



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

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

# **Quillayute Valley School District No. 402**

**Clallam County**

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

**Published May 30, 2017**

**Report No. 1019145**





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

May 30, 2017

Board of Directors  
Quillayute Valley School District No. 402  
Forks, Washington

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

Please find attached our report on Quillayute Valley School District No. 402's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Quillayute Valley School District No. 402**  
**Clallam County**  
**September 1, 2015 through August 31, 2016**

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

The results of our audit of Quillayute Valley School District No. 402 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

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

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

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

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.027	Special Education Cluster – Special Education – Grants to States
84.173	Special Education Cluster – Special Education – Preschool Grants

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

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

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

None reported.

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

See finding 2016-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Quillayute Valley School District No. 402  
Clallam County  
September 1, 2015 through August 31, 2016**

**2016-001    The District did not have adequate internal controls to ensure compliance with federal time and effort requirements.**

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

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

The Special Education program's objective is to ensure all children with disabilities receive special education and related services to meet their needs. During fiscal year 2016, the District spent \$513,590 in Special Education program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by required time and effort documentation. Depending on the number and types of activities an employee works on, time and effort documentation can be a semi-annual certification or a monthly personnel activity report, such as a time sheet.

Our audit found the District did not design an effective process to ensure monthly personnel activity reports were completed for an employee whose time was reclassified between state and federally funded special education programs.

Time and effort documentation was not obtained to reflect the final reclassification to charge the employee's full salary and benefit costs to the federal grant.

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

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

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

The District has a process in place to obtain the required monthly time and effort documentation for this program. However, it deviated from its normal control process for one employee. The District reclassified the employee's special education salary and benefit costs between federal and state funding sources three times during the 2015-2016 school year. District staff retained time and effort documentation for the first two reclassifications. However, those documents were discarded after the final reclassification was performed and were unavailable for review during our audit. Also, time and effort documentation was not obtained to reflect the final reclassification until requested during the audit.

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

Without adequate time and effort documentation, federal grantors cannot be assured that salaries, benefits and indirect costs charged to their programs are accurate and valid.

Our audit found the District did not maintain the monthly time and effort documentation for one employee whose position was fully paid with Special Education funds. Salary and benefit charges to the grant for this employee totaled \$38,414. However, the District provided adequate alternative forms of documentation, which indicate the costs charged to the program were allowable. As a result, we are not questioning costs.

### ***Recommendation***

We recommend the District strengthen internal controls over time and effort records to ensure it obtains and maintains documentation to support all payroll costs charged to federal programs.

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

*We do feel as though we had sufficient controls during the 2015-16 school year. However, the time and effort in question was a code changed in June due to funding. In June 2016, we also switched our Gaggie and Microsoft Outlook Calendar platform to Gmail and Google Calendar. Google Calendar does not operate the same way as Outlook Calendar, which caused the oversight. We have also gone to an electronic personnel action sheet through Talent Ed. Based on these changes, we will strengthen our internal controls with new processes that incorporate our electronic personnel action sheets.*

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

We thank the District for its assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the District's corrective action during our next audit.

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

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

The non-Federal entity must:

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

Title 2 Code of Federal Regulations, Section 200.516 – Audit findings, states in part:

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



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

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

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

**Material weakness in internal control over compliance.**

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

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

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

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

**Material noncompliance.** In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that

is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program

Office of Superintendent of Public Instruction Bulletin 051-11, Attachment A, Standards for Charging Employee Compensation to Federal Grants, states in part:

### **Documentation Standards**

There are two types of time and effort reports: one that documents a single cost objective/activity and one that documents multiple cost objectives/activities. Employees who work on a ***single cost objective/activity*** of a federal program may report time and effort using semi-annual certifications. These certifications must be completed at least every six months and state that the employee worked solely on the activities of that cost objective. Employees expected to work on ***multiple cost objectives/activities*** must prepare and sign a personnel activity report (PAR) or equivalent documentation at least monthly. Semi-annual certifications and Personnel Activity Reports (PARs) or equivalent documentation, such as timesheets, should meet the following standards:

- **Semi-Annual Certifications** may only be used for a single cost objective/activity and must:
  - State that the employee worked solely on activities related to a particular cost objective for a specified period of time, identify the cost objective, and specify the reporting period covered.
  - Be signed and dated by the employee or a supervisor with first-hand knowledge of the work performed. The certification must be done at least semi-annually and after the work has been completed. (Districts may want to require both the employee and the supervisor to sign for internal control purposes.)
  - **PARs** or equivalent documentation must be used for multiple cost objectives/activities and must:
    - Account for the total activity each employee is compensated for (i.e., all hours worked, not just the hours worked on a federal award).

