



**Office of the Washington State Auditor**  
**Pat McCarthy**

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

# **Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**For the period September 1, 2016 through August 31, 2017**

**Published May 21, 2018**

**Report No. 1021380**





## Office of the Washington State Auditor

**Pat McCarthy**

May 21, 2018

Board of Directors  
Newport Consolidated Joint School District No. 56-415  
Newport, Washington

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

Please find attached our report on Newport Consolidated Joint School District No. 56-415's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**September 1, 2016 through August 31, 2017**

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

The results of our audit of Newport Consolidated Joint School District No. 56-415 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 adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

#### Federal Awards

Internal Control over Major Programs:

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

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

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

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

## **Identification of Major Federal Programs:**

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.555	Child Nutrition Cluster – National School Lunch Program
10.553	Child Nutrition Cluster – School Breakfast Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children

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

The District qualified as a low-risk auditee under the Uniform Guidance.

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

None reported.

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

See finding 2017-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**September 1, 2016 through August 31, 2017**

**2017-001    The District did not have adequate internal controls to ensure it complied with verification requirements.**

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

### ***Background***

The District participates in the School Breakfast, National School Lunch and Summer Food Service programs, and received \$455,699 from them during the 2016-17 school year. These programs provide funding for free and reduced-price meals for low-income students. Families must meet income guidelines to be eligible for these programs.

Each year, districts must select a sample of program applications and verify that family income information reported is correct. The Office of Superintendent of Public Instruction (OSPI) instructs school districts on how to verify program eligibility. Districts must review selected applicants' income documentation to confirm students are receiving correct benefits of free or reduced-price meals. If the family's income does not meet requirements, the student is not eligible and must pay full price for meals. OSPI instructions to districts include guidance for determining the number of applications that must be verified based on their non-response rate from previous years' verifications. The verification process must

be completed by November 15 each year. In addition, the verification summary report is to be submitted to OSPI by February 1.

The District needed to use a 3 percent focused sampling method, because the District's nonresponse rate exceeded 20 percent during the 2015-2016 school year's verification process. This sampling method required the District to select three "error prone" applications for verification. An error-prone application is defined as one in which the reported monthly household income falls within \$100 of the upper income limit for free or reduced-priced meal eligibility.

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

Although the District had a process in place to perform the verification process, internal controls were not effective to ensure the District performed the verification steps accurately and in compliance with federal requirements.

We consider this control deficiency to be a material weaknesses.

This issue was not reported as a finding in the prior audit.

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

The District had a basic understanding of the verification process but was not aware that to select the correct number of applications it had to follow U.S. Department of Agriculture (USDA) requirements to round up all fractions and decimals to the nearest whole number. The District did not review the applications it selected to ensure each one met the criteria for classification as error-prone.

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

A lack of effective internal controls over the verification process increases the risk that error-prone applications are not properly selected for verification. It also increases the risk that free or reduced-price meals could be provided to children who are not eligible to receive them. Further, the District could receive funding for households that do not qualify for free and reduced-price meals.

Our audit found that the District did not select the appropriate number of applications to test. In addition, one of the applications the District selected for verification was not error-prone. As such, it should not have been selected for verification.

## ***Recommendations***

We recommend that the District:

- Provide sufficient training to employees responsible for the nutrition program to ensure compliance with the verification requirements in accordance with OSPI and USDA guidance
- Review the verification process before the deadlines to ensure it is performed in accordance with OSPI guidelines

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

*The District will provide sufficient training to employees responsible for the nutrition program to ensure compliance with the verification requirements in accordance with OSPI and USDA guidance.*

*The District will also review the verification process prior to the deadlines to ensure it is performed in accordance with OSPI guidelines.*

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

We thank District management and staff for their assistance during the audit. We will follow up on the status of the issue during our next scheduled audit.

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 – Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 – Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 7 CFR Part 245, *Determining Eligibility for Free and Reduced Price Meals and Free Milk in Schools*, Section 6a – Verification requirements, establishes requirements for verifying eligibility of children for free and reduced price meal benefits.



