recordkeeping requirements.* By February 1, each local educational agency must report information related to its annual statutorily required verification activity, which excludes verification conducted in accordance with paragraph (c)(7) of this section, to the State agency in accordance with guidelines provided by FNS. These required data elements will be specified by FNS. Contingent upon new funding to support this purpose, FNS will also require each local educational agency to collect and report the number of students who were terminated as a result of verification but who were reinstated as of February 15th. The first report containing this data element would be required in the school year beginning July 1, 2005 and each school year thereafter. State agencies may develop paper or electronic reporting forms to collect this data from local educational agencies, as long as all required data elements are collected from each local educational agency. Local educational agencies shall retain copies of the information reported under this section and all supporting documents for a minimum of 3 years. All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or local educational agency must be retained. Local educational agencies are encouraged to collect and report any or all verification data elements before the required dates.

(j) *Adverse Action*. If verification activities fail to confirm eligibility for free or reduced price benefits or should the household fail to cooperate with verification efforts, the school or local educational agency shall reduce benefits, as applicable, as follows: Ten day advance notification shall be provided to households that are to receive a reduction or termination of benefits, prior to the actual reduction or termination. The first day of the 10 day advance notice shall be the day the notice is sent. The notice shall advice the household of:

(1) The change;

(2) The reasons for the change;

(3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision;

(4) Instructions on how to appeal; and

(5) The right to reapply at any time during the school year. The reasons for ineligibility shall be properly documented and retained on file at the local education agency.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

2016-002 The District did not have adequate internal controls to ensure compliance with Title I grant requirements for highly qualified paraprofessionals, suspension and debarment, or graduation rate reporting.

CFDA Number and Title:	84.010 – Title I Grants to Local Education Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	0202215, 0263085
Known Questioned Cost Amount:	$71,854
Likely Questioned Cost Amount:	$287,415

Background

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families. During fiscal year 2016, the District spent $2,024,005 in Title I program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found that the District's internal controls were not adequate to ensure compliance with requirements regarding highly qualified paraprofessionals, suspension and debarment or graduation data reporting.

Description of Condition

Highly Qualified Paraprofessionals

To meet the requirements for highly qualified status, a paraprofessional must hold a high school diploma or its recognized equivalent and meet one of the following requirements:

- Have completed at least two years of study at an institution of higher education
- Have obtained an associate's or higher degree
- Have met a rigorous standard of quality and can demonstrate, through a formal state or local academic assessment, knowledge of and the ability to assist in instructing reading/language arts, writing and mathematics, or reading readiness, writing readiness and mathematics readiness.

We reviewed the District's internal controls over requirements for highly qualified status to determine whether the District is hiring only qualified paraprofessionals in programs supported with Title I, Part A funds. We found the District did not maintain documentation showing evidence of a high school diploma or its equivalent for its paraprofessionals whose positions were paid at least partially from Title I funds.

We consider this deficiency in internal controls to be a material weakness. This condition was not reported as a finding in the prior audit.

Suspension and Debarment

Federal requirements prohibit contracting with or making subawards to parties that have been suspended or debarred from doing business with the federal government. To comply with this requirement, the District must verify that subrecipients have not been suspended or debarred, or otherwise excluded, for contracts for goods and services that are expected to cost $25,000 or more. This verification may be accomplished by obtaining written certification from the contractor or inserting a clause or condition in the contract in which the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List System (EPLS) maintained by the General Services Administration. The District must meet one of these requirements before entering into a contract or making a sub-award.

We selected three contracts for testing. The District could not provide evidence that it either obtained a written certification or reviewed EPLS to determine that one of the three contractors, to whom it paid $49,637, was not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

Graduation Rate Reporting

Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done by submitting a Graduation Rate Report that indicates the student's enrollment status: graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support for changes to a student's status. To confirm a student has transferred out, the District must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

We found the District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District did not have official written documentation to support all reports of students transferred out of the District.

We consider this control deficiency to be a significant deficiency. This issue was not reported as a finding in the prior audit.

Cause of Condition

Highly Qualified Paraprofessionals

District personnel were not aware of the requirement to obtain evidence of a high school diploma or its recognized equivalent to support the highly qualified status for paraprofessionals. The District did not require paraprofessionals to submit high school diplomas or equivalent documentation and instead relied on the employees' assertions that they had graduated from high school.

Suspension and Debarment

The District deviated from its normal control process and used a contractor-generated contract, which did not include a certification that the contractor was not suspended or debarred or otherwise excluded from doing business with the federal government. The District did not maintain documentation to demonstrate it complied with suspension and debarment requirements for federally funded contracts.

Graduation Rate Reporting

District staff were not aware of the requirement to obtain and retain documentation for students transferring to another district or how long the documentation had to be retained. Also, the District did not have a secondary review of the reports performed to verify their accuracy before it submitted them to OSPI.

Effect of Condition and Questioned Costs

Highly Qualified Paraprofessionals

Without adequate controls in place, the District cannot demonstrate that costs charged to the grant were allowable.