- Be prepared at least monthly and coincide with one or more pay periods.
- Be signed by the employee (districts may want to also require a supervisor signature for internal control purposes.)
- Reflect an after-the-fact distribution of the actual work done by the employee and be signed and dated ***after*** the work has been completed.

**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**

**Quillayute Valley School District No. 402  
Clallam County  
September 1, 2015 through August 31, 2016**

Board of Directors  
Quillayute Valley School District No. 402  
Forks, 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 Quillayute Valley School District No. 402, Clallam County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 18, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

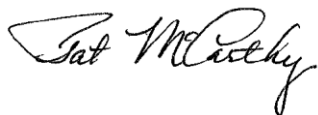
## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

May 18, 2017

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

**Quillayute Valley School District No. 402  
Clallam County  
September 1, 2015 through August 31, 2016**

Board of Directors  
Quillayute Valley School District No. 402  
Forks, Washington

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

We have audited the compliance of Quillayute Valley School District No. 402, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the

audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

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

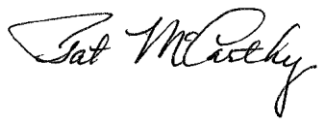
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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 did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-001 that we consider to be a significant deficiency.

### **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 18, 2017



# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Quillayute Valley School District No. 402 Clallam County September 1, 2015 through August 31, 2016**

Board of Directors  
Quillayute Valley School District No. 402  
Forks, Washington

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

We have audited the accompanying financial statements of Quillayute Valley School District No. 402, Clallam County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 20.

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

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

### **Auditor's Responsibility**

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

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

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quillayute Valley School District No. 402, as of August 31, 2016, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects, Transportation Vehicle and Fiduciary funds as of August 31, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America for governmental and fiduciary funds.

### **Other Matters**

#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for

purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Long-Term Liabilities is also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

May 18, 2017

## **FINANCIAL SECTION**

**Quillayute Valley School District No. 402  
Clallam County  
September 1, 2015 through August 31, 2016**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2016  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2016  
Statement of Net Position – Fiduciary Funds – 2016  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Long-Term Liabilities – 2016  
Schedule of Expenditures of Federal Awards – 2016  
Notes to the Schedule of Expenditures of Federal Awards – 2016