# Newport School District #56-415

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**September 1, 2016 through August 31, 2017**

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> September 1 , 2015 through August 31, 2016	<b>Report Ref. No.:</b> 1019144	<b>Finding Ref. No.:</b> 2016-001	<b>CFDA Number(s):</b> 10.553, 10.555, 10.559
<b>Federal Program Name and Granting Agency:</b> Child Nutrition Cluster, U .S. Department of Agriculture		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The District did not have adequate internal controls to ensure compliance with procurement requirements.			
<b>Background:</b> The District participates in the National School Lunch, School Breakfast and Summer Food Service programs. It received \$444, 126 for these programs in the 2015-2016 school year. This program provides funding for free and reduced -priced meals for low-income students. Federal grant recipients must follow the more restrictive of state or federal procurement requirements when purchasing food, equipment and supplies with Federal funds. State law is more restrictive for larger purchases and requires the District to obtain formal bids for purchases exceeding \$75,000. Federal law is more restrictive for small purchases and requires the District to obtain quotes for purchases that, individually or in aggregate, are less than the \$75,000 formal bid threshold. The District's policy was updated in March 2016 to comply with federal procurement requirements. Before the policy update, the District followed its state procurement policies and only obtained quotes for small purchases between \$40,000 and \$75,000, (the state law threshold). The District did not obtain quotes for purchases of less than \$40,000 as federal law requires.  We consider this internal control deficiency to be a material weakness. This issue was reported as a finding in the prior audit as finding 2015-001.			
✓ Fully Corrected	0 Partially Corrected	0 Not Corrected	0 Finding is considered no longer valid

**Corrective Action Taken:**

*This issue was resolved in May 2016. The board adopted the most current procurement guidance as policy. Procedures are also in place to ensure policy is followed.*

**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**

**Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**September 1, 2016 through August 31, 2017**

Board of Directors

Newport Consolidated Joint School District No. 56-415

Newport, 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 Newport Consolidated Joint School District No. 56-415, Pend Oreille County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 9, 2018.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because, as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

May 9, 2018

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

**Newport Consolidated Joint School District No. 56-415  
Pend Oreille County  
September 1, 2016 through August 31, 2017**

Board of Directors  
Newport Consolidated Joint School District No. 56-415  
Newport, Washington

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

We have audited the compliance of Newport Consolidated Joint School District No. 56-415, Pend Oreille 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, 2017. 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, 2017.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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

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

circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a material weakness.

### **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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

May 9, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Newport Consolidated Joint School District No. 56-415** **Pend Oreille County** **September 1, 2016 through August 31, 2017**

Board of Directors  
Newport Consolidated Joint School District No. 56-415  
Newport, Washington

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

We have audited the accompanying financial statements of Newport Consolidated Joint School District No. 56-415, Pend Oreille County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 22.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 Newport Consolidated Joint School District No. 56-415, as of August 31, 2017, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. GAAP requires presentation of government-wide financial statements to display the financial position and changes in financial position of its governmental activities.

As described in Note 1, the Accounting Manual does not require the District to prepare the government-wide financial statements, and consequently such amounts have not been determined or presented. We are therefore required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Newport Consolidated Joint School District No. 56-415, as of August 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **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 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 Schedule of Long-Term Liabilities is presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2018 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.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

May 9, 2018

## **FINANCIAL SECTION**

**Newport Consolidated Joint School District No. 56-415**  
**Pend Oreille County**  
**September 1, 2016 through August 31, 2017**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2017  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2017  
Statement of Fiduciary Net Position – Fiduciary Funds – 2017  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017  
Notes to the Financial Statements – 2017

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Long-Term Liabilities – 2017  
Schedule of Expenditures of Federal Awards – 2017  
Notes to the Schedule of Expenditures of Federal Awards – 2017