The District was unable to provide documentation showing evidence of a high school diploma or its equivalent for four of the 12 paraprofessionals tested whose positions were at least partially paid from Title I, Part A funds. As a result, we identified $71,854 in known questioned costs for payroll and associated benefits. We projected the identified error to all paraprofessionals charged to the Title I program, which resulted in an estimated $287,415 in likely questioned costs.

Suspension and Debarment

Any payments on contracts to suspended or debarred parties would be unallowable and subject to recovery by the grantor. We were able to determine the contractor was not suspended or debarred; therefore, we are not questioning costs for these payments.

Graduation Rate Reporting

The District was unable to adequately support its reported graduation rate without proper documentation supporting the status of transferred students.

The District did not retain official written documentation for seven of 17 students tested who were reported to OSPI as transferring to another district. We projected the error rate to all students reported as transferred and to total students reported to OSPI, which resulted in an 8.7 percent projected error rate. Although there are no questioned costs, the District is at risk of misrepresenting the graduation rates.

Recommendations

Highly Qualified Paraprofessionals

We recommend the District establish and follow internal controls to ensure compliance with federal highly qualified status requirements for its paraprofessionals and charge only allowable costs to the program. In addition, we recommend the District consult with its awarding agency, the Office of Superintendent of Public Instruction, to determine the amount, if any, of funds that should be repaid.

Suspension and Debarment

We recommend the District follow established internal controls to ensure contractors are not suspended or debarred from participating in federal programs before entering into contracts.

Graduation Rate Reporting

We recommend the District:

- Train and guide staff to ensure they understand the grant requirements and the Secretary of State's records retention policy requirements
- Establish and follow internal controls to ensure it meets federal requirements for student transfer documentation for graduation reporting

District's Response

We concur with the Auditor's findings on highly qualified, suspension and debarment, and graduation rate reporting. We appreciate the Auditor's recommendations and are already working to implement them into our procedures.

Auditor's Remarks

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

Applicable Laws and Regulations

Title 2 Code of Federal Regulations, Section § 200.303 – Internal controls, states in part:

The non-Federal entity must:

> (c) 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 or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Title 2 U.S. Code of Federal Regulations, Section 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.
>
> (3) Known questioned costs that are greater than $25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known

> questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

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

> .11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:
>
> **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 34, Code of Federal Regulations, Section 200.43 - Qualifications of paraprofessionals, states in part:

> *(a) Applicability.*
>
> (1) An LEA must ensure that each paraprofessional who is hired by the LEA and who works in a program supported with funds under subpart A of this part meets the requirements in paragraph (b) of this section and, except as provided in paragraph (e) of this section, the requirements in either paragraph (c) or (d) of this section.
>
> (2) For the purpose of this section, the term ‘‘paraprofessional’’—
>
> (i) Means an individual who provides instructional support consistent with § 200.59; and
>
> (ii) Does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties).
>
> (3) For the purpose of paragraph (a) of this section, a paraprofessional working in ‘‘a program supported with funds under subpart A of this part’’ is—
>
> (i) A paraprofessional in a targeted assisted school who is paid with funds under subpart A of this part;
>
> (ii) A paraprofessional in a schoolwide program school; or
>
> (iii) A paraprofessional employed by an LEA with funds under subpart A of this part to provide instructional support to a public school teacher covered under § 200.55 who provides equitable services to eligible private school students under § 200.62.
>
> (b) *All paraprofessionals*. A paraprofessional covered under paragraph (a) of this section, regardless of the

paraprofessional's hiring date, must have earned a secondary school diploma or its recognized equivalent.

(c) *New paraprofessionals*. A paraprofessional covered under paragraph (a) of this section who is hired after January 8, 2002 must have—

(1) Completed at least two years of study at an institution of higher education;

(2) Obtained an associate's or higher degree; or

(3) (i) Met a rigorous standard of quality, and can demonstrate—through a formal State or local academic assessment—knowledge of and the ability to assist in instructing as appropriate--

(A) Reading/language arts, writing, and mathematics; or

(B) Reading readiness, writing readiness, and mathematics readiness.

(ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.

(d) *Existing paraprofessionals*. Each paraprofessional who was hired on or before January 8, 2002 must meet the requirements in paragraph (c) of this section no later than January 8, 2006.

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

(a) Covered transactions under this part—

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

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed $25,000.

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

> When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
>
> (a) Checking the SAM Exclusions (through EPLS); or
>
> (b) Collecting a certification from that person; or
>
> (c) Adding a clause or condition to the covered transaction with that person.

