



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port Angeles School District No. 121

Clallam County

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

Published May 30, 2017

Report No. 1019242





Office of the Washington State Auditor
Pat McCarthy

May 30, 2017

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on Port Angeles School District No. 121's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port Angeles School District No. 121
Clallam County
September 1, 2015 through August 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Port Angeles School District No. 121 are summarized below in accordance with 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
84.010	Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by 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

Port Angeles School District No. 121 Clallam County September 1, 2015 through August 31, 2016

2016-001 **The District did not have adequate internal controls to ensure compliance with comparability requirements for its Title I grant program.**

CFDA Number and Title:	84.010 – Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA

Description of Condition

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2016, the District spent \$621,548 in Title I program funds.

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

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

The District was unable to demonstrate there was an adequate control process in place to ensure compliance with comparability reporting to the Office of Superintendent of Public Instruction (OSPI). Specifically, the District could not

provide documentation to support the elementary school data submitted in the comparability report.

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

This issue was reported as a finding in the prior audit as finding 2015-001.

Cause of Condition

The person who completed the comparability report is no longer employed by the District, and did not retain documentation to support the data submitted to OSPI. The District was unable to provide support for the reported data during the audit.

The fiscal year 2016 comparability report had already been submitted by the time the issue was identified in the prior audit. The District was unaware of its noncompliance before it submitted the report.

Effect of Condition and Questioned Costs

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

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

Recommendation

We recommend the District design and follow internal controls to ensure:

- The comparability report is complete, accurate, and adequately supported.
- Schools receiving Title I funds receive services that are substantially comparable to those received by other schools.

District's Response

The District does not dispute the finding, but has already implemented procedures that we feel provide appropriate comparability between the different schools with respect to services. The following rationale has been implemented for the fiscal year ending August 31, 2017 with respect to compliance with comparability requirements:

- *Basic education funds are distributed to schools based on an equal formula for K-6 elementary schools, 7-8 middle school, and 9-12 high school.*

- *Staffing is assigned equally at all schools based on negotiated contract levels.*
- *Levy dollars are used to reduce class size starting with are lowest income schools.*
- *All 5 elementary schools are Schoolwide Title Schools and receive federal Title I funds based on rank order.*
- *State Learning Assistance Program (LAP) funds are distributed based on state requirements and individual school needs.*
- *Federal Title II funds are used to provide a district wide coach and professional development at the district and school levels.”*

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 Reporting, 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:

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

Material weakness in internal control over compliance.

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

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

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

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control that is less severe than a

material weakness yet important enough to merit attention by those charged with governance.

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

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

(c) Comparability of services

(1) In general

(A) Comparable services

Except as provided in paragraphs (4) and (5), a local educational agency may receive funds under this part only if State and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part.

(B) Substantially comparable services

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

(C) Basis

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

(2) Written assurance

(A) Equivalence

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

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

(B) Determinations

For the purpose of this subsection, in the determination of expenditures per pupil from State and local funds, or instructional salaries per pupil from State and local funds, staff salary differentials for years of employment shall not be included in such determinations.

(C) Exclusions

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

(3) Procedures and records

Each local educational agency assisted under this part shall:

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

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

(4) Inapplicability

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

(5) Compliance

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

(A) language instruction educational programs; and

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Port Angeles School District No. 121
Clallam County
September 1, 2015 through August 31, 2016

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Port Angeles School District No. 121. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/01/14 to 8/31/15	Report Ref. No.: 1016808	Finding Ref. No.: 2015-001	CFDA Number(s): 84.010
Federal Program Name and Granting Agency: U.S. Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant program.			
Background: During fiscal year 2015, the District spent \$833,396 in Title I program funds. Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District’s internal controls were not adequate to ensure compliance with: <ul style="list-style-type: none">• Allowable Costs – The District’s internal controls over payroll were inadequate to determine if salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations.• Eligibility – The District is required to allocate grant funds to each attendance area or school in rank order based on the number of children from low-income families residing in the area or attending school. The District was unable to demonstrate there was an adequate internal control process in place to ensure the allocation of grant funds to schools was in compliance with these regulations.• Earmarking – Districts identified for school improvement are required to commit to spend not less than 10 percent of the total Title I grant award for professional development. The District was unable to demonstrate there was an adequate internal control process in place to ensure funds committed to be spent on professional development were either spent for that purpose or appropriately carried over.			