Newport School District No. 056

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	490,122.30	23,362.58	3,035.58	628.71	0.00	0.00	517,149.17
Minus Warrants Outstanding	-468,653.90	-18,861.70	0.00	-628.71	0.00	0.00	-488,144.31
Taxes Receivable	772,620.26		241,259.84	0.00	0.00		1,013,880.10
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	63,402.59	0.00	0.00	0.00	0.00	0.00	63,402.59
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	12,269.52	0.00		0.00			12,269.52
Prepaid Items	2,500.00	0.00			0.00	0.00	2,500.00
Investments	1,182,833.51	180,855.87	414,575.04	315.18	2.12	0.00	1,778,581.72
Investments/Cash With Trustee	5,748.61		0.00	0.00	0.00	0.00	5,748.61
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>2,060,842.89</b>	<b>185,356.75</b>	<b>658,870.46</b>	<b>315.18</b>	<b>2.12</b>	<b>0.00</b>	<b>2,905,387.40</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>2,060,842.89</b>	<b>185,356.75</b>	<b>658,870.46</b>	<b>315.18</b>	<b>2.12</b>	<b>0.00</b>	<b>2,905,387.40</b>
<b>LIABILITIES:</b>							
Accounts Payable	10,695.36	3,508.55	0.00	0.00	0.00	0.00	14,203.91
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

The accompanying notes are an integral part of this financial statement

## Newport School District No. 056

## Balance Sheet

## Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	0.00	0.00		0.00			0.00
Due To Other Governmental Units	561.53	0.00		0.00	0.00	0.00	561.53
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00		0.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>11,256.89</b>	<b>3,508.55</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>14,765.44</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	772,620.26		241,259.84	0.00	0.00		1,013,880.10
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>772,620.26</b>	<b>0.00</b>	<b>241,259.84</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1,013,880.10</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	14,769.52	0.00	0.00	0.00	0.00	0.00	14,769.52
Restricted Fund Balance	6,361.18	181,848.20	417,610.62	0.00	2.12	0.00	605,822.12
Committed Fund Balance	5,748.61	0.00	0.00	0.00	0.00	0.00	5,748.61
Assigned Fund Balance	62,179.22	0.00	0.00	315.18	0.00	0.00	62,494.40
Unassigned Fund Balance	1,187,907.21	0.00	0.00	0.00	0.00	0.00	1,187,907.21
<b>TOTAL FUND BALANCE</b>	<b>1,276,965.74</b>	<b>181,848.20</b>	<b>417,610.62</b>	<b>315.18</b>	<b>2.12</b>	<b>0.00</b>	<b>1,876,741.86</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>2,060,842.89</b>	<b>185,356.75</b>	<b>658,870.46</b>	<b>315.18</b>	<b>2.12</b>	<b>0.00</b>	<b>2,905,387.40</b>

The accompanying notes are an integral part of this financial statement



Newport School District No. 056

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	1,951,806.45	205,898.77	530,248.92	0.00	0.00		2,687,954.14
State	9,700,595.21		0.00	7,676.46	0.00		9,708,271.67
Federal	1,623,808.88		35,174.98	0.00	0.00		1,658,983.86
Federal Stimulus	0.00						0.00
Other	9,292.44			0.00	0.00	0.00	9,292.44
<b>TOTAL REVENUES</b>	<b>13,285,502.98</b>	<b>205,898.77</b>	<b>565,423.90</b>	<b>7,676.46</b>	<b>0.00</b>	<b>0.00</b>	<b>14,064,502.11</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	5,925,168.47						5,925,168.47
Federal Stimulus	0.00						0.00
Special Education	1,507,029.31						1,507,029.31
Vocational Education	710,914.17						710,914.17
Skill Center	0.00						0.00
Compensatory Programs	1,144,483.86						1,144,483.86
Other Instructional Programs	11,275.57						11,275.57
Community Services	7,561.53						7,561.53
Support Services	3,548,547.57						3,548,547.57
Student Activities/Other		182,412.55				0.00	182,412.55
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				0.00			0.00
Equipment				7,882.13			7,882.13
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	108,777.07						108,777.07
<b>DEBT SERVICE:</b>							
Principal	22,124.76		523,300.00	0.00	0.00		545,424.76
Interest and Other Charges	2,686.99		152,011.23	0.00	0.00		154,698.22
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>12,988,569.30</b>	<b>182,412.55</b>	<b>675,311.23</b>	<b>7,882.13</b>	<b>0.00</b>	<b>0.00</b>	<b>13,854,175.21</b>