Title 34, Code of Federal Regulations, Section 200.34 (note this criteria was previously located at Section 200.19) - High School graduation rate, states in part:

> (a) *Four-year adjusted cohort graduation rate.* A State must calculate a four-year adjusted cohort graduation rate for each public high school in the State in the following manner:
>
> (1) The numerator must consist of the sum of –
>
> (i) All students who graduate in four years with a regular high school diploma; and
>
> (ii) All students with the most significant cognitive disabilities in the cohort, assessed using an alternate assessment aligned to alternate academic achievement standards under section 1111(b)(2)(D) of the Act and awarded a State-defined alternate diploma.
>
> (2) The denominator must consist of the number of students who form the adjusted cohort of entering first-time students in grade 9 enrolled in the high school no later than the date by which student membership data is collected annually by the State for submission to the National Center for Education Statistics.
>
> (3) For those high schools that start after grade 9, the cohort must be calculated based on the earliest high school grade students attend.

(b) *Adjusting the cohort. …*

(3) To remove a student from the cohort, a school or LEA must confirm in writing that the student –

(i) Transferred out, such that the school or LEA has official written documentation that the student enrolled in another school or educational program from which the student is expected to receive a regular high school diploma, or a State-defined alternate diploma for students with the most significant cognitive disabilities;

(ii) Emigrated to another country;

(iii) Transferred to a prison or juvenile facility after an adjudication of delinquency, and is enrolled in an educational program from which the student is expected to receive a regular high school diploma, or a State-defined alternate diploma for students with the most significant cognitive disabilities, during the period in which the student is assigned to the prison or juvenile facility; or

(iv) Is deceased.

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

2016-003 The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	84.027 – Special Education - Grants to States 84.173 – Special Education - Preschool Grants
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	305494, 337888, 363485
Questioned Cost Amount:	$0

Description of Condition

During fiscal year 2016, the District spent a total of $613,054 under its Special Education Grant program. The objective of the program is to provide grants to states to assist them in providing special education and related services to all children with disabilities.

Federal requirements prohibit contracting with or making subawards to parties that have been suspended or debarred from doing business with the federal government. To comply with this requirement, the District must verify subrecipients have not been suspended or debarred, or otherwise excluded, for contracts for goods and services that are expected to equal or exceed $25,000. This verification may be accomplished by obtaining written certification from the contractor or inserting a clause or condition in the contract in which the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List System (EPLS) maintained by the General Services Administration. The District must meet one of these requirements before entering into a contract or making a subaward.

We selected five contracts for testing. The District could not provide evidence that it either obtained a written certification or reviewed EPLS to determine one of five contractors, to whom it paid $92,138, was not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

The District deviated from its normal control process and used a contractor-generated contract, which did not include a certification that the contractor was not suspended or debarred, or otherwise excluded, from doing business with the federal government. The District did not maintain documentation to demonstrate it complied with suspension and debarment requirements for federally funded contracts.

Effect of Condition and Questioned Costs

Any payments on contracts to suspended or debarred parties would be unallowable and subject to recovery by the grantor. We were able to determine the contractor was not suspended or debarred; therefore, we are not questioning costs for these payments.

Recommendation

We recommend the District follow established internal controls to ensure contractors are not suspended or debarred from participating in federal programs before entering into contracts.

District's Response

We concur with the Auditor's finding on suspension and debarment. We appreciate the Auditor's recommendations and are already working to implement them into our procedures.

Auditor's Remarks

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

Applicable Laws and Regulations

Title 2, Code of Federal Regulations – Grants and Agreements, Section § 200.303 Internal controls states in part:

> The non-Federal entity must:
>
> > (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 or 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.

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

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

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.

Title 2, Code of Federal Regulations, Section 180.220 – Are any procurement contracts included as covered transactions?, states in part:

> (a) Covered transactions under this part—
>
> (b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:
>
> (2) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed $25,000.

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

> When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
>
> (b) Checking the SAM Exclusions (through EPLS); or
>
> (b) Collecting a certification from that person; or
>
> (c) Adding a clause or condition to the covered transaction with that person.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Tukwila School District No. 406
King 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 the Tukwila School District No. 406. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: September 1, 2014 through August 31, 2015	**Report Ref. No.:** 1016792	**Finding Ref. No.:** 2015-001	**CFDA Number(s):** 84.027/84.173
Federal Program Name and Granting Agency: Special Education Cluster, U.S. Department of Education		**Pass-Through Agency Name:** Washington Office of Superintendent of Public Instruction	
Finding Caption: The District's internal controls were inadequate to ensure compliance with federal procurement requirements.			
Background: Federal law and District policy requires the District to follow RCW 28A.335.190 and obtain formal bids for purchases exceeding $75,000. For purchases not covered under state law, such as professional services, grantees must follow federal procurement regulations. Federal grant recipients are required to obtain price or rate quotations from an adequate number of qualified sources for purchases up to $100,000 and formal bids for contracts exceeding $100,000. A grantee may solicit services from only one vendor if it determines the services are available from a single source or if they determine competition is inadequate. Grantees must keep documentation to show how they reached this conclusion. We reviewed procurement procedures for three professional service vendors representing $582,551 or 94 percent of the grant expenditures. The District considered all three vendors to be sole source providers; however, the District was unable to provide adequate documentation to justify the sole source designation.			
Status of Corrective Action:			
☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid
Corrective Action Taken: *The Business Office and Teaching and Learning Departments have worked closely to institute processes and procedures to properly document sole source procurement requirements. As noted in the finding, the District has worked with directors to ensure*			

understanding of requirements for the RFP process including an understanding of the time and materials procedures.