- Comparability – School Districts are required to use state and local funds to provide services in Title I schools that are substantially comparable to the services provided in non-Title I schools within the same grade span. The District was unable to demonstrate there was an adequate internal control process in place to ensure compliance with comparability requirements.

Status of Corrective Action:

☐ Fully Corrected
 ☒ Partially Corrected
 ☐ Not Corrected
 ☐ Finding is considered no longer valid

Corrective Action Taken:

Allowable Costs (time and effort documentation) – We hired additional help and have taken particular steps to analyze and monitor our time and effort requirements monthly, with certified personnel activity reports (PARs) being distributed as appropriate and tracked.

Eligibility (rank order of expenditures) – We retained a consultant of known competence, and with the help of the consultant and other outside training opportunities, we have trained staff in how to appropriately rank the expenditures in order of the poverty level. We have earmarked funds by location and will monitor whether the rank order is being maintained as expected.

Earmarking (funds set aside for professional development) – The district feels it did use its Title I money to appropriately address the overall objectives of the funding. However, the district did not monitor that funding for professional development was spent particularly within that category. This was a training issue, which has since been rectified by the district. In the current fiscal year 2016-17, we have earmarked funds to make up for prior years funds that should have been used for this purpose. Also, in fiscal year 2016-17, we have earmarked funds in our budget records for the required set-asides and are more carefully monitoring our use of these funds. We will make sure that any remaining funds are then set aside into the next year.

Comparability – With the help of a consultant, well known for her expertise in this area, we have trained staff in this matter, and this matter should be resolved with the fiscal year 2016-17 school year funding. In addition, we have gone to Title I conferences where this requirement has been discussed and learned from the experiences shared in these conferences.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Port Angeles School District No. 121
Clallam County
September 1, 2015 through August 31, 2016**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Port Angeles School District No. 121, Clallam County, Washington, as of and for the year ended August 31, 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 23, 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 23, 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**

**Port Angeles School District No. 121
Clallam County
September 1, 2015 through August 31, 2016**

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

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

We have audited the compliance of Port Angeles School District No. 121, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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.

District's Response to Findings

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

May 23, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port Angeles School District No. 121 Clallam County September 1, 2015 through August 31, 2016

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Port Angeles School District No. 121, Clallam County, Washington, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 23.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Port Angeles School District No. 121, as of August 31, 2016, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Projects and Transportation Vehicle 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 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 23, 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 23, 2017

FINANCIAL SECTION

**Port Angeles School District No. 121
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

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

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	1,225,331.67	10,302.59	0.00	0.00	0.00	0.00	1,235,634.26
Minus Warrants Outstanding	-1,201,994.66	-927.59	0.00	0.00	0.00	0.00	-1,202,922.25
Taxes Receivable	3,915,065.01		20,200.46	0.00	0.00	0.00	3,935,265.47
Due From Other Funds	7,457.26	22.35	0.00	54,224.02	0.00	0.00	61,703.63
Due From Other Governmental Units	693,302.86	0.00	0.00	0.00	0.00	0.00	693,302.86
Accounts Receivable	15,230.75	0.00	0.00	0.00	0.00	0.00	15,230.75
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	76,720.63	0.00		0.00			76,720.63
Prepaid Items	10,933.63	0.00			0.00	0.00	10,933.63
Investments	6,623,731.27	418,334.65	843,169.43	747,301.17	268,459.44	0.00	8,900,995.96
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	11,365,778.42	427,732.00	863,369.89	801,525.19	268,459.44	0.00	13,726,864.94
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	11,365,778.42	427,732.00	863,369.89	801,525.19	268,459.44	0.00	13,726,864.94
LIABILITIES:							
Accounts Payable	580,942.45	86.23	0.00	445,388.79	0.00	0.00	1,026,417.47
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	22,917.51	0.00		0.00			22,917.51
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	3,455.29	0.00		0.00			3,455.29
Due To Other Governmental Units	159,451.36	0.00		0.00	0.00		159,451.36
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	54,246.37	0.00	0.00	7,457.26	0.00	0.00	61,703.63
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	821,012.98	86.23	0.00	452,846.05	0.00	0.00	1,273,945.26
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	28,829.79	0.00	0.00	0.00	0.00	0.00	28,829.79
Unavailable Revenue - Taxes Receivable	3,915,065.01		20,200.46	0.00	0.00		3,935,265.47
TOTAL DEFERRED INFLOWS OF RESOURCES	3,943,894.80	0.00	20,200.46	0.00	0.00	0.00	3,964,095.26
FUND BALANCE:							
Nonspendable Fund Balance	87,654.26	0.00	0.00	0.00	0.00	0.00	87,654.26
Restricted Fund Balance	112,634.77	427,645.77	843,169.43	0.00	268,459.44	0.00	1,651,909.41
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	4,423,091.60	0.00	0.00	348,679.14	0.00	0.00	4,771,770.74
Unassigned Fund Balance	1,977,490.01	0.00	0.00	0.00	0.00	0.00	1,977,490.01
TOTAL FUND BALANCE	6,600,870.64	427,645.77	843,169.43	348,679.14	268,459.44	0.00	8,488,824.42
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	11,365,778.42	427,732.00	863,369.89	801,525.19	268,459.44	0.00	13,726,864.94