The accompanying notes are an integral part of this financial statement

Newport School District No. 056

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	296,933.68	23,486.22	-109,887.33	-205.67	0.00	0.00	210,326.90
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		114,229.30	0.00	0.00		114,229.30
Transfers Out (GL 536)	-114,229.30		0.00	0.00	0.00	0.00	-114,229.30
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-114,229.30</b>		<b>114,229.30</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>182,704.38</b>	<b>23,486.22</b>	<b>4,341.97</b>	<b>-205.67</b>	<b>0.00</b>	<b>0.00</b>	<b>210,326.90</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>1,094,261.36</b>	<b>158,361.98</b>	<b>413,268.65</b>	<b>520.85</b>	<b>2.12</b>	<b>0.00</b>	<b>1,666,414.96</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>1,276,965.74</b>	<b>181,848.20</b>	<b>417,610.62</b>	<b>315.18</b>	<b>2.12</b>	<b>0.00</b>	<b>1,876,741.86</b>

The accompanying notes are an integral part of this financial statement

## Statement of Fiduciary Net Position

## Fiduciary Funds

August 31, 2017

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.65	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	1,021,507.34	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
<b>TOTAL ASSETS</b>	<b>1,021,507.99</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Held in trust for:</b>		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	1,021,507.99	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
<b>TOTAL NET POSITION</b>	<b>1,021,507.99</b>	<b>0.00</b>

The accompanying notes are an integral part of this financial statement

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds

For the Year Ended August 31, 2017

<b>ADDITIONS:</b>			
<b>Contributions:</b>			
Private Donations	Private Purpose Trust	Other Trust	
Employer	122,450.00	0.00	0.00
Members		0.00	0.00
Other	0.00	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>122,450.00</b>	<b>0.00</b>	
<b>Investment Income:</b>			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	0.00
Interest and Dividends	2,240.61	0.00	0.00
Less Investment Expenses	0.00	0.00	0.00
Net Investment Income	2,240.61	0.00	0.00
<b>Other Additions:</b>			
Rent or Lease Revenue	0.00	0.00	0.00
Total Other Additions	0.00	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>124,690.61</b>	<b>0.00</b>	
<b>DEDUCTIONS:</b>			
Benefits		0.00	0.00
Refund of Contributions	0.00	0.00	0.00
Administrative Expenses	0.00	0.00	0.00
Scholarships	16,488.36		
Other	3,393.32	0.00	0.00
<b>TOTAL DEDUCTIONS</b>	<b>19,881.68</b>	<b>0.00</b>	
Net Increase (Decrease)	104,808.93	0.00	0.00
Net Position--Prior Year August Beginning	916,699.06	0.00	0.00
Prior Year F-196 Manual Revision	0.00	0.00	0.00
Net Position - Total	916,699.06	0.00	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>1,021,507.99</b>	<b>0.00</b>	

The accompanying notes are an integral part of this financial statement

**Newport School District**  
**Notes to the Financial Statements**  
**September 1, 2016 Through August 31, 2017**

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

The Newport 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.
- (4) Property Taxes collected after the end of the fiscal period are not considered available for revenue accrual as described below.

**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.

#### ***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 60 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are accrued. Property taxes not collected by the fiscal year end are measurable and recorded as a receivable, however the receivable is not considered available of revenue accrual but is recorded as a deferred inflow of resources.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition.