Administration is committed to ensuring compliance and has provided federal procurement training to staff, created resources documentation, and instituted internal control mechanisms into the purchasing process. Internal control mechanisms include reviewing grant requirements, reviewing bid laws, internal bid documentation, the remaining professional service vendors, the selective use of sole source, and soliciting multi-year bids for select services. Purchases involving the sole source exception will not be allowed without proper documentation and authorization from the Business Office.

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*

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

Board of Directors
Tukwila School District No. 406
Tukwila, 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 Tukwila School District No. 406, King 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 August 31, 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

Pat McCarthy

State Auditor

Olympia, WA

August 31, 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

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

Board of Directors
Tukwila School District No. 406
Tukwila, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Tukwila School District No. 406, King 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

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001, 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001, 2016-002 and 2016-003 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-002 to be a significant deficiency.

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

August 31, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

Board of Directors
Tukwila School District No. 406
Tukwila, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Tukwila School District No. 406, King 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 41.

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 Tukwila School District No. 406, 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 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 August 31, 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

August 31, 2017

FINANCIAL SECTION

Tukwila School District No. 406
King County
September 1, 2015 through August 31, 2016

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

REPORT F196 Tukwila School District No. 406 RUN: 1/10/2017 11:13:13 AM

E.S.D. 121 Balance Sheet

COUNTY: 17 King 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	3,904,465.47	122,631.11	4,879,468.84	66,448,105.35	146,824.55	0.00	75,501,495.32
Minus Warrants Outstanding	-1,078,209.52	-562.32	0.00	-60,441.45	0.00	0.00	-1,139,213.29
Taxes Receivable	5,196,996.80		2,384,153.45	417,793.74	0.00		7,998,943.99
Due From Other Funds	121,676.42	0.00	425.00	0.00	0.00	0.00	122,101.42
Due From Other Governmental Units	574,368.42	0.00	0.00	0.00	0.00	0.00	574,368.42
Accounts Receivable	242,723.88	0.00	0.00	0.00	0.00	0.00	242,723.88
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	2,634.02	0.00		0.00			2,634.02
Prepaid Items	28,846.00	0.00			0.00	0.00	28,846.00
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	**8,993,501.49**	**122,068.79**	**7,264,047.29**	**66,805,457.64**	**146,824.55**	**0.00**	**83,331,899.76**
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	**8,993,501.49**	**122,068.79**	**7,264,047.29**	**66,805,457.64**	**146,824.55**	**0.00**	**83,331,899.76**
LIABILITIES:							
Accounts Payable	682,844.76	0.00	0.00	144,150.90	0.00	0.00	826,995.66
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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E.S.D. 121

COUNTY: 17 King

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	182,811.48	0.00		0.00			182,811.48
Due To Other Governmental Units	387.53	0.00		0.00	0.00	0.00	387.53
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	106,096.33						106,096.33
Due To Other Funds	0.00	1,500.00	0.00	122,296.62	0.00	0.00	123,796.62
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	260.00	0.00	0.00	0.00		260.00
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	**972,140.10**	**1,760.00**	**0.00**	**266,447.52**	**0.00**	**0.00**	**1,240,347.62**
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	153,128.68	0.00	0.00	0.00	0.00	0.00	153,128.68
Unavailable Revenue - Taxes Receivable	5,196,996.80		2,384,153.45	417,793.74	0.00		7,998,943.99
TOTAL DEFERRED INFLOWS OF RESOURCES	**5,350,125.48**	**0.00**	**2,384,153.45**	**417,793.74**	**0.00**	**0.00**	**8,152,072.67**
FUND BALANCE:							
Nonspendable Fund Balance	31,480.02	0.00	0.00	0.00	0.00	0.00	31,480.02
Restricted Fund Balance	169,876.19	120,308.79	4,879,893.84	64,836,171.75	146,824.55	0.00	70,153,075.12
Committed Fund Balance	0.00	0.00	0.00	980,437.84	0.00	0.00	980,437.84
Assigned Fund Balance	542,771.20	0.00	0.00	304,606.79	0.00	0.00	847,377.99
Unassigned Fund Balance	1,927,108.50	0.00	0.00	0.00	0.00	0.00	1,927,108.50
TOTAL FUND BALANCE	**2,671,235.91**	**120,308.79**	**4,879,893.84**	**66,121,216.38**	**146,824.55**	**0.00**	**73,939,479.47**
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	**8,993,501.49**	**122,068.79**	**7,264,047.29**	**66,805,457.64**	**146,824.55**	**0.00**	**83,331,899.76**