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	1,740,433.86	14,061.82	0.00	2,328.46	138,299.88	0.00	1,895,124.02
Minus Warrants Outstanding	-1,731,858.86	-5,261.82	0.00	-2,328.46	-138,299.88	0.00	-1,877,749.02
Taxes Receivable	231,066.66		352,610.52	0.00	0.00		583,677.18
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	257,270.85	0.00	0.00	0.00	0.00	0.00	257,270.85
Accounts Receivable	9,736.27	0.00	0.00	0.00	0.00	0.00	9,736.27
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	79,129.50	0.00		0.00			79,129.50
Prepaid Items	175.00	0.00			0.00	0.00	175.00
Investments	1,758,292.63	88,603.48	1,720,689.03	263,570.72	222,854.22	0.00	4,054,010.08
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>2,344,245.91</b>	<b>97,403.48</b>	<b>2,073,299.55</b>	<b>263,570.72</b>	<b>222,854.22</b>	<b>0.00</b>	<b>5,001,373.88</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>2,344,245.91</b>	<b>97,403.48</b>	<b>2,073,299.55</b>	<b>263,570.72</b>	<b>222,854.22</b>	<b>0.00</b>	<b>5,001,373.88</b>
<b>LIABILITIES:</b>							
Accounts Payable	173,362.82	1,049.53	0.00	242,368.09	0.00	0.00	416,780.44
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			143.25				143.25
Accrued Salaries	30,445.43	0.00		0.00			30,445.43
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	11,187.34	0.00	0.00	0.00			11,187.34
Due To Other Governmental Units	22,751.98	0.00			0.00	0.00	22,751.98
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>237,747.57</b>	<b>1,049.53</b>	<b>143.25</b>	<b>242,368.09</b>	<b>0.00</b>	<b>0.00</b>	<b>481,308.44</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	231,066.66		352,610.52	0.00	0.00		583,677.18
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>231,066.66</b>	<b>0.00</b>	<b>352,610.52</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>583,677.18</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	79,304.50	0.00	0.00	0.00	0.00	0.00	79,304.50
Restricted Fund Balance	59,924.87	96,353.95	1,720,545.78	0.00	222,854.22	0.00	2,099,678.82
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	21,202.63	0.00	0.00	21,202.63
Unassigned Fund Balance	1,736,202.31	0.00	0.00	0.00	0.00	0.00	1,736,202.31
<b>TOTAL FUND BALANCE</b>	<b>1,875,431.68</b>	<b>96,353.95</b>	<b>1,720,545.78</b>	<b>21,202.63</b>	<b>222,854.22</b>	<b>0.00</b>	<b>3,936,388.26</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>2,344,245.91</b>	<b>97,403.48</b>	<b>2,073,299.55</b>	<b>263,570.72</b>	<b>222,854.22</b>	<b>0.00</b>	<b>5,001,373.88</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	795,947.55	97,430.77	1,107,527.68	46,305.62	869.64		2,048,081.26
State	24,841,567.19		63,894.94	225,000.00	85,317.47		25,215,779.60
Federal	1,685,018.92		0.00	0.00	0.00		1,685,018.92
Federal Stimulus	0.00						0.00
Other	151,732.59			0.00	0.00	0.00	151,732.59
<b>TOTAL REVENUES</b>	<b>27,474,266.25</b>	<b>97,430.77</b>	<b>1,171,422.62</b>	<b>271,305.62</b>	<b>86,187.11</b>	<b>0.00</b>	<b>29,100,612.37</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	18,186,950.49						18,186,950.49
Federal Stimulus	0.00						0.00
Special Education	3,414,247.12						3,414,247.12
Vocational Education	388,122.12						388,122.12
Skill Center	10,677.82						10,677.82
Compensatory Programs	1,699,857.65						1,699,857.65
Other Instructional Programs	249,313.09						249,313.09
Community Services	71,437.71						71,437.71
Support Services	3,685,229.04						3,685,229.04
Student Activities/Other		92,082.43				0.00	92,082.43
<b>CAPITAL OUTLAY:</b>							
Sites				1,484,857.56			1,484,857.56
Building				0.00			0.00
Equipment				9,155.03			9,155.03
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					138,299.88		138,299.88
Sales and Lease				0.00			0.00
Other	141,284.61						141,284.61
<b>DEBT SERVICE:</b>							
Principal	0.00		650,000.00	19,454.54	0.00		669,454.54
Interest and Other Charges	0.00		405,832.50	10,328.74	0.00		416,161.24
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>27,847,119.65</b>	<b>92,082.43</b>	<b>1,055,832.50</b>	<b>1,523,795.87</b>	<b>138,299.88</b>	<b>0.00</b>	<b>30,657,130.33</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-372,853.40	5,348.34	115,590.12	-1,252,490.25	-52,112.77	0.00	-1,556,517.96
<b>OTHER FINANCING SOURCES (USES) :</b>							
Bond Sales & Refunding Bond Sales	0.00		11,321,810.15	0.00	0.00		11,321,810.15
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	1,037,027.78	0.00		1,037,027.78
Transfers Out (GL 536)	-1,037,027.78		0.00	0.00	0.00	0.00	-1,037,027.78
Other Financing Uses (GL 535)	0.00		-11,224,177.65	0.00	0.00		-11,224,177.65
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-1,037,027.78</b>		<b>97,632.50</b>	<b>1,037,027.78</b>	<b>0.00</b>	<b>0.00</b>	<b>97,632.50</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>-1,409,881.18</b>	<b>5,348.34</b>	<b>213,222.62</b>	<b>-215,462.47</b>	<b>-52,112.77</b>	<b>0.00</b>	<b>-1,458,885.46</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>3,285,312.86</b>	<b>91,005.61</b>	<b>1,507,323.16</b>	<b>236,665.10</b>	<b>274,966.99</b>	<b>0.00</b>	<b>5,395,273.72</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>1,875,431.68</b>	<b>96,353.95</b>	<b>1,720,545.78</b>	<b>21,202.63</b>	<b>222,854.22</b>	<b>0.00</b>	<b>3,936,388.26</b>

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



Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2016

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	46,538.03	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	167.03	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
<b>TOTAL ASSETS</b>	<b>46,705.06</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	-93.20	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>-93.20</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	46,798.26	
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>46,798.26</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, 2016