For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

## **Budgets**

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

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

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

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

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

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

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

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

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

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

used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

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

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

The Board of Directors are the only persons who have the authority to create Assignments of fund balance.

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

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

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

## **Cash and Cash Equivalents**

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

## **Inventory**

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

## **Summary of Significant Accounting Policies Changes for 2016–2017**

Property Taxes – For purposes of revenue recognition, property taxes received after the fiscal year end are not considered available for revenue accrual as defined by GASBS 33 and Interpretation 5. Amounts outstanding are recognized as a deferred inflow of resources on the financial statements.



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

The Pend Oreille 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.

The District's investments as of August 31, 2017, are as follows:

Type of Investment	(District's) own investments	Investments held by (district) as an agent for other organizations	Total
State Treasurer's Investment Pool (General)	\$1,182,834		\$1,182,834
County Treasurer's Investment Pool (Capital Projects)	\$315		\$315
County Treasurer's Investment Pool (Debt Service)	\$414,575		\$414,575
County Treasurer's Investment Pool (ASB Fund)	\$180,856		\$180,856
County Treasurer's Investment Pool (Private Purpose Trust)		\$1,021,507	\$1,021,507
Cash held with ESD	\$5,749		\$5,749
Total	\$1,784,329	\$1,021,507	\$2,805,836

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

### **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

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

### **NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

The District has no known significant effects of subsequent events that would materially impact the financial position of the district.

## **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, 2017, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	48,268	663	2,593
SERS 2	8,229	5,880	27,011
SERS 3	7,735	8,330	33,890
TRS 1	34,225	188	697
TRS 2	5,076	2,532	19,133
TRS 3	10,289	8,568	54,487

### **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 2017 were as follows:

<b>Pension Rates</b>			
	7/1/17 Rate	7/1/16 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.70%	11.18%	
<b>Pension Rates</b>			
	9/1/17 Rate	9/1/16 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.20%	13.13%	
<b>TRS 2</b>			
Member Contribution Rate	7.06%	5.95%	
Employer Contribution Rate	15.20%	13.13%	
<b>TRS 3</b>			
Member Contribution Rate	Varies*	Varies*	
Employer Contribution Rate	15.20%	13.13%	**
<b>SERS 2</b>			
Member Contribution Rate	7.27%	5.63%	
Employer Contribution Rate	13.48%	11.58%	
<b>SERS 3</b>			
Member Contribution Rate	Varies*	Varies*	
Employer Contribution Rate	13.48%	11.58%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

## The Collective Net Pension Liability

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

The Collective Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,241,998	\$5,357,035	\$8,782,791	\$13,446,531
Plan fiduciary net position	(\$7,496,920)	(\$4,863,560)	(\$5,759,493)	(\$12,523,588)
Participating employers' net pension liability	\$4,745,078	\$493,475	\$3,023,268	\$922,943
Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.8%	65.6%	93.1%

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

At June 30, 2017, the school district reported a total liability of \$4,584,750 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, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$88,913	\$120,824	\$303,576	\$327,527
Proportionate Share of the Net Pension Liability	\$701,379	\$440,198	\$2,622,739	\$820,434

At **June 30, 2017**, 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	0.014781%	0.089204%	0.086752%	0.088893%
Prior year proportionate share of the Net Pension Liability	0.014283%	0.092246%	0.089233%	0.092966%
Net difference percentage	<b>0.000498%</b>	<b>-0.003043%</b>	<b>-0.002481%</b>	<b>-0.004073%</b>



## Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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

## Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2016, 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 2016 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 7.5 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, 2017, 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%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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 7.5 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 7.7 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 7.5 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 7.5 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 Newport School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.5 percent) or one percentage-point higher (8.5 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
<b>PERS 1 NPL</b>	\$5,780,412,000	\$4,745,078,000	\$3,848,257,000
Allocation Percentage	0.014781%	0.014781%	0.014781%
Proportionate Share of Collective NPL	\$854,414	\$701,379	\$568,818
<b>SERS 2/3 NPL</b>	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	0.089204%	0.089204%	0.089204%
Proportionate Share of Collective NPL	\$1,140,845	\$440,198	(\$137,075)
<b>TRS 1 NPL</b>	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	0.086752%	0.086752%	0.086752%
Proportionate Share of Collective NPL	\$3,261,319	\$2,622,739	\$2,070,004
<b>TRS 2/3 NPL</b>	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	0.088893%	0.088893%	0.088893%
Proportionate Share of Collective NPL	\$2,786,488	\$820,434	(\$776,371)

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## **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 2016–17, the District was required to pay the HCA \$64.39 per month per full-time equivalent employee to support the program, for a total payment of \$98,013.54. 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(s) ended August 31, 2017, the District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
<b>Lease-Purchase Commitments</b>					
Xerox	\$85,222.20	\$17,044.44	8/2021	4%	\$68,177.76
Deere Leasing	\$35,870	\$8,967.31	8/2018	4%	\$8,867.31
<i>Total Lease-Purchase Commitments</i>			<b>\$84,293.47</b>		

The District also has an operating lease for a mailer.

Lessor	Amount	Annual Installment	Final Installment Date	Balance
<b>Operating Leases</b>				
AP Mailing Systems	\$7,395	\$1,740	11/2019	\$3,915
<i>Total Operating Leases</i>		<b>\$3,915</b>		

## **NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$55,432,818 for fiscal year 2017. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

Bonds payable at August 31, 2017, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds	\$6,640,000	\$50,000 - \$550,000	12/1/2023	3.0 – 4.25%	\$3,405,000
QSCB Loan	\$1,000,000	\$65,000 - \$82,000	12/1/2025	4.8%	\$666,000
Sale of Non-Voted Bonds	\$312,786.72	\$41,000 - \$45,000	6/1/2023	1.92697%	\$204,769.79
Total General Obligation Bonds	\$7,985,786.72				\$4,275,769.79

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2017:

Long-Term Debt Payable at 9/1/2016	\$4,788,427.71
New Issues	
Debt Retired	\$512,557.92
Long-Term Debt Payable at 8/31/2017	\$4,275,869.79

The following is a schedule of annual requirements to amortize debt at August 31, 2017:

Years Ending August 31	Principal	Interest	Total
2018	\$526,022.42	\$144,963.30	\$670,985.72
2019	\$544,562.04	\$126,737.00	\$671,299.04
2020	\$568,180.60	\$107,869.28	\$676,049.88
2021	\$591,882.17	\$88,077.12	\$679,959.29
2022-2026	\$2,045,222.56	\$139,813.93	\$2,185,036.49
<b>Total</b>	<b>\$4,275,869.79</b>	<b>\$607,460.63</b>	<b>\$4,883,330.42</b>

At August 31, 2017, the District had \$417,610.62 available in the Debt Service Fund to service the general obligation bonds.

## **NOTE 10: INTERFUND BALANCES AND TRANSFERS**

The following table depicts interfund transfer activity:

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900	Amount	Description
General Fund	Debt Service Fund	\$114,229.30	Transfer for non-voted bond payment

## **NOTE 11: 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.

In July 1983 the District joined together with other school districts in the state and Educational Service District No. 101 to form Northeast Washington Workers' Compensation Cooperative, a public entity risk pool currently operating as a common risk management and insurance program for worker's compensation insurance. The District pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Northeast Washington Workers' Compensation Cooperative provides that the pool will be self-sustaining through member premiums. Reinsurance, both specific and aggregate, is maintained.

The District is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 154 school districts.

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

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000

SIR. The program also purchases a stop loss policy with an attachment point of \$994,680, as an additional layer of protection for its members.

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

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

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

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending August 31, 2017, were \$1,675,950.37.

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

Beginning in May 2015 the District began covering all unemployment claims out of its General Fund. The District self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington, Department of Employment Security and then reimbursed by the District. The District made unemployment compensation payments totaling \$1,634.07.

The District has an unemployment compensation assignment of fund balance of \$62,179.22. When the Department of Employment Security bills the District for a claim, the District charges this expense to the appropriate functional expense account of the General Fund.

## **NOTE 12: 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 tax collections occurring after the end of the fiscal period are unavailable for revenue accrual. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due after the end of the fiscal period are recorded as a deferred inflow of resources.

## **NOTE 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing Resolution 8-8-79 dated January 15, 1979 and has remained in the joint venture ever since. The District's current equity of \$38,363.50 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 14: 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	Transp Vehicle Fund	Trust Fund
Nonspendable Fund Balance						
Inventory and Prepaid Items	\$14,770					
Restricted Fund Balance						
For Fund Purpose		\$181,848			\$2	
For Carryover of Restricted Revenues	\$6,361					
For Debt Service				\$417,611		
Held in Trust for Private Purposes						\$1,021,508
Committed Fund Balance						
Other Commitments	\$5,749					
Assigned Fund Balance						
Other Purposes	\$62,179					
Fund Purposes			\$315			
Unassigned Fund Balance	\$1,187,907					

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 annually, it is in the best interest of Newport School District that the Board of Directors target a goal of 10% of the current year's expenditures to address potential general fund needs and continue to maintain an acceptable and adequate minimum fund balance for district operations. 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 15: 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 through elective deferrals.

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

## **NOTE 16: TERMINATION BENEFITS**

### **Compensated Absences**

Employees earn sick leave at a rate of 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.

## **NOTE 17: OTHER DISCLOSURES**

### **Skill Center Satellite Campus Note**

The District operates a Satellite Campus of the Spokane Public Schools Skill Center, hosted by the Newport School District. A Skill Center is a regional cooperative program, designed to enhance the availability and offering of career and technical education programs by avoiding unnecessary duplication of course offerings and allowing for participation from multiple districts.

The Skill Center was created by an agreement between Spokane Public Schools and Newport School District. In the agreement, the Spokane Public School District is designated as the host district and fiscal agent for the Skill Center, responsible for accounting and fiscal matters relating to the Skill Center. The Skill Center is governed by an Administrative Council, comprised of the superintendents of all participating districts, or their assigned representative. Administration of the Skill Center is handled through a director, who is an employee of the District.

A Satellite Campus is considered an extension of the Skill Center Core Campus. Satellite campuses do not report enrollment apart from the Core Campus, and so do not receive apportionment funding directly from the state. The District is responsible for hiring the teachers who will work on the Satellite Campus program(s), but as the District does not receive direct state funding, it requires that the Core Campus reimburse the District for the cost of the instructor.

Newport School District No. 056  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2017

	Beginning Outstanding Debt	September 1, 2016	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding August 31, 2017
<b>Voted Debt</b>					
Voted Bonds	3,815,000.00	0.00	0.00	410,000.00	430,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt and Liabilities</b>					
Non-Voted Bonds	973,427.71	0.00	0.00	102,557.92	870,869.79
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	17,846.40	83,496.34	0.00	23,127.10	78,215.64
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	265,865.53	0.00	0.00	56,461.46	209,404.07
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
<b>Non-Voted Notes Not Recorded as Debt</b>	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	3,046,626.00	0.00	0.00	423,887.00	2,622,739.00
Net Pension Liabilities TRS 2/3	1,276,706.00	0.00	0.00	456,272.00	820,434.00
Net Pension Liabilities SERS 2/3	605,844.00	0.00	0.00	165,646.00	440,198.00
Net Pension Liabilities PERS 1	767,049.00	0.00	0.00	65,670.00	701,379.00
Total Long Term Liabilities	10,768,364.64	83,496.34	0.00	1,703,621.48	9,148,239.50
					586,830.63