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E.S.D. 121

COUNTY: 17 King

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	11,651,429.66	83,597.78	5,269,137.01	1,070,786.89	514.47		18,075,465.81
State	24,201,190.18		0.00	0.00	65,056.08		24,266,246.26
Federal	5,055,878.62		0.00	0.00	0.00		5,055,878.62
Federal Stimulus	878,496.09						878,496.09
Other	178,765.08			0.00	0.00	0.00	178,765.08
TOTAL REVENUES	**41,965,759.63**	**83,597.78**	**5,269,137.01**	**1,070,786.89**	**65,570.55**	**0.00**	**48,454,851.86**
EXPENDITURES:							
CURRENT:							
Regular Instruction	20,740,798.73						20,740,798.73
Federal Stimulus	679,451.98						679,451.98
Special Education	4,108,792.31						4,108,792.31
Vocational Education	404,304.82						404,304.82
Skill Center	0.00						0.00
Compensatory Programs	6,370,797.12						6,370,797.12
Other Instructional Programs	51,781.18						51,781.18
Community Services	158,080.04						158,080.04
Support Services	11,279,731.79						11,279,731.79
Student Activities/Other		100,778.76				0.00	100,778.76
CAPITAL OUTLAY:							
Sites				207,403.08			207,403.08
Building				374,166.88			374,166.88
Equipment				354,345.16			354,345.16
Instructional Technology				897,257.87			897,257.87
Energy				1,642.50			1,642.50
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	11,403.68						11,403.68
DEBT SERVICE:							
Principal	0.00		5,180,000.00	0.00	0.00		5,180,000.00
Interest and Other Charges	0.00		122,249.80	0.00	0.00		122,249.80
Bond/Levy Issuance				339,654.75	0.00		339,654.75
TOTAL EXPENDITURES	**43,805,141.65**	**100,778.76**	**5,302,249.80**	**2,174,470.24**	**0.00**	**0.00**	**51,382,640.45**

REPORT F196 Tukwila School District No. 406 RUN: 1/10/2017 11:13:14 AM

E.S.D. 121 **Statement of Revenues, Expenditures, and Changes in Fund Balance**

COUNTY: 17 King **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	-1,839,382.02	-17,180.98	-33,112.79	-1,103,683.35	65,570.55	0.00	-2,927,788.59
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		3,628.90	65,498,360.75	0.00		65,501,989.65
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	286.65		0.00	0.00	0.00		286.65
TOTAL OTHER FINANCING SOURCES (USES)	**286.65**		**3,628.90**	**65,498,360.75**	**0.00**	**0.00**	**65,502,276.30**
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-1,839,095.37	-17,180.98	-29,483.89	64,394,677.40	65,570.55	0.00	62,574,487.71
BEGINNING TOTAL FUND BALANCE	**4,510,331.28**	**137,489.77**	**4,909,377.73**	**2,107,979.68**	**81,254.00**	**0.00**	**11,746,432.46**
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	-381,440.70	0.00	0.00	-381,440.70
ENDING TOTAL FUND BALANCE	**2,671,235.91**	**120,308.79**	**4,879,893.84**	**66,121,216.38**	**146,824.55**	**0.00**	**73,939,479.47**

REPORT F196 **Tukwila School District No. 406** **RUN: 1/10/2017 11:13:24 AM**

E.S.D. 121 **Statement Of Fiduciary Net Position**

COUNTY: 17 King **Fiduciary Funds**

August 31, 2016

ASSETS:	**Private Purpose Trust**	**Other Trust**
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	63,610.05	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	1,695.20	0.00
Accounts Receivable	533.10	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	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	**65,838.35**	**0.00**
LIABILITIES:		
Accounts Payable	168.95	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	**168.95**	**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	65,669.40	
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	**65,669.40**	**0.00**

REPORT F196 | Tukwila School District No. 406 | RUN: 1/10/2017 11:13:25 AM

E.S.D. 121

COUNTY: 17 King

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2016

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	20,230.39	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	**20,230.39**	**0.00**
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	415.57	0.00
Less Investment Expenses	-14.41	0.00
Net Investment Income	401.16	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	**20,631.55**	**0.00**
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	10,000.00	
Other	3,320.18	0.00
TOTAL DEDUCTIONS	**13,320.18**	**0.00**
Net Increase (Decrease)	7,311.37	0.00
Net Position--Prior Year August Beginning	58,358.03	0.00
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	58,358.03	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	**65,669.40**	**0.00**

Tukwila School District
Notes to the Financial Statements
September 1, 2015 through August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(1) Districtwide statements, as defined in GAAP, are not presented.
(2) A Schedule of Long-Term Liabilities is presented as 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 fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

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 the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 30 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.

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

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

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

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

The {title of person or persons} is/are the only person (persons) who have the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Inventory

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

NOTE 2: DEPOSITS AND INVESTMENTS

The King 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,
- Bankers' 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.

Investments are presented at fair market value.