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

Port Angeles School District No. 121

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	9,253,950.45	308,065.46	525,578.29	32,785.66	2,026.19		10,122,406.05
State	31,583,378.83		21,732.31	7,457.26	139,103.08		31,751,671.48
Federal	3,916,002.59		0.00	0.00	0.00		3,916,002.59
Federal Stimulus	0.00						0.00
Other	13,490.22			0.00	0.00	0.00	13,490.22
TOTAL REVENUES	44,766,822.09	308,065.46	547,310.60	40,242.92	141,129.27	0.00	45,803,570.34
EXPENDITURES:							
CURRENT:							
Regular Instruction	22,753,933.31						22,753,933.31
Federal Stimulus	0.00						0.00
Special Education	5,954,075.29						5,954,075.29
Vocational Education	1,217,725.65						1,217,725.65
Skill Center	1,237,117.56						1,237,117.56
Compensatory Programs	2,055,023.62						2,055,023.62
Other Instructional Programs	853,423.50						853,423.50
Community Services	6,569.80						6,569.80
Support Services	8,815,122.41						8,815,122.41
Student Activities/Other		310,131.36				0.00	310,131.36
CAPITAL OUTLAY:							
Sites				550,241.68			550,241.68
Building				270,511.71			270,511.71
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					250,255.20		250,255.20
Sales and Lease				0.00			0.00
Other	267,381.03						267,381.03
DEBT SERVICE:							
Principal	0.00		1,355,000.00	0.00	0.00		1,355,000.00
Interest and Other Charges	0.00		20,076.23	0.00	0.00		20,076.23
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	43,160,372.17	310,131.36	1,375,076.23	820,753.39	250,255.20	0.00	45,916,588.35

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

Port Angeles School District No. 121

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	1,606,449.92	-2,065.90	-827,765.63	-780,510.47	-109,125.93	0.00	-113,018.01
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	7,457.26		0.00	0.00	0.00		7,457.26
Transfers Out (GL 536)	0.00		0.00	-7,457.26	0.00	0.00	-7,457.26
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	7,457.26		0.00	-7,457.26	0.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,613,907.18	-2,065.90	-827,765.63	-787,967.73	-109,125.93	0.00	-113,018.01
BEGINNING TOTAL FUND BALANCE	4,986,963.46	429,711.67	1,670,935.06	1,136,646.87	377,585.37	0.00	8,601,842.43
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	6,600,870.64	427,645.77	843,169.43	348,679.14	268,459.44	0.00	8,488,824.42

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fund Accounting

The accounts of the district are organized on the basis of funds. Government resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. All funds are considered major funds.

The various funds are grouped into governmental funds as follows:

General Fund

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

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

These funds are used to report resources that are legally restricted. Only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual. The district does not have funds currently being held in its permanent fund.