**NEWPORT SCHOOL DISTRICT 26-056**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10	
						Expenditures				
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note	
US Department of Agriculture	WA OSPI	Child Nutrition Cluster:								
		National School Lunch Program	10.555	NA		\$ 274,550.46	\$ 274,550.46			
		National School Lunch Program: Non Cash	10.555	NA		\$ 31,966.85	\$ 31,966.85			
		Subtotal National School Lunch Program				\$ 306,517.31				
		School Breakfast Program	10.553	NA		\$ 141,620.30	\$ 141,620.30			
		Summer Food Service Program for Children	10.559	NA		\$ 7,561.53	\$ 7,561.53			
		Subtotal Child Nutrition Program				\$ 149,181.83				
		Total Child Nutrition Cluster				\$ 455,699.14	\$ 455,699.14			
	Treasurer	Schools and Roads - Grants to States	10.665	NA		\$ 51,937.08	\$ 51,937.08			
		Total U.S. Department of Agriculture			\$ -	\$ 507,636.22	\$ 507,636.22	\$ -		
US Department of Education	WA OSPI	Title I Grants to Local Education Agencies	84.010	0201904, 0224668		\$ 495,639.68	\$ 495,639.68		4, 5	
		Special Education Cluster:								
		Special Education Grants to States	84.027	0305458		\$ 218,024.66	\$ 218,024.66		5	
		Special Education Preschool Grants	84.173	0363464		\$ 21,432.62	\$ 21,432.62		5	
		Subtotal Special Education Cluster				\$ 239,457.28				
		Career and Technical Education - Basic Grants to States	84.048	0173595		\$ 15,288.99	\$ 15,288.99		5	
		Twenty-First Century Community Learning Centers	84.287	0991108		\$ 274,743.17	\$ 274,743.17		5	
		Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	0523776		\$ 50,378.35	\$ 50,378.35		5	
		Fund for the Improvement of Education	84.215	S215F130022		\$ 11,178.78	\$ 11,178.78			
		Total U.S. Department of Education				\$ 11,178.78	\$ 1,075,507.47	\$ 1,086,686.25	\$ -	
US Department of Health and Human Services	WA HCA	Medical Assistance Program	93.778	NA		\$ 29,486.41	\$ 29,486.41			
		Total U.S. Department of Human and Health Services				\$ -	\$ 29,486.41	\$ 29,486.41	\$ -	
TOTAL FEDERAL AWARDS EXPENDED					\$ 11,178.78	\$ 1,612,630.10	\$ 1,623,808.88	\$ -		

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

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

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances.

### **NOTE 1—BASIS OF ACCOUNTING**

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

### **NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS**

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

### **NOTE 3—NONCASH AWARDS**

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

### **NOTE 4—SCHOOLWIDE PROGRAMS**

The Newport School District operates a "schoolwide program" in one elementary and one middle school building. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amount was expended by the Newport School District in its schoolwide program: Title I (84.010) (\$ 495,670).

### **NOTE 5—FEDERAL INDIRECT RATE**

The Newport School District used the federal restricted rate of 3.64%. The Newport School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

# Newport School District #56-415

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## **CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE**

**Newport Consolidated Joint School District No. 56-415**

**Pend Oreille County**

**September 1, 2016 through August 31, 2017**

<b>Finding ref number:</b> 2017-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with verification requirements.
<b>Name, address, and telephone of District contact person:</b> Debra Buttrey, Business Manager Newport Consolidated Joint School District No. 56-415 1380 West 5th Street Newport, WA 99156	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will provide sufficient training to employees responsible for the nutrition program to ensure compliance with the verification requirements in accordance with OSPI and USDA guidance.</i> <i>The District will also review the verification process prior to the deadlines to ensure it is performed in accordance with OSPI guidelines.</i>	
<b>Anticipated date to complete the corrective action:</b> District is fully aware of situation and the corrective action timeline will be immediate.	

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>