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

Type of Investment	(District's) own investments	Investments held by (district) as an agent for other organizations	Total
King County Investment Pool	$ 75,501,495	$ 63,610	$ 75,565,105

The district's participation in the King is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a duration of 1.00 years.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

According to legal counsel, there are no claims believed to pose a material risk of loss or judgment against the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

LGO Bond Issuance

In November 2016, the Tukwila School District issued Limited General Obligation bonds in the amount of $1,334,300. The bond proceeds will be used to purchase new school buses.

NOTE 5: PENSION 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 statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

Membership Participation

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

Membership participation by retirement plan as of June 30, 2016, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	49,417	827	3,230
SERS 2	7,391	5,704	26,127
SERS 3	6,715	7,899	32,409
TRS 1	34,859	223	962
TRS 2	4,700	2,443	17,612
TRS 3	8,866	8,373	53,417

Membership & Plan Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the

Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Plan Contributions

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

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

Pension Rates			
	7/1/16 Rate	7/1/15 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	11.18%	
Pension Rates			
	9/1/16 Rate	9/1/15 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	*	*	
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	*	*	
Employer Contribution Rate	11.58%	11.58%	**
Note: The DRS administrative rate of .0018 is included in the employer rate.			
* = 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 table.

The Collective Net Pension Liability as of June 30, 2016:				
Dollars in Thousands	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)	($ 10,798,925)
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 $**21,314,250** for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is 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
District's Annual Contributions	$ 302,970	$ 414,900	$ 1,032,273	$ 1,086,352
Proportionate Share of the Net Pension Liability	$ 2,869,161	$ 2,277,713	$ 11,596,699	$ 4,570,677

At **June 30,** 2016, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Change in Proportionate Shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.053425%	0.346807%	0.339657%	0.332825%
Prior year proportionate share of the Net Pension Liability	0.053133%	0.349531%	0.304799%	0.303991%

Net difference percentage	**0.000292%**	**-0.002724%**	**0.034858%**	**0.028834%**

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, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.00% 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, 2015, 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 2015 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:

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

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

Discount Rate

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1 NPL	$ 6,476,248,000	$ 5,370,471,000	$ 4,418,882,000
Allocation Percentage	0.053425%	0.053425%	0.053425%
Proportionate Share of Collective NPL	$ 3,459,919	$ 2,869,161	$ 2,360,777
SERS 2/3 NPL	$ 1,600,655,000	$ 656,767,000	($ 75,324,000)
Allocation Percentage	0.346807%	0.346807%	0.346807%
Proportionate Share of Collective NPL	$ 5,551,216	$ 2,277,713	($ 261,229)
TRS 1 NPL	$ 4,197,137,000	$ 3,414,237,000	$ 2,739,882,000
Allocation Percentage	0.339657%	0.339657%	0.339657%
Proportionate Share of Collective NPL	$ 14,255,874	$ 11,596,699	$ 9,306,204
TRS 2/3 NPL	$ 3,107,958,000	$ 1,373,297,000	($ 1,595,357,000)
Allocation Percentage	0.332825%	0.332825%	0.332825%
Proportionate Share of Collective NPL	$ 10,344,064	$ 4,570,677	($ 5,309,749)

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

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

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 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 $292,503. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its annual required contribution nor the net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

NOTE 7: COMMITMENTS UNDER 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					
Copier Lease #1	$ 167,992	$ 33,594	01/31/20	0.0%	$ 111,980
Copier Lease #2	$ 305,293	$ 66,859	04/01/16	0.0%	$ 263,627
Dell Laptops	$ 238,995	$ 83,170	04/15/19	4.38%	$ 238.995
				Total Lease-Purchase Commitments:	$ 614,602

NOTE 8: OTHER SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2016:

Fund	Amount
General	$ 178,735
ASB Fund	-
Capital Projects Fund	$ 5,300,861
Transportation Vehicle Fund	-

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District’s capital assets are insured in the amount of $68,207,023 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.

Lessor operating lease disclosures are as follows:

Tukwila School District leases the parcel of property that the pool resides on to the Tukwila Pool Metropolitan Park District (TPMPD). TMPDP is the sole owner of the pool and shall retain ownership of the pool throughout the duration of the lease.

Lease Years	Fiscal Years	Annual Rent
Years 1 – 5	2011 – 2015	$10,950
Years 6 – 10	2016 – 2020	$11,498
Years 11 – 15	2021 – 2025	$12,072
Years 16 – 20	2026 – 2030	$12,676

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds 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
UTGO Ref. 2012	$ 16,310,000	$ 600,000 – $ 5,145,000	12/01/17	0.4% - 1.2%	$ 10,145,000
UTGO 2016	$ 56,405,000	$ 1,110,000 – $ 6,085,000	12/01/35	3.0% - 5.0%	56,405,000
Total General Obligation Bonds	$ 72,715,000				$ 66,550,000

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	$ 15,325,000
New Issues	$ 56,405,000
Debt Retired	$ 5,180,000
Long-Term Debt Payable at 8/31/2016	$ 66,550,000