Measurement focus, basis of accounting and fund financial statement presentation

Current financial resources are used as the measurement focus for governmental fund financial statements. The modified accrual basis of accounting is used to prepare the governmental fund financial statements.

Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available, if they are collected within 90 days after year-end. However, most property taxes receivable are measurable, but not available and are, therefore, not accrued as revenue, unless they are collected within 30 days. Categorical program claims and inter-district billings are measurable and available and are, therefore, accrued as revenue.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are

recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. An obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.

Budgets

Chapter 28A.505 RCW and Chapter 392-123 of the Washington Administrative Code (WAC) mandate school district budget policies and procedures. A budget is required for all governmental funds. The district board adopts an annual appropriated budget after public hearing, which is submitted to the state's Office of the Superintendent of Public Instruction.

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

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

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

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

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

Cash and Cash Equivalents

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

Due from Other Governments

As of August 31, 2016, the district has recorded revenue due to be collected from other governments of \$693,302.86. This amount consists of the following general balances:

Compensatory grant accruals	\$410,191.33
Funds due from skill center consortium	<u>\$283,111.53</u>
Total Due from Other Governments	\$693,302.86

Of the compensatory grants accrued, the district expected to collect \$199,219.25 within 90 days of the end of the fiscal year. The remaining amount from compensatory grants of \$210,972.08 appears to be uncollectible.

Inventory

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

The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered to be "nonspendable".

Deferred Outflows and Inflows of Resources

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

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

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

A *deferred inflow of resources* is considered to be an acquisition of assets by the government that is applicable to a future reporting period. The district has two items, which arises under a modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements:

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

- Property taxes earned, but not yet available to meet the needs of current liabilities.

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

Accordingly, these items are reported as deferred in the governmental funds balance sheet.

Fund Balance Classifications, Policies, and Procedures

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

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

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

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

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

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

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

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

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

- Savings or time accounts in qualified public depositories
- Certificates, notes, or bonds of the U.S.
- Other obligations of the U.S. or its agencies, or any corporation owned by the U.S. government
- Bankers' acceptances purchased on the secondary market
- Federal home loan bank notes and bonds
- Federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation
- Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the federal reserve system.
- Bonds of the state or any local government in the state that have one of the three highest credit ratings of a nationally recognized rating agency

- General obligation bonds of another state, or local government in another state, that has one of the three highest credit ratings of a nationally recognized rating agency
- Any registered warrants of any government located in the same county as the government making the investment
- Any investment authorized by law for the treasurer of the state of Washington or any local government in the state, other than metropolitan municipal corporations

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

All of the district's investments (except for investments of deferred compensation plans) during the year and at year-end were either insured or registered and held by the district or its agent in the district's name.

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

Type of Investment	District's own investments	Investments held by District as an agent for other organizations	Total
Washington State Local Government Investment Pool	\$8,798,922.30	\$ 0.00	\$8,798,922.30
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 0.00
Other:	\$ 0.00	\$ 0.00	\$ 0.00
Time Deposits (Certificates)	\$ 102,073.66	\$ 0.00	\$ 102,073.66
Total	\$8,900,995.96	\$ 0.00	\$8,900,995.96

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

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

NOTE 3: PENSION PLANS

General Information

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

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

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by writing or accessing the internet at:

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

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

Membership Participation

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

Membership participation by retirement plan as of June 30, 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

The latest actuarial valuation date for all plans was June 30, 2015.
Source: Washington State Office of the State Actuary

Membership & Plan Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Plan Contributions

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

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

Pension Rates			
	7/1/16 Rate	7/1/15 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	11.18%	
Pension Rates			
	9/1/16 Rate	9/1/15 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	13.13%	
TRS 2			
Member Contribution Rate	5.95%	5.95%	
Employer Contribution Rate	13.13%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	13.13%	**

SERS 2			
Member Contribution Rate	5.63%	5.63%	
Employer Contribution Rate	11.58%	11.58%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	11.58%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

The collective net pension liabilities of all participating school districts for pension plans are reported in the following table:

The Net Pension Liability as of June 30, 2016:				
	PERS 1*	SERS 2/3*	TRS 1*	TRS 2/3*
Total Pension Liability	\$12,496,872	\$4,870,806	\$9,001,257	\$12,172,222
Plan fiduciary net position	(\$7,126,401)	(\$4,214,039)	(\$5,587,020)	(\$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%

**Dollars are denoted in thousands*

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

At June 30, 2016, the school district reported a total liability of \$21,181,677 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	\$ 305,385	\$ 396,069	\$ 1,022,507	\$ 1,100,055
Proportionate Share of the Net Pension Liability	\$2,892,027	\$2,174,332	\$11,486,988	\$4,628,330

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	0.053851%	0.331066%	0.336444%	0.337023%
Prior year proportionate share of the Net Pension Liability	0.053437%	0.334100%	0.353201%	0.347577%
Net difference percentage	0.000414%	-0.003034%	-0.016757%	-0.010554%

Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 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:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

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

Discount Rate

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1 NPL	\$6,476,248,000	\$5,370,471,000	\$4,418,882,000
Allocation Percentage	0.053851%	0.053851%	0.053851%
Proportionate Share of Collective NPL	\$3,487,494	\$2,892,027	\$2,379,592
SERS2/3 NPL	\$1,600,655,000	\$656,767,000	(\$75,324,000)
Allocation Percentage	0.331066%	0.331066%	0.331066%
Proportionate Share of Collective NPL	\$5,299,223	\$2,174,332	(\$249,372)
TRS1 NPL	\$4,197,137,000	\$3,414,237,000	\$2,739,882,000
Allocation Percentage	0.336444%	0.336444%	0.336444%
Proportionate Share of Collective NPL	\$14,121,006	\$11,486,988	\$9,218,162
TRS2/3 NPL	\$3,107,958,000	\$1,373,297,000	(\$1,595,357,000)
Allocation Percentage	0.337023%	0.337023%	0.337023%
Proportionate Share of Collective NPL	\$10,474,541	\$4,628,330	(\$5,376,724)

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

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

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

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

According to state law, the state collects a fee from all school districts for its active employees that is intended to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015–16, the District was required to pay the state HCA \$65.25 per month per full-time equivalent employee to support the program, for a total payment of \$357,877.41. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

NOTE 5: OTHER SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. However, the district did not re-encumbered any funds as of September 1, 2016.

NOTE 6: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$500,000,000 for fiscal year 2016-2017. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 7: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Bonds Payable

All bonds were defeased as of December 31, 2015.

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 09/01/2015	\$1,355,000
Add: New Issues	-0-
Deduct: Debt Retired	1,355,000
Long-Term Debt Payable at 08/31/2016	\$ - 0 -

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity: ⑧

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900	Amount	Description
Capital Projects Fund	General Fund	\$7,457.26	Repayment of expenditures in general fund for Healthy Schools, Healthy Kids grant that was funded by state to the capital projects fund.

NOTE 9: ENTITY RISK MANAGEMENT ACTIVITIES

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

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management

services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing a 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 10: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Property taxes receivable are measureable as of August 31st, but are only considered available if they are received in time to pay current liabilities. Property taxes paid by September 30th are considered available to meet current liabilities accrued by August 31st and only these property taxes are accrued. Property taxes levied as of January 1st of the current fiscal year, but paid after September 30th are recorded as unavailable revenue.

NOTE 11: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

Skill Center

The District operates a skill center in cooperation with four neighboring districts and a local college for the purpose of training students of all five districts and the college in certain vocational skills. This skill center is known as the North Olympic Peninsula Skills Center. The proportionally larger financial operations of this facility are included in these financial statements. For the fiscal year 2015-16, revenues totaled \$805,645 while expenditures totaled \$1,244,303.

In May 2004, the District (as host of the North Olympic Peninsula Skills Center), Peninsula College, and the Clallam Business Incubator (a not-for-profit), formed an alliance to own the building known as the Lincoln Center in which the North Olympic Peninsula Skills Center operates. This alliance was formed under the Washington Condominium Act (RCW 64.34). Its purpose was to acquire funding to build and operate the Lincoln Center Complex to support the cooperative programs of the three entities. The Clallam Business Incubator was formally dissolved with the State of Washington in March of 2013 and only the Port Angeles School District and Peninsula College remain as condominium owners. Under agreement with the various entities involved, Port Angeles School District assumed ownership of the Clallam Business Incubator share of the Lincoln Center building.