	Private Purpose Trust	Other Trust
<b>ADDITIONS:</b>		
Contributions:		
Private Donations	11,447.19	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>11,447.19</b>	<b>0.00</b>
<b>Investment Income:</b>		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	0.00	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	0.00	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>11,447.19</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	2,833.00	
Other	5,365.42	0.00
<b>TOTAL DEDUCTIONS</b>	<b>8,198.42</b>	<b>0.00</b>
Net Increase (Decrease)	3,248.77	0.00
Net Position--Prior Year August Beginning	43,549.49	0.00
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	43,549.49	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>46,798.26</b>	<b>0.00</b>

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

## **QUILLAYUTE VALLEY SCHOOL DISTRICT No. 402**

### **Notes to Financial Statements**

**September 1, 2015 through August 31, 2016**

#### **Note 1 - Summary of Significant Accounting Policies**

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

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the Accounting Manual for Public School Districts in the State of Washington, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

#### **Fund Accounting**

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures 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 with the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

### Permanent Funds

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

### FIDUCIARY FUNDS

Fiduciary funds include private-purpose trust 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.

### Agency Funds

These funds are used to account for assets that the District holds on behalf of others in a purely custodial capacity.

## **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 not collected within 60 days after year-end. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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

#### **Receivables and Payables**

The only receivables not expected to be collected within one year are \$4,948.42 in the General Fund.

#### **Inventory**

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

#### **Note 2 – Deposits and Investments**

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

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

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

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

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States,
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System,
- Bankers' acceptances purchased on the secondary market,
- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities,
- Investment deposits with qualified public depositories,
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

Investments are presented at \$ 4,054,010.08

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

Type of Investment	08/31/16	
	Investments	Total
State Treasurer's Investment Pool	\$ 3,849,607.68	\$ 3,849,607.68
Certificates of Deposits	\$ 204,402.40	\$ 204,402.40
TOTAL INVESTMENTS	\$ 4,054,010.08	\$ 4,054,010.08

### **Note 3 – Significant Contingent Liabilities**

#### **Litigation**

The Quillayute Valley School District has no known legal obligations which would materially impact the financial position of the District.

### **Note 4 – Significant Effects of Subsequent Events**

The Quillayute Valley School District has no significant events after the financial statement dates that materially impact the next and future years.

### **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, PO Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

## Membership Participation

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

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

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

## Membership and 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 the 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 member 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 account purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the

member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement, SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

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

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

### **Plan Contributions**

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

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

Pension Rates			
	07/01/16 Rate	07/01/15 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	11.18%	
Pension Rates			
	09/01/16 Rate	09/01/15 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	13.13%	
<b>TRS 2</b>			
Member Contribution Rate	5.95%	5.95%	
Employer Contribution Rate	13.13%	13.13%	
<b>TRS 3</b>			
Member Contribution Rate	Varies*	Varies*	
Employer Contribution Rate	13.13%	13.13%	**
<b>SERS 2</b>			
Member Contribution Rate	5.63%	5.63%	
Employer Contribution Rate	11.58%	11.58%	
<b>SERS 3</b>			
Member Contribution Rate	Varies*	Varies*	
Employer Contribution Rate	11.58%	11.58%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
*=Variable from 5% to 15% based on rate selected by the member.			
**=Defined benefit portion only.			

### The Collective Net Pension Liability

The Collective net pension liabilities for the pension plans districts participated in are reported in the following tables:

The Net Pension Liability as of June 30, 2016:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$ 12,496,872	\$ 4,870,806	\$ 9,001,257	\$ 12,172,222
Plan Fiduciary Net Position	\$ (7,126,401)	\$ (4,214,039)	\$ (5,587,020)	\$ (10,798,925)
Participating Employers' Net Pension Liability	\$ 5,370,471	\$ 656,767	\$ 3,414,237	\$ 1,373,297
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.03%	86.52%	62.07%	88.72%

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

At June 30, 2016, the school district reported a total liability of \$7,384,230 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered

plans. At June 30, 2016, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2016	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	138,874	181,933	320,745	348,675
Proportionate Share of the Net Pension Liability	1,315,151	998,776	3,603,302	1,467,001

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

Allocation Percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current Year Proportionate Share of the Net Pension Liability	0.024489%	0.152075%	0.105538%	0.106823%
Prior Year Proportionate Share of the Net Pension Liability	0.023963%	0.150202%	0.107100%	0.109756%
Net Difference Percentage	0.000526%	0.001873%	-0.001562%	-0.002933%

### Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2015, with the results rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% 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, 2015, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

### Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected

returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

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

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016, are summarized in the following table:

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

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

### Discount Rate

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>PERS 1 NPL</b>	\$ 6,476,248,000	\$ 5,370,471,000	\$ 4,418,882,000
Allocation Percentage	0.024489%	0.024489%	0.024489%
Proportionate Share of Collective NPL	\$ 1,585,940	\$ 1,315,151	\$ 1,082,121
<b>SERS 2/3</b>	\$ 1,600,665,000	\$ 656,767,000	\$ (75,324,000)
Allocation Percentage	0.152075%	0.152075%	0.152075%
Proportionate Share of Collective NPL	\$ 2,434,204	\$ 998,776	\$ (114,549)
<b>TRS 1</b>	\$ 4,197,137,000	\$ 3,414,237,000	\$ 2,739,882,000
Allocation Percentage	0.105538%	0.105538%	0.105538%
Proportionate Share of Collective NPL	\$ 4,429,556	\$ 3,603,302	\$ 2,891,605
<b>TRS 2/3</b>	\$ 3,107,958,000	\$ 1,373,297,000	\$ (1,595,357,000)
Allocation Percentage	0.106823%	0.106823%	0.106823%
Proportionate Share of Collective NPL	\$ 3,320,023	\$ 1,467,001	\$ (1,704,213)

#### **Note 6 – Annual Other Post-Employment Benefit Cost and Net OPEB Obligations**

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

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015-16, the District was required to pay the HCA \$65.25 per month per full-time equivalent employee to support the program, for a total payment of \$783.00. 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 Non-Capitalized (Operating) Leases**

The District leases its copiers for a lease term of 60 months and 84 months with a purchase option at the end of that term. The leases are through a KCDA purchasing contract and an Inter-local Agreement through the Seattle School District.

In the 2006-07 school year the District entered into an agreement with Siemens Building Technologies for the acquisition and purchase of certain energy conservation measures. A Master Equipment Conditional Sales Agreement with Banc of America Public Capital Corp was entered into for financing the project. The energy savings from the lighting and water conservation measures will offset an operating transfer from the General Fund which will provide for the payments to be made in the Capital Projects Fund.

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

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	08/31/16 Balance Due
<b>Lease-Purchase Commitments</b>					
Xerox Machine Lease 2015	\$118,456.70	\$ 19,743	20-Oct		\$98,713.92
Xerox Machine Lease 2015	\$ 1,936.89	\$ 355	20-Sep		\$ 1,581.79
QBSI-Xerox Lease (FJHS 2014)	\$ 5,834.75	\$ 1,167	19-Nov		\$ 3,889.83
QBSI-Xerox Lease 2014	\$ 20,529.00	\$ 4,106	19-May		\$11,633.22
Xerox Corp - Copy Machine Lease (2014)	\$ 71,636.04	\$ 11,093	21-Mar		\$50,844.54
Xerox Corp - Copy Machine Lease (2013)	\$ 10,426.20	\$ 2,085	17-Nov		\$ 4,691.67
Xerox Corp - Copy Machine Lease (2013)	\$ 63,593.40	\$ 1,839	18-Jul		\$ 3,524.14
Xerox Corp - Copy Machine Lease (2012)	\$ 49,813.20	\$ 9,963	17-Nov		\$12,453.37
Xerox Corp - Copy Machine Lease (2012)	\$ 33,904.80	\$ 6,781	17-Dec		\$ -
Xerox Corp - Copy Machine Lease (2011)	\$ 33,817.80	\$ 6,764	16-Nov		\$ -
Xerox Corp - Copy Maching Lease (2011)	\$116,111.85	\$ 21,823	16-May		\$ -
<b>Total Lease-Purchase Commitments</b>	<b>\$526,060.63</b>				<b>\$187,332.48</b>
<b>Other Long-Term Commitments</b>					
Banc of America - Siemens Bldg Technologies	\$292,937.49	\$11,625-\$36,527	02/24	7.1916%	\$211,714.27
<b>Total Other Long-Term Commitments</b>	<b>\$292,937.49</b>				<b>\$211,714.27</b>

#### **Note 8 – Construction and Other Significant Commitments, Including Encumbrances, if Appropriate**

The Quillayute Valley School District has three projects: The Security Camera System Project; the Athletic Field Renovation; The Track Renovation Project.