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

Years Ending August 31	Principal	Interest	Total
2017	$ 5,000,000	$ 1,249,785	$ 6,249,785
2018	$ 5,145,000	$ 2,426,343	$ 7,571,343
2019	$ 1,110,000	$ 2,331,200	$ 3,474,500
2020	$ 1,155,000	$ 2,285,000	$ 3,486,200
2021	$ 1,205,000	$ 2,236,800	$ 3,490,000
2022-2026	$ 8,605,000	$ 10,473,450	$ 19,078,450
2027-2031	$ 17,975,000	$ 7,778,300	$ 25,753,300
2032-2035	$ 26,355,000	$ 3,502,525	$ 29,857,525
Total	$ 66,550,000	$ 32,411,103	$ 98,961,103

At August 31, 2016, the District had $ 4,879,469 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Unissued

At August 31, 2016, the District has $34,000,000 remaining in authorized but unissued debt. The debt was authorized as part of the District’s 2016 $99,158,706 bond approval and authorization.

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The District had no prior-year interfund loan activity.

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

Risk Management

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool.

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

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

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

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool

Workers’ Compensation

In order to obtain workers’ compensation insurance economically, the District joined the Puget Sound Workers’ Compensation Trust in April 1984. The Trust pools workers’ compensation risk for the school districts, which are members. The District pays a monthly premium to the Trust, which varies with hours worked for the month. The agreement for formation of the Trust provides that the Trust will be self-sustaining through member premiums and investment earnings. An independent actuary performs a study twice a year to determine the Trust's remaining liability for claims.

The Trust does purchase reinsurance through a commercial company in accordance to state law.

The Puget Sound Workers' Compensation Trust's annual financial statements are included in the Puget Sound Education Service District's annual financial statements. These statements can be obtained by writing to:

Puget Sound Workers' Compensation Trust
800 Oakesdale Ave. SW
Renton, WA 98057
Phone: (425) 917-7667

For fiscal year ending August 31, 2016, the District made payments totaling $289,524.

Unemployment Pool

In 1978 Puget Sound Unemployment Pool was established through a cooperative agreement between King County School Districts for the purpose of operating as a common self-funded unemployment insurance program. The District pays an annual premium to the pool to cover the cost of unemployment insurance. The agreement or formation of the Puget Sound Unemployment Pool provides that the pool be self-sustaining through member premiums.

For fiscal year ending August 31, 2016, the District made payments totaling $60,764.

NOTE 13: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's current equity of $42,965 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	$ 31,480				
Restricted Fund Balance					
Other Items			$ 64,836,172		
Fund Purpose		$ 120,309			$ 146,825
Carryover of Restricted Revenues	$ 15,432				
Carryover of Food Service Revenue					
Debt Service	$ 154,444			$ 4,879,894	
Committed Fund Balance					
Other Purposes			$ 980,438		
Assigned Fund Balance					
Other Purposes	$ 542,771				
Fund Purposes			$ 304,607		
Unassigned Fund Balance	$ 1,927,109				

In addition, the Capital Projects Fund has the following amounts in Restricted and Committed Fund Balance, based on the source of the revenues:

Restricted from Bond Proceeds	$ 64,836,172
Committed from Levy Proceeds	$ 1,285,045

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain 6 percent of the District’s budgeted general fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Unassigned fund balance.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

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

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 17: TERMINATION BENEFITS

Compensated Absences

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

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

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

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

No unrecorded liability exists for other employee benefits.

REPORT F196 | **Tukwila School District No. 406** | **RUN: 1/10/2017 11:13:26 AM**

E.S.D. 121 | **Schedule of Long-Term Liabilities**

COUNTY: 17 King | **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	15,325,000.00	56,405,000.00	5,180,000.00	66,550,000.00	5,000,000.00
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	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	145,573.48	539,862.30	70,834.08	614,601.70	183,623.44
Contracts Payable	308,887.91	0.00	160,926.81	147,961.10	147,961.10
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	700,698.82	12,856.67	0.00	713,555.49	134,780.14
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	9,656,472.00	1,940,227.00	0.00	11,596,699.00	
Net Pension Liabilities TRS 2/3	2,565,082.00	2,005,595.00	0.00	4,570,677.00	
Net Pension Liabilities SERS 2/3	1,419,625.00	858,089.00	0.00	2,277,714.00	
Net Pension Liabilities PERS 1	2,779,342.00	89,818.00	0.00	2,869,160.00	
Total Long-Term Liabilities	32,900,681.21	61,851,447.97	5,411,760.89	89,340,368.29	5,466,364.68

Tukwila School District
King County
Schedule of Expenditure of Federal Awards
For Fiscal Year Ending August 31, 2016

Federal CFDA Number	Other ID Number	Federal Agency Name	Federal Program Title	Pass Thru Agency	Expenditures: Pass Thru Awards	Expenditures: Direct Fund Amount	Expenditures: Total Funds Expended	Passed Through to Subrecipients	Footnote
10.553	N/A	Dept of Agriculture	Federal Breakfast Program	WA OSPI	$ 505,527.80		$ 505,528		
10.555	N/A		National School Lunch Program (NSLP)						
			Cash Assistance		$ 844,438		$ 844,438		
			Non-Cash Assistance (Commodities)	WA OSPI	$ 127,977		$ 127,977		3
			Total		$ 972,415		$ 972,415		
10.582	N/A		Fresh Fruit and Vegetable Program	WA OSPI	$ 46,973		$ 46,973		
			Dept of Agriculture Subtotal		$ 1,524,915.41	$ -	$ 1,524,915		
20.205	N/A	Dept of Transportation	Highway Planning and Construction	City of Tukwila	$ 33,149		$ 33,149		
			Total		$ 33,149		$ 33,149		
			Dept of Transportation Subtotal		$ 33,149	$ -	$ 33,149		
84.010	0202215/0263085	Dept of Education	Title 1 Grants to Local Edcational Agencies	WA OSPI	$ 2,024,005		$ 2,024,005		2, 4
			Special Ed Cluster						
84.027	305494		Special Education - Grants to States	WA OSPI	$ 543,442		$ 543,442		4
84.027	337888		Special Education - Safety Net	WA OSPI	$ 51,790		$ 51,790		
84.173	363485		Special Education - Preschool Grants	WA OSPI	$ 17,822		$ 17,822		4
			Total		$ 613,054		$ 613,054		
84.048	173646		Career and Technical Education - Basic Grants to State	WA OSPI	$ 28,526		$ 28,526		4
84.365	402219		English Language Acquisition Grants	WA OSPI	$ 164,364		$ 164,364		4
84.367	523915		Supporting Effective instruction State Grant	WA OSPI	$ 142,668		$ 142,668		4
84.416	09393/08726/08636/05957/08710/08818/08790/08866/08656/08680		Race to the Top - District Grants	PSESD	664,169		$ 664,169		4
			Dept of Education Subtotal		$ 3,636,786	$ -	$ 3,636,786		
93.576	N/A	Dept of Health/Human Srvcs.	Refugee & Entrant Assistance - Discretionary Grants	YWCA	$ 91,194		$ 91,194		
93.600	08878		Head Start	PSESD	$ 237,382		$ 237,382		
93.778	N/A		Medical Assistance Program	DSHS WA STATE	$ 24,273		$ 24,273		
			Health/Human Services Dept Subtotal		$ 352,849	$ -	$ 352,849		
				Grand Totals	$ 5,547,699	$ -	$ 5,547,699		

The accompanying notes are an integral part of these statements.

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

Tukwila School District
King County
Notes to the Schedule of Expenditure of Federal Awards

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – SCHOOLWIDE PROGRAMS

The Tukwila School District operates a "schoolwide program" in three elementary buildings and one middle school. 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.

NOTE 3 – NON CASH AWARDS – FOOD COMMODITIES

The amount of commodities reported on the schedule is the value of commodities distributed by the Tukwila School District during the current year and priced as prescribed by the USDA.

NOTE 4 – FEDERAL INDIRECT RATE

The Tukwila School District claimed indirect costs under this grant using the allowable federal rate specific to the grant.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Tukwila School District No. 406
King 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 Tukwila School District No. 406.

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: Alphonso Melton 4640 S. 114th Street Tukwila, WA 98168-4196 (206) 901-8010	
Corrective action the auditee plans to take in response to the finding: *The District has increased training for the employees responsible for performing the food services verification. This training has included one-on-one training through our systems vendor, which highlighted key dates, identified required information, and identified verification best practices.*	
Anticipated date to complete the corrective action: September 1, 2017	
Finding ref number: 2016-002	**Finding caption:** The District did not have adequate internal controls to ensure compliance with Title I grant requirements for highly qualified paraprofessionals, suspension and debarment, or graduation rate reporting.
Name, address, and telephone of auditee contact person: Alphonso Melton 4640 S. 114th Street Tukwila, WA 98168-4196 (206) 901-8010	

Corrective action the auditee plans to take in response to the finding:	
For Suspension & Debarment, all vendors will be required to use the District's internal templates which requires vendors to certify that they are not suspended or debarred. This process will be monitored by the Business Office. *For Highly Qualified, the District will increase training for staff involved in the hiring process to ensure their review is adequate to properly report the qualifications of paraprofessionals.* *For Graduation Rate Reporting, the District will increase both training and review of the reporting process to ensure that items are being reported accurately and timely.*	
Anticipated date to complete the corrective action: September 1, 2017	
Finding ref number: 2016-003	**Finding caption:** The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Alphonso Melton 4640 S. 114th Street Tukwila, WA 98168-4196 (206) 901-8010	
Corrective action the auditee plans to take in response to the finding: *For suspension & debarment, all vendors will be required to use the District's internal templates which requires vendors to certify that they are not suspended or debarred. This process will be monitored by the Business Office.*	
Anticipated date to complete the corrective action: September 1, 2017	

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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