KCDA

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing a resolution prior to 1973 and has remained in the joint venture ever since. The District's current equity of \$46,831 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 12: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$87,654.26				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$112,634.77				
Fund Purpose		\$427,645.77			\$268,459.44
Debt Service				\$843,169.43	
Other Items					
Committed Fund Balance					
Fiscal Stability					
Other Commitments					
Assigned Fund Balance					
Contingencies	\$3,423,091.60				
Other Capital Projects	\$1,000,000.00				
Other Purposes					
Fund Purposes			\$348,679.14		
Unassigned Fund Balance	\$1,977,490.01				
TOTAL FUND BALANCE	\$6,600,870.64	\$427,645.77	\$348,679.14	\$843,169.43	\$268,459.44

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

NOTE 13: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

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

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

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

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by the TSA Consulting Group. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. Deductions are typically the responsibility of the employee, but certain payments are the responsibility of the district as per negotiated contracts. For the year ended August 31, 2016, the District made \$7901 in discretionary employer contributions to the plan.

NOTE 14: TERMINATION BENEFITS

Compensated Absences

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

Sick Leave

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

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

age of 55 as of the end of the fiscal year. The amount of accrued sick leave reflected as a long term liability as of August 31, 2016 is \$876,522.83.

Vacation

An employee can be compensated for earned vacation leave up to 240 hours at any time upon termination. Vacation leave that is expected to be liquidated with expendable, available financial resources; i.e., expected compensation that has matured, is reported as an expenditure and a fund liability of the fund that will pay it. Amounts not exceeding 240 hours, and not expected to be liquidated with expendable, available financial resources are reported as long-term debt in the Schedule of Long Term Liabilities for the general fund. The amount reflected as a long term liability for accrued vacation leave as of August 31, 2016 is \$387,530.15.

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

NOTE 15: OTHER DISCLOSURES

Skill Center Core Campus Note

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

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

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

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

Sources of Funding

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

Unspent Funds

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

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

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

Port Angeles School District No. 121
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2016

Description	Beginning Outstanding Debt September 1, 2015	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2016	Amount Due Within One Year
Voted Debt					
Voted Bonds	1,355,000.00	0.00	1,355,000.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	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	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,255,193.41	8,859.57	0.00	1,264,052.98	176,967.42
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	11,189,897.00	297,090.00	0.00	11,486,987.00	
Net Pension Liabilities TRS 2/3	2,932,859.00	1,695,471.00	0.00	4,628,330.00	
Net Pension Liabilities SERS 2/3	1,356,951.00	817,380.00	0.00	2,174,331.00	
Net Pension Liabilities PERS 1	2,795,270.00	96,757.00	0.00	2,892,027.00	
Total Long-Term Liabilities	20,885,170.41	2,915,557.57	1,355,000.00	22,445,727.98	176,967.42