The Security Camera System Project for the purchase and installation of security cameras was estimated to be \$179,087.21 with State funds in the amount of \$71,261.00 received from the



Emergency Response Grant from OSPI and local funds to be directed from the Capital Projects Fund. The Board of Directors approved the final acceptance of the Forks High School Addition Project on March 25, 2014 and bond proceeds in the amount of \$33,901.87 were directed to purchase and install the security cameras in the High School as part of this project. The project was completed in the 2014-15 school year with retainage released in the 2015-16 school year.

The City of Forks in partnership with the District (with the City of Forks being the primary sponsor as the RCO prohibits school districts from applying) applied for a Grant through the Washington State Recreation and Conservation Office (RCO) for an Athletic Field Renovation. The application was submitted on July 1, 2015 with the timeline for awarding the grant to be in November 2015. The funding request was for \$250,000 with matching funds that were set aside from the District's General Fund to be used for Capital Project purposes. As part of the grant requirements, the District had to complete a geotechnical engineering study for the development of the proposed new football field synthetic turf surfacing and drainage system.

The Track Renovation Project was done in conjunction with the Athletic Field Renovation. It was estimated to be \$89,000 to resurface the track which included installation of rubberized running track surfacing and track striping.

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2016	Local Funds Committed	State Funds Committed
Security Camera System Project	\$ 179,087.21	\$ 180,410.88	\$ 109,149.88	\$ 71,261.00
Field Restoration /Renovation Project	\$ 1,250,000.00	\$ 1,408,055.78	\$1,158,055.78	\$ 250,000.00
Track Renovation Project	\$ 89,000.00	\$ 90,571.78	\$ 90,571.78	
<b>TOTAL</b>	<b>\$ 1,518,087.21</b>	<b>\$ 1,679,038.44</b>	<b>\$1,357,777.44</b>	<b>\$ 321,261.00</b>

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

Fund	Amount
General Fund	\$ 80,070.96
Capital Projects Fund	\$ 10,872.52
<b>TOTAL</b>	<b>\$ 90,943.48</b>

#### **Note 9 – Required Disclosures about Capital Assets**

The district's capital assets are insured in the amount of \$36,337,308 for fiscal 2015-2016. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

#### **Note 10 – Required Disclosures about Long-Term Liabilities**

##### **Long-Term Debt**

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



Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligations Bonds					
UTGO Refunded Bonds 2005	\$ 5,270,000	\$100,000-\$580,000	12/1/2017	3%-4%	\$ 1,140,000
UTGO Refunded Bonds 2009	\$11,500,000	\$80,000-1,260,000	12/1/2028	2%-4%	\$ 9,755,000
UTGO Bonds 2009	\$ 1,050,000	\$130,000-770,000	12/1/2018	3.5%-4%	\$ 1,050,000
Total General Obligation Bonds					\$11,945,000

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

Long-Term Debt Payable at 9/1/15	\$ 12,915,000
New Issues	\$ 9,755,000
Debt Retired	\$ 10,725,000
Long-Term Debt Payable at 8/31/16	\$ 11,945,000

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

Years Ending August 31,	Principal	Interest	Total
2017	\$ 865,000	\$ 446,689	\$ 1,311,689
2018	\$ 730,000	\$ 403,175	\$ 1,133,175
2019	\$ 770,000	\$ 373,550	\$ 1,143,550
2020	\$ 800,000	\$ 346,150	\$ 1,146,150
2021	\$ 830,000	\$ 321,700	\$ 1,151,700
2022-2026	\$ 4,845,000	\$ 1,121,525	\$ 5,966,525
2027-2030	\$ 3,105,000	\$ 171,900	\$ 3,276,900
TOTAL	\$ 11,945,000	\$ 3,184,689	\$ 15,129,689

At August 31, 2016, the district had \$1,720,545.78 available in the Debt Service Fund to service the general obligation bonds.

### Refunded Debt

On May 17, 2016 the District issued \$9,755,000 in general obligation bonds with an average interest rate of 1.60% to advance refund \$10,075,000 of outstanding 2009 series bonds with an average interest rate of 4.17%. The net proceeds of \$11,224,177.65 after payment of \$97,775.75 in underwriting fees, insurance, and other issuance costs were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments on the 2009 series bonds.

The District refunded the 2009 series bonds to reduce its total debt service payments over the next 13 years by \$942,150.83 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$848,592.35.

CALCULATION OF DIFFERENCE IN CASH FLOW REQUIREMENTS AND ECONOMIC GAIN	
Cash Flows Difference	
Old Debt Service Cash Flows	\$ 13,748,690.00
New Debt Service Cash Flows	\$(12,806,539.17)
TOTAL	\$ 942,150.83
Economic Gain	
Present Value of New Debt Service Cash Flows	\$ 12,256,886.25
Less Present Value of New Debt Service Cash Flows	\$(11,408,293.90)
TOTAL	\$ 848,592.35

### **Prior-Year Defeasance of Debt**

In prior years, the district defeased UTGO Bonds 1998 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 2016, \$1,140,000 of bonds outstanding is considered defeased.

District had no interfund loan activity in the 2015-16 school year.

### **Note 11 – Entity Risk Management Activities**

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

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

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

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

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual

meeting and is responsible for overseeing the business affairs of the Pool.

#### **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 October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end.

#### **Note 13 – Joint Ventures and Jointly Governed Organizations**

The Quillayute Valley School District operates a Transportation cooperative program to provide maintenance, service, and repair of vehicles and equipment to neighboring school districts and local government agencies. For fiscal year 2015-2016, these cooperative revenues totaled \$107,238.29, as compared to the preceding year revenues of \$84,905.71. Expenditures totaled \$60,162.35 as compared to the preceding fiscal year expenditures of \$45,822.88.

The Quillayute Valley School District has entered into an interlocal cooperation agreement with Port Angeles School District for the North Olympic Peninsula Skills Center to provide instruction in professional and technical programs for students in the Forks High School. For fiscal year 2015-2016, revenues totaled \$10,014.30. Expenditures totaled \$10,677.82.

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the Association by agreement dated August 20, 1974 and has remained in the joint venture ever since. The district's current equity of \$13,930.43 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.

The Quillayute Valley School District has entered into a ten-year service agreement with K12 Virtual Schools LLC for the Quillayute Valley School District's On Line High School known as Insight School of Washington to provide a full-time, diploma granting online high school which began in the 2006-07 school year. The district enrolled and served 1,781.05 FTEs for the 2015-2016 school year in this online school equal to a total entitlement of \$12,935,266.29. According to the service agreement, the district shall retain an administrative oversight compensation, which equated to \$757,148.13.

**Note 14 – Fund Balance Classification Details**

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

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$ 79,304.50				
Restricted Fund Balance					
For Other Items					
For Fund Purpose		\$ 96,353.95			
For Carryover of Restricted Revenues	\$ 59,924.87				
For Debt Service			\$1,720,545.78		
Committed Fund Balance					
Assigned Fund Balance					
Fund Purposes				\$ 21,202.63	\$ 222,854.22
Unassigned Fund Balance	\$1,736,202.31				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the district. The policy is that the District shall end each year with at least 5% of that year's general fund balance expenditures towards a minimum fund balance. 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 and the District, which is administered by a third party administrator.

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

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under one type of deferral: elective deferrals (employee contribution).

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

**Note 16 – Termination Benefits****Compensated Absences**

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

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is

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

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

Quillayute Valley School District No. 402  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2016

Description	Beginning Outstanding Debt September 1, 2015	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2016	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	12,915,000.00	0.00	970,000.00	11,945,000.00	865,000.00
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	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	151,152.69	120,393.59	84,213.80	187,332.48	50,350.59
Contracts Payable	231,168.81	0.00	19,454.54	211,714.27	21,263.22
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	287,125.77	1,109.65	0.00	288,235.42	44,677.11
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>					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	3,393,075.00	210,227.00	0.00	3,603,302.00	
Net Pension Liabilities TRS 2/3	926,127.00	540,874.00	0.00	1,467,001.00	
Net Pension Liabilities SERS 2/3	610,046.00	388,730.00	0.00	998,776.00	
Net Pension Liabilities PERS 1	1,253,480.00	61,671.00	0.00	1,315,151.00	
<b>Total Long-Term Liabilities</b>	19,767,175.27	1,323,005.24	1,073,668.34	20,016,512.17	981,290.92

**QUILLAYUTE VALLEY SCHOOL DISTRICT NO. 402**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ending August 31, 2016

1 Federal Agency Name	2 Pass Through Agency	3 Federal Program Title	4 CFDA Number	5 Other Identification Number	6 Expenditures				9 Footnote
					From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	
U.S. Dept of Agriculture	WA OSPI	Child Nutrition Cluster							
	WA OSPI	School Breakfast Program	10.553	05-402		\$ 117,172.87	\$ 117,172.87		
	WA OSPI	National School Lunch Program -Cash Assistance	10.555	05-402		\$ 292,094.88	\$ 292,094.88		
	WA OSPI	National School Lunch Program	10.555	05-402		\$ 26,244.16	\$ 26,244.16		2
	WA OSPI	-Non Cash Assistance Food Commodities							
	WA OSPI	Summer Food Service Program for Children	10.559	05-1076		\$ 9,504.39	\$ 9,504.39		
		Subtotal Child Nutrition Cluster				\$	445,016.30		
	Office of the State Treasurer	School and Roads Grants to States	10.665			\$ 55,999.21	\$ 55,999.21		
		<b>Dept of Agriculture Subtotal</b>				<b>\$ 501,015.51</b>	<b>\$ 501,015.51</b>		
U.S. Dept of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010	0201929		\$ 409,089.65	\$ 409,089.65		3, 4
	WA OSPI	Migrant Education Basic State Grant Program	84.011A	0282207		\$ 24,791.00	\$ 24,791.00		4
		Special Education Cluster							
	WA OSPI	Special Education Grants to States	84.027A	0305344		\$ 483,726.00	\$ 483,726.00		4
	WA OSPI	Special Education Grants to States	84.027A	0329066		\$ 16,500.00	\$ 16,500.00		4
	WA OSPI	Special Education Preschool Grants	84.173A	0363351		\$ 13,364.00	\$ 13,364.00		4
		Subtotal Special Education Cluster				\$	513,590.00		
	WA OSPI	Career and Technical Education Basic Grants to States	84.048	0173654		\$ 8,891.00	\$ 8,891.00		4
		Indian Education Grants to Local Educational Agencies	84.060A	SA60A150032		\$ 41,407.00	\$ 41,407.00		4
	WA OSPI	English Language Acquisition Grants	84.365A	0402160		\$ 12,089.49	\$ 12,089.49		4
	WA OSPI	Improving Teacher Quality State Grants	84.367A	0523903		\$ 48,033.66	\$ 48,033.66		4
	WA OSPI	Rural Education	84.358B	0461459		\$ 38,943.31	\$ 38,943.31		4
		<b>Dept of Education Subtotal</b>				<b>\$ 41,407.00</b>	<b>\$ 1,055,428.11</b>	<b>\$ 1,096,835.11</b>	
Dept of Health and Human Services	WA DSHS	Substance Abuse and Mental Health Svs-Projects of Regional & Nat'l Significance	93.243	1565-42510		\$ 53,738.68	\$ 53,738.68		
	WA DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1565-42510		\$ 33,429.62	\$ 33,429.62		
		<b>Dept of Health and Human Services</b>				<b>\$ -</b>	<b>\$ 87,168.30</b>	<b>\$ 87,168.30</b>	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>						<b>\$ 41,407.00</b>	<b>\$ 1,643,611.92</b>	<b>\$ 1,685,018.92</b>	

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

### NOTE 1—BASIS OF ACCOUNTING

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

### NOTE 2—NONCASH AWARDS

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

### NOTE 3—SCHOOLWIDE PROGRAMS

The Quillayute Valley School District operates a "schoolwide program" in the Elementary School. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students rather than limit services to certain targeted students. The following federal program amounts were expended by the Quillayute Valley School District in its schoolwide program. Title I (84.010) \$ 297,819.32

### NOTE 4—FEDERAL INDIRECT RATE

The Quillayute Valley School District used the federal restricted rate of 1.52 percent for this program.

The Quillayute Valley School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**Quillayute Valley School District No. 402**  
**Clallam County**  
**September 1, 2015 through August 31, 2016**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Quillayute Valley School District No. 402.

<b>Finding ref number:</b> 2016-001	<b>Finding caption:</b> The District did not have adequate controls to ensure compliance with federal time and effort requirements.
<b>Name, address, and telephone of auditee contact person:</b> Jan Haugen, Finance Director 411 Spartan Avenue Forks, WA 98331	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>We will be implementing an electronic form in our Talent Records System (Personnel Action Records) that is generated with a code that requires semi-annual time and effort and another code for monthly time and effort. The form will require an employee to confirm the time and effort with an electronic signature. The Human Resource coordinator will receive notification of the action completed by the employee. The employee's electronic record will then be forwarded to the Office Assistant of Special Education. This is the final check and balance for completion and accuracy.</i>	
<b>Anticipated date to complete the corrective action:</b> District expects to have this fully implemented by August 1, 2017, for the start of the new school year.	

## 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.

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

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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
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