Port Angeles School District #121 Clallam County Schedule of Expenditures of Federal Awards For the Year Ending August 31, 2016									
Federal Agency Name	Pass-Through Agency	Federal Program Title	Federal CFDA Number	Other Identification Number	From Direct Awards	Expenditures From Pass-Through Awards	Total	Passed Through to	Foot-note Ref.
U.S. Department of Agriculture									
		Child Nutrition Cluster:							
	WA OSPI	School Breakfast Program	10.553	N/A		\$ 400,409	\$ 400,409		2
	WA OSPI	National School Lunch Program: Cash Assistance	10.555	N/A		\$ 729,040	\$ 729,040		2
	WA OSPI	National School Lunch Program: Non-Cash Assistance (Commodities)	10.555	N/A		\$ 117,648	\$ 117,648		3
		Subtotal Child Nutrition Cluster				\$ 1,247,097			
	WA OSPI	Child and Adult Care Food Program	10.558	N/A		\$ 6,314	\$ 6,314		2
	State Treasurer	School & Roads - Grants to States	10.665	N/A		\$ 184,870	\$ 184,870		
	U.S. DEPT OF AGRICULTURE	SUBTOTAL			\$ -	\$ 1,438,281	\$ 1,438,281		
Department of Housing and Urban Development									
		Public and Indian Housing	14.850	N/A	\$ 863		\$ 863		
	U.S. DEPT OF HOUSING AND URBAN DEVELOPMENT	SUBTOTAL			\$ 863	\$ -	\$ 863		
U.S. Department of Education									
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	N/A		\$ 621,548	\$ 621,548		4
		Special Education Cluster:							
	WA OSPI	Special Education-Grants to States	84.027	N/A		\$ 805,968	\$ 805,968		2
	WA OSPI	Special Ed - Preschool Grants	84.173	N/A		\$ 30,872	\$ 30,872		2
		Subtotal Special Education Cluster				\$ 836,840	\$ 836,840		
	WA OSPI	Impact Aid	84.041	N/A	\$ 75,836		\$ 75,836		2
		Career and Technical Education-Basic Grants to States	84.048	N/A		\$ 18,210	\$ 18,210		2
	WA OSPI	Indian Education Grants to LEAs	84.060	N/A	\$ 79,222		\$ 79,222		2
	WA OSPI	Supporting Effective Instruction State Grant	84.367	N/A		\$ 191,247	\$ 191,247		2
	WA OSPI	Rural & Low Income Schools	84.358B	461456		\$ 73,063	\$ 73,063		2
	WA OSPI	English Language Acquisition State Grant	84.365A	410531		\$ 3,698	\$ 3,698		2
	U.S. DEPT OF EDUCATION	SUBTOTAL			\$ 155,058	\$ 1,744,606	\$ 1,899,664		
U.S. Department of Health & Human Services									
	WA HCA	Medical Assistance Program	93.778	N/A		\$ 164,001	\$ 164,001		
	U.S. DEPT OF HEALTH AND HUMAN SERVICES	SUBTOTAL			\$ -	\$ 164,001	\$ 164,001		
Corporation for National & Community Service									
	OFM Serve Washington Americorps		94.006	N/A	\$ 163,574		\$ 163,574		2
	CORPORATION FOR NATIONAL AND COMMUNITY SERVICE	SUBTOTAL			\$ 163,574		\$ 163,574		
TOTAL FEDERAL AWARDS EXPENDED					\$ 319,495	\$ 3,346,888	\$ 3,666,383		

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

NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTION - The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the district's local matching share, may be more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - NONCASH AWARDS - The amount of commodities reported on the schedule is the value of commodities distributed to the district during the current year and priced as prescribed by the Office of the Superintendent of Public Instruction.

NOTE 4 - SCHOOLWIDE PROGRAMS - The District operates a "schoolwide program" in five elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program funds were expended by the district in its schoolwide programs: Title I (84.010) of \$621,548.

NOTE 5 - FEDERAL INDIRECT RATE - The district used a federal indirect rate of 4.37% for expenditures noted above. The district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Port Angeles School District No. 121
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 Port Angeles School District No. 121.

Finding ref number: 2016-001	Finding caption: The District did not have adequate internal controls to ensure compliance with comparability requirements for its Title I grant program.
Name, address, and telephone of auditee contact person: David Knechtel 216 E. 4th Street Port Angeles, WA 98362 (360) 565-3755	
Corrective action the auditee plans to take in response to the finding: <i>The District will carefully check the staffing levels and how they are funded at each school by using the comparability formula. This will be done prior to the start of school to have appropriate staffing levels based on student enrollment projections. After the State of Washington Office of Superintendent of Public Instruction (OSPI) Form S-275 is completed, we will check it against our internal staffing list to verify that staffing levels and funding is in compliance with the comparability requirement. If we find that the adjustments should be made, we will make such adjustments and submit a revised report, if necessary. The District will preserve documentation to demonstrate staffing levels and student enrollment for each building as well as support the data submitted on the State OSPI Form Package 361 (comparability report). Said documentation will include the certificated staffing list that is maintained by the district human resource department, any pertinent portions of the OSPI S-275, and district student enrollment reports.</i>	
Anticipated date to complete the corrective action: Fiscal year end August 31, 2017	

ABOUT THE STATE AUDITOR'S OFFICE

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov