Office of the Washington State Auditor
Pat McCarthy

# Financial Statements and Federal Single Audit Report

# Mary Walker School District No. 207

## Stevens County

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

**Published December 18, 2017**

**Report No. 1020341**

# Office of the Washington State Auditor
# Pat McCarthy

December 18, 2017

Board of Directors
Mary Walker School District No. 207
Springdale, Washington

## Report on Financial Statements and Federal Single Audit

Please find attached our report on Mary Walker School District No. 207'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

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Mary Walker School District No. 207 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

## Financial Statements

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

## Federal Awards

Internal Control over Major Programs:

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

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

We issued qualified opinions on the District's compliance with requirements applicable to the Child Nutrition Cluster program (CFDA 10.553 School Breakfast Program and CFDA 10.555 National School Lunch Program) and the CFDA 84.010 Title I Grants to Local Education Agencies program.

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

## Identification of Major Federal Programs:

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

| CFDA No. | Program or Cluster Title |
|---|---|
| 10.553 | Child Nutrition Cluster – 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 and 2016-002.

# SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

## 2016-001 The District did not have adequate internal controls to ensure compliance with federal verification requirements.

| | |
|---|---|
| **CFDA Number and Title:** | 10.553 School Breakfast program<br>10.555 National School Lunch program |
| **Federal Grantor Name:** | U.S. Department of Agriculture (USDA) |
| **Federal Award/Contract Number:** | NA |
| **Pass-through Entity Name:** | Office of Superintendent of Public Instruction |
| **Pass-through Award/Contract Number:** | NA |
| **Questioned Cost Amount:** | $0 |

### *Description of Condition*

The District participates in the National School Lunch and School Breakfast programs, which provide funding for free and reduced–priced meals for low-income students. It received $407,390 during fiscal year 2016. Families must meet income guidelines to be eligible for these programs.

During fiscal year 2016, the state determined that charter schools were not public entities and therefore were ineligible to receive public funds. However, the schools were still allowed to operate and the Office of Superintendent of Public Instruction (OSPI) approved the charter schools to partner with school districts that were eligible to receive state and federal funds. The District was involved in this unique, one-time funding situation and partnered with six charter schools in Washington to provide nutrition services to low-income students during the schools' first year of operation. Because of this relationship, the District was responsible for the charter schools' compliance with federal program requirements.

Each year, districts must select a sample of applications and verify that family income information reported to them is correct. OSPI provides instructions to school districts on how to verify program eligibility, including the number of applications that must be verified based on a district's non-response rate from the previous year's verification. The verification process must be completed by November 15 each year.

We selected one charter school for testing and found that while the District had a process in place to perform the verification of applications, internal controls were not effective to ensure that the District performed the verification steps accurately. The District was required to use a 3 percent focused sampling method to verify applications for program eligibility. This method required the District to select its sample from the "error prone" applications, which are applications from families within $1,200 yearly; $100 monthly; $50 twice a month; $46 every two weeks and $23 weekly of the free and reduced-price eligibility levels. If there are not enough "error prone" applications to meet the sample-size requirement, the District must randomly select additional applications from both income and case number applications until the required sample size is reached.

Based on the sampling method used, the District was required to verify two applications; however, it verified four applications. OSPI and U.S. Department of Agriculture (USDA) guidance require that school districts must not verify more or fewer applications than the standard sample size, because it may affect the non-response rate for the District in future years.

We consider this internal control deficiency to be a material weakness.

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

## *Cause of Condition*

Fiscal year 2016 was the first time the charter school received federal nutrition program funding. The charter school employee responsible for completing the verification process was not familiar with the verification requirements and did not review the OSPI and USDA guidance to ensure the process was completed correctly. Further, the District did not understand its relationship with the charter school and did not monitor the charter school's verification process to ensure it complied with federal requirements.

## *Effect of Condition and Questioned Costs*

The District's selection of more applications than were called for by the sampling method used could affect the District's non-response rate and the sampling method required in future years.

## Recommendation

We recommend the District train employees responsible for the verification process and improve its internal controls to ensure the verification process is performed correctly

## District's's Response

*In a September 4, 2015 ruling, the Washington State Supreme Court declared the initiative that established charter schools to be unconstitutional and therefore Charter schools were not public entities and ineligible to receive public funds. Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with the OSPI to enroll these students in as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*

*Mary Walker School District is a Provision 2 school for the 2015-2016 school year. The Provision 2 status reduces the burden of processing applications and allows schools with high numbers of low-income children to serve meals at no cost. The District has reviewed the verification process for non-Provision 2 schools. If the District no longer qualifies for a program such as Provision 2 or Community Eligibility Provision, the District will review and follow the verification process as outlined by OSPI and USDA. The District will also seek guidance from the OSPI Child Nutrition staff. The issues that were identified in the finding were all related to the Charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.*

## Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

## Applicable Laws and Regulations

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

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

(Uniform Guidance), section 303, Internal controls, establishes requirements for management of Federal awards to non-Federal entities.

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

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

# SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

## 2016-002 The District did not have adequate internal controls in place to ensure compliance with federal student eligibility and assessment system security requirements for its Title I program.

| | |
|---|---|
| **CFDA Number and Title:** | 84.010 – Title I, Part A |
| **Federal Grantor Name:** | United States Department of Education |
| **Federal Award/Contract Number:** | NA |
| **Pass-through Entity Name:** | Office of Superintendent of Public Instruction |
| **Pass-through Award/Contract Number:** | 0202289 |
| **Questioned Cost Amount:** | $30,871 |

### *Description of Condition*

The District participates in the Title I program, which provides financial assistance to schools to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. It received $404,057 in Title I funds for this program in the 2016 fiscal year.

During fiscal year 2016, the state determined that charter schools were not public entities and therefore were ineligible to receive public funds. However, the schools were allowed to operate and the Office of Superintendent of Public Instruction (OSPI) approved the charter schools to partner with school districts that were eligible to receive state and federal funds. The District was involved in this unique, one-time funding situation and partnered with six charter schools in Washington to provide Title I services during the schools' first year of operation. Because of this relationship, the District was responsible for the charter schools' compliance with federal program requirements.

Assessment system security

States, in consultation with local educational agencies, are required to establish and maintain an assessment system that is valid, reliable and consistent with relevant professional and technical standards. School districts must have policies and procedures to maintain test security and implement test security measures for assessments. OSPI provided school districts with guidance for establishing policies and procedures and standardized forms to use for documenting and reporting compliance with test security plans.

We selected the District and one charter school for testing and found that the District and charter school did not have policies and procedures established to maintain test security for assessments, and that the charter school did not maintain documentation to demonstrate test security measures had been implemented.

We consider this internal control deficiency to be a material weakness.

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

Eligibility of students

Title 1, Part A funds can be used to operate either a "schoolwide program" to upgrade the instructional program in the whole school or a "targeted assistance program" in which the school identifies students who are failing, or most at risk of failing, to meet the state's student performance standards. From the pool of eligible children, a school operating a targeted assistance program selects those children with the greatest need of special assistance to receive services, such as reading or math. Schools must determine greatest need and document service priority decisions by compiling a rank order list of children to be served. The list is typically compiled by assigning each student a score based on a combination of standardized test scores and teacher recommendations.

We selected one charter school for testing that operated a targeted assistance program during 2016 and found the District did not retain student test scores or the rank order list of children served at the school.

We consider this internal control deficiency to be a material weakness.

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

## *Cause of Condition*

Assessment system security

Fiscal year 2016 was the first time the charter school received federal Title I funding. The charter school employee responsible for administering assessment tests at the school was aware of requirements to maintain security over tests and had trained on test security. However, the employee did not complete the OSPI forms because the school was not required to submit the forms to OSPI. Further, the District did not understand its relationship with the charter school and did not monitor the school's implementation of test security measures.

Eligibility of students

The charter school maintained its student scores in a reading assessment system and converted to a new student information system in July 2016. Because the student scores and ranking list were not printed, the school was unable to access the data in the old system to demonstrate it properly ranked its students and served students with the greatest need first. Further, the District did not understand its relationship with the charter school and did not monitor the charter school's process to ensure only eligible students were served with Title I funds.

## *Effect of Condition and Questioned Costs*

Assessment system security

Because the charter school did not complete and retain the OSPI forms, it cannot demonstrate test security measures were implemented as required.

Eligibility of students

The charter school paid $30,871 for salaries and benefits of four employees who worked in the Title I program. Because the District cannot demonstrate that students who had the greatest needs were served by the Title I program at the charter school, we are questioning these costs.

## *Recommendations*

Assessment system security

We recommend the District establish and follow policies and procedures to maintain test security and complete the OSPI forms to demonstrate test security measures have been implemented.

Eligibility of students

We recommend the District ensure it retains documentation to demonstrate that the Title I program serves the students with the greatest needs.

## *District's Response*

*In a September 4, 2015 ruling, the Washington State Supreme Court declared the initiative that established charter schools to be unconstitutional and therefore*

*Charter schools were not public entities and ineligible to receive public funds. Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with OSPI to enroll these students as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*

*The District has a Title I Schoolwide Program in both the K-5 and 6-8 schools. The schoolwide focus is to address the needs of low-achieving students and those at risk of not meeting state student academic achievement standards. The District does not have Title I Targeted Assistance federal compliance requirements due to Title I Schoolwide status. If the District were to implement Targeted Assistance Programs, the District would comply with the eligibility and assessment system security requirements as outlined by OSPI and federal regulations. The issues that were identified in the finding were all related to the charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.*

## Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

## Applicable Laws and Regulations

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

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303, Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.516, Audit Findings, establishes reporting requirements for audit findings.

Title 20, *U.S. Code* section 6311(b)(3)(C)(iii), establishes academic assessment requirements.

Title 20 *U.S. Code* section 6315 – Targeted Assistance Schools, establishes the requirement to provide services to children identified as having the greatest need for special assistance.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Mary Walker School District No. 207**
**Stevens 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 Mary Walker School District No. 207. The State Auditor's Office has reviewed the status as presented by the District.

<table>
<tr><td>Audit Period:<br>September 1, 2014 through<br>August 31, 2015</td><td>Report Ref. No:<br>1016841</td><td>Finding Ref. No:<br>2015-002</td><td>CFDA Number(s):<br>84.010</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:<br>Title I Grants to Local Education Agencies, U.S. Department of Education</td><td colspan="2">Pass-Through Agency Name:<br>Office of Superintendent of Public Instruction</td></tr>
<tr><td colspan="4">Finding Caption:<br>The District did not have adequate internal controls to ensure compliance with procurement requirements.</td></tr>
<tr><td colspan="4">Background:<br>The District paid three vendors a total of $29,280 for the purchase of software and services. It declared these vendors sole source based on imposed preference for “brand name” software and services and also specifically named one of the software vendors in the grant application. The District did not use a competitive method to procure these purchases as required by federal law.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)<br>☒ Fully Corrected    ☐ Partially Corrected    ☐ Not Corrected    ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:<br>The District adopted Bid Requirements Policy 6220 and Procedure 6220-P March 2016. The District will provide educational guidance to staff regarding the current procurement policy and procedure. This policy is followed for all applicable purchases.</td></tr>
</table>

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

## Mary Walker School District No. 207
## Stevens County
## September 1, 2015 through August 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Mary Walker School District No. 207. The State Auditor's Office has reviewed the status as presented by the District.

| **Audit Period:**<br>September 1, 2014 through August 31, 2015 | **Report Ref. No.:**<br>1016841 | **Finding Ref. No.:**<br>2015-001 |
|---|---|---|

**Finding Caption:**
The District's financial condition puts it at risk of being unable to meet financial obligations and maintain current service levels.

**Background:**
The general fund unassigned balance was a deficit $51,659 at August 31, 2015.

The General Fund ending fund balance as of March 31, 2016 was $1,402,530. However, $1,397,823 of this balance is obligated for expenditures related to unspent ALE program grant proceeds and scheduled repayment of state funding to OSPI and is not available for spending on general operations.

District revenues have not kept pace with the District's operating expenditures. The District has had to borrow from restricted funds in order to meet General Fund cash needs. If the District's financial condition continues to decline, it may be unable to meet its debt obligations or continue operations at their current level.

**Status of Corrective Action: (check one)**

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

**Corrective Action Taken:**
*Monitor budgeted vs. actual revenues/expenditures on a monthly basis utilizing cash flow tools.*

*Study the impacts of enrollment on the financial condition in future years.*

*Review funded staffing units vs. actual staffing units.*

*Seek out and take advantage of grant opportunities. In the 2015-2016 school year, Mary Walker received 2 grants associated with Charter schools and innovative district collaboration.*

*The District increased the M & O levy, which was passed in February 2017.*

# 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*

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

Board of Directors
Mary Walker School District No. 207
Springdale, 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 Mary Walker School District No. 207, Stevens 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 October 13, 2017.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

October 13, 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

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

Board of Directors
Mary Walker School District No. 207
Springdale, Washington

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Mary Walker School District No. 207, Stevens 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.

### Basis for Qualified Opinions on the Child Nutrition Cluster (CFDA 10.553 – School Breakfast Program and CFDA 10.555 – National School Lunch Program) and the CFDA 84.010 - Title I Grants to Local Educational Agencies Program

As described in Findings 2016-001 and 2016-002 in the accompanying Schedule of Federal Award Findings and Questioned Costs, the District did not comply with requirements regarding its Child Nutrition Cluster program (CFDA 10.553 – School Breakfast Program and CFDA 10.555 - National School Lunch Program) for eligibility (verification of free and reduced price applications) and CFDA 84.010 - Title I Grants to Local Educational Agencies for special tests and provisions (assessment security). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the program.

### Qualified Opinions on the Child Nutrition Cluster (CFDA 10.553 – School Breakfast Program and CFDA 10.555 – National School Lunch Program) and the CFDA 84.010 – Title I Grants to Local Educational Agencies Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, 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 its Child Nutrition Cluster program (CFDA 10.553 – School Breakfast Program and CFDA 10.555 – National School Lunch Program) and CFDA 84.010 - Title I Grants to Local Educational Agencies for the year ended August 31, 2016.

### District's Response to Findings

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

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001 and 2016-002 to be material weaknesses.

We also noted certain matters that we have reported to the management of the District in a separate letter dated December 12, 2017.

### District's Response to Findings

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

## Purpose of this Report

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

Pat McCarthy

State Auditor

Olympia, WA

October 13, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

Board of Directors
Mary Walker School District No. 207
Springdale, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Mary Walker School District No. 207, Stevens County, Washington, 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 27.

### 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 accounting 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, Mary Walker School District No. 207 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 differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Mary Walker School District No. 207, for the year ended August 31, 2016, on the basis of accounting described in Note 1.

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

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Mary Walker School District No. 207, as of August 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

## Other Matters

### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Long-Term Liabilities is 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 October 13, 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 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

Pat McCarthy

State Auditor

Olympia, WA

October 13, 2017

# FINANCIAL SECTION

**Mary Walker School District No. 207**
**Stevens County**
**September 1, 2015 through August 31, 2016**

## FINANCIAL STATEMENTS


Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2016

Notes to the 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

**Mary Walker School District No. 207**

**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 | 714,841.98 | 60,190.52 | 194,304.34 | 691.15 | 452.45 | | 970,480.44 |
| State | 7,984,695.06 | | 0.00 | 0.00 | 49,482.12 | | 8,034,177.18 |
| Federal | 773,040.04 | | 0.00 | 0.00 | 0.00 | | 773,040.04 |
| Federal Stimulus | 0.00 | | | | | | 0.00 |
| Other | 1,444,313.46 | | | 0.00 | 0.00 | 0.00 | 1,444,313.46 |
| **TOTAL REVENUES** | **10,916,890.54** | **60,190.52** | **194,304.34** | **691.15** | **49,934.57** | **0.00** | **11,222,011.12** |
| **EXPENDITURES:** | | | | | | | |
| **CURRENT:** | | | | | | | |
| Regular Instruction | 5,843,704.48 | | | | | | 5,843,704.48 |
| Federal Stimulus | 0.00 | | | | | | 0.00 |
| Special Education | 974,869.30 | | | | | | 974,869.30 |
| Vocational Education | 287,859.13 | | | | | | 287,859.13 |
| Skill Center | 0.00 | | | | | | 0.00 |
| Compensatory Programs | 721,401.13 | | | | | | 721,401.13 |
| Other Instructional Programs | 1,334.74 | | | | | | 1,334.74 |
| Community Services | 0.00 | | | | | | 0.00 |
| Support Services | 2,317,579.81 | | | | | | 2,317,579.81 |
| Student Activities/Other | | 79,593.45 | | | | 0.00 | 79,593.45 |
| **CAPITAL OUTLAY:** | | | | | | | |
| Sites | | | | 0.00 | | | 0.00 |
| Building | | | | 0.00 | | | 0.00 |
| Equipment | | | | 0.00 | | | 0.00 |
| Instructional Technology | | | | 0.00 | | | 0.00 |
| Energy | | | | 0.00 | | | 0.00 |
| Transportation Equipment | | | | | 114,241.51 | | 114,241.51 |
| Sales and Lease | | | | 0.00 | | | 0.00 |
| Other | 9,966.31 | | | | | | 9,966.31 |
| **DEBT SERVICE:** | | | | | | | |
| Principal | 0.00 | | 179,000.00 | 0.00 | 0.00 | | 179,000.00 |
| Interest and Other Charges | 0.00 | | 12,945.35 | 0.00 | 0.00 | | 12,945.35 |
| Bond/Levy Issuance | | | | 0.00 | 0.00 | | 0.00 |
| **TOTAL EXPENDITURES** | **10,156,714.90** | **79,593.45** | **191,945.35** | **0.00** | **114,241.51** | **0.00** | **10,542,495.21** |

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

**Mary Walker School District No. 207**

**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** | 760,175.64 | -19,402.93 | 2,358.99 | 691.15 | -64,306.94 | 0.00 | 679,515.91 |
| **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 | 0.00 | | 0.00 | 0.00 | 0.00 | | 0.00 |
| Transfers Out (GL 536) | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Financing Uses (GL 535) | 0.00 | | 0.00 | 0.00 | 0.00 | | 0.00 |
| Other | 7.50 | | 0.00 | 0.00 | 115.00 | | 122.50 |
| **TOTAL OTHER FINANCING SOURCES (USES)** | **7.50** | | **0.00** | **0.00** | **115.00** | **0.00** | **122.50** |
| **EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES** | 760,183.14 | -19,402.93 | 2,358.99 | 691.15 | -64,191.94 | 0.00 | 679,638.41 |
| **BEGINNING TOTAL FUND BALANCE** | **19,941.32** | **38,688.14** | **203,537.33** | **172,929.73** | **148,798.83** | **0.00** | **583,895.35** |
| Prior Year(s) Corrections or Restatements | -32,892.65 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -32,892.65 |
| **ENDING TOTAL FUND BALANCE** | **747,231.81** | **19,285.21** | **205,896.32** | **173,620.88** | **84,606.89** | **0.00** | **1,230,641.11** |

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

# Mary Walker School District #207
# Notes to the Financial Statements
### September 1, 2015 Through August 31, 2016

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mary Walker School 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 cash basis of accounting, except for the Debt Service Fund which is reported 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) Financial transactions are recognized on a cash basis of accounting as described below.
(2) Districtwide statements, as defined in GAAP, are not presented.
(3) A Schedule of Long-Term Liabilities is presented as supplementary information.
(4) Supplementary information required by GAAP is not presented.

### Fund Accounting

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

***Governmental Funds***

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

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

## Measurement focus and basis of accounting and fund financial statement presentation.

Governmental fund financial statements are reported using the cash basis of accounting and measurement focus. Revenues are recognized when they are received in cash and expenditures are recognized when warrants are issued. Purchases of capital assets are expensed during the year of acquisition.

### Budgets

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

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

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

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

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

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

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

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

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

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

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

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

The Board and/or Superintendent are the only persons who have the authority to create Assignments of fund balance.

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

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

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

### Cash and Cash Equivalents

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

## NOTE 2: DEPOSITS AND INVESTMENTS

The Stevens County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District, except for $33,690.98 held by NEWESD 101. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

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

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

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

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

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

| Type of Investment | Mary Walker's own investments | Total |
|---|---:|---:|
| State Treasurer's Investment Pool – GF | $625,000.00 | $625,000.00 |
| State Treasurer's Investment Pool – CPF | $172,890.52 | $172,890.52 |
| State Treasurer's Investment Pool – DSF | $187,397.88 | $187,397.88 |
| State Treasurer's Investment Pool – ASB | $14,662.86 | $14,662.86 |
| State Treasurer's Investment Pool – TVF | $34,181.94 | $34,181.94 |
| NEWESD 101 | $33,690.98 | $33,690.98 |
| Totals | $1,067,824.18 | $1,067,824.18 |

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

# NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

## Litigation

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

# NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The District received a 2014-2015 Financial Condition audit finding. The District implemented a plan of action to establish an increased cash position. The District enrolled approximately 825 former Charter School students for the period January 2016 through June 2016. This created a positive cash flow for the 2015-2016 school year and future years. The District and NEWESD 101 will continue to monitor the health status of the district utilizing cash flow tools and the health indicator model published by OSPI. During the budgeting process, the District will analyze staffing levels, research grant opportunities, the impact of fully funding basic education, and review the possible local levy funding level to provide a more stable fund balance in the future.

The District also received a Title I-A procurement audit finding in 2014-2015. The District updated and implemented procurement procedures in March 2016.

OSPI Child Nutrition Services placed Mary Walker on a stop pay status as of January 19, 2015 based on corrective action items in the Administrative Review. Mary Walker staff completed the corrective action requirements and the stop pay status ceased in August 2016. OSPI processed and remitted to the District in September 2016 the monthly reimbursement claims totaling $295,592.97.

# NOTE 5: PENSION PLANS

## General Information

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

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

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

## Membership Participation

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

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

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

## Membership & Plan Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Plan Contributions

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

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

| Pension Rates | | | |
|---|---|---|---|
| | **7/1/16 Rate** | **7/1/15 Rate** | |
| **PERS 1** | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 11.18% | 11.18% | |
| **Pension Rates** | | | |
| | **9/1/16 Rate** | **9/1/15 Rate** | |
| **TRS 1** | | | |
| Member Contribution Rate | 6.00% | 6.00% | |
| Employer Contribution Rate | 13.13% | 13.13% | |
| **TRS 2** | | | |
| Member Contribution Rate | 5.95% | 5.95% | |
| Employer Contribution Rate | 13.13% | 13.13% | |
| **TRS 3** | | | |
| Member Contribution Rate | 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% | ** |
| *Note: The DRS administrative rate of .0018 is included in the employer rate.* | | | |
| * = Variable from 5% to 15% based on rate selected by the member. | | | |
| ** = Defined benefit portion only. | | | |

## The Collective Net Pension Liability

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

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

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

At June 30, 2016, the District reported a total liability of $ 2,865,463 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2016, the district's proportionate share of each plan's net pension liability is reported below:

| June 30, 20XX | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| District's Annual Contributions | 48,648 | 65,473 | 128,354 | 143,415 |
| Proportionate Share of the Net Pension Liability | 460,701 | 359,430 | 1,441,935 | 603,397 |

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

| Change in Proportionate shares | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| Current year proportionate share of the Net Pension Liability | 0.008578% | 0.054727% | 0.042233% | 0.043938% |
| Prior year proportionate share of the Net Pension Liability | 0.008919% | 0.057695% | 0.044567% | 0.046825% |
| Net difference percentage | -0.000341% | -0.002968% | -0.002334% | -0.002887% |

## Actuarial Assumptions

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

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

| | |
|---|---|
| Inflation | 3.00% total economic inflation, 3.75% salary inflation |
| Salary increases | In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity. |
| Investment rate of return | 7.50% |

## Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

### Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

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

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

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

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

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

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

### Discount Rate

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

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

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

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| **PERS 1 NPL** | $6,476,248,000 | $5,370,471,000 | $4,418,882,000 |
| Allocation Percentage | 0.008578% | 0.008578% | 0.008578% |
| Proportionate Share of Collective NPL | $555,559 | $460,701 | $379,070 |
| | | | |
| **SERS 2/3 NPL** | $1,600,665,000 | $656,767,000 | ($75,324,000) |
| Allocation Percentage | 0.054727% | 0.054727% | 0.054727% |
| Proportionate Share of Collective NPL | $875,999 | $359,430 | ($41,223) |
| | | | |
| **TRS 1 NPL** | $4,197,137,000 | $3,414,237,000 | $2,739,882,000 |
| Allocation Percentage | 0.042233% | 0.042233% | 0.042233% |
| Proportionate Share of Collective NPL | $1,772,577 | $1,441,935 | $1,157,134 |
| | | | |
| **TRS 2/3 NPL** | $3,107,958,000 | $1,373,297,000 | ($1,595,357,000) |
| Allocation Percentage | 0.043938% | 0.043938% | 0.043938% |
| Proportionate Share of Collective NPL | $1,365,571 | $603,397 | ($700,966) |

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

The state, through the Health Care Authority (HCA), administers an agent multi-employer other post-employment benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)[(5).]

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015-16, the District was required to pay the HCA $65.25 per month per full-time equivalent employee to support the program, for a total payment of $24,844.01. 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. The District reports on the cash basis and accordingly, these amounts are not shown on the financial statements.

## NOTE 7: COMMITMENTS UNDER LEASES

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

In January 2014, Mary Walker School District entered into a lease agreement with GreatAmerica Financial Services Corporation for a postage meter machine to include maintenance, rate guard and the meter machine. The lease agreement is a 63 month term with a monthly payment amount of $110.00 plus tax.

| Lessor | 2015-16 Payment | Final Installment Date | Balance Due |
|---|---|---|---|
| GreatAmerica Financial Services | $1,320.00 | April 2019 | $3,520.00 |

In November 2013, Mary Walker School District entered into a lease agreement with Royal Business Systems, Inc. for 8 copy machines. The lease agreement is a 63 month term with a monthly payment amount of $1,638.00 plus tax.

| Lessor | 2015-16 Payment | Final Installment Date | Balance Due |
|---|---|---|---|
| Royal Business Systems Inc. | $19,656.00 | February 2019 | $49,140.00 |

# NOTE 8: OTHER SIGNIFICANT COMMITMENTS

### Encumbrances

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

| Fund | Amount |
|---|---|
| General | $17,667.09 |
| ASB Fund | $2,185.80 |
| Capital Projects Fund | $0.00 |
| Transportation Vehicle Fund | $0.00 |

# NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of $28,775,961 for fiscal year 2015-2016. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

# NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

### Long-Term Debt

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

| Issue Name | Amount Authorized | Annual Installments | Final Maturity | Interest Rate(s) | Amount Outstanding |
|---|---|---|---|---|---|
| UTGO Refunding Bonds 2012 | $2,220,000 | Refer to Debt Service Schedule | 12/2019 | 3.66% | $784,000 |
| Total General Obligation Bonds | | | | | $784,000 |

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

| | |
|---|---|
| Long-Term Debt Payable at 9/1/2015 | $963,000 |
| New Issues | |
| Debt Retired | $179,000 |
| Long-Term Debt Payable at 8/31/2016 | $784,000 |

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

| Years Ending August 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $185,000.00 | $10,949.90 | $195,949.90 |
| 2018 | $191,000.00 | $8,492.75 | $199,492.75 |
| 2019 | $201,000.00 | $5,499.00 | $206,499.00 |
| 2020 | $207,000.00 | $1,935.45 | $208,935.45 |
| Total | $784,000.00 | $26,877.10 | $810,877.10 |

At August 31, 2016, the District had $205,896.32 available in the Debt Service Fund to service the general obligation bonds.

## NOTE 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund loan activity:

| Debtor Fund | Due To | Balance at 9/1/15 | Loan Activity | | Balance at 8/31/16 |
|---|---|---|---|---|---|
| | | | New Loans | Repayments | |
| General Fund | Capital Projects Fund | $170,038.49 | | $170,038.49 | $0.00 |
| Totals | | $170,038.49 | | $170,038.49 | $0.00 |

## NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

In August 1985 the District joined together with other school districts in the state and the Educational Service District No. 101 in unemployment compensation insurance cooperative. The purpose of the cooperative is to provide unemployment compensation insurance to eligible employees in an efficient and effective manner, in compliance with state laws regarding unemployment compensation insurance. The district pays assessments and administration fees to the ESD for services related to this unemployment compensation insurance. The assessments and fees are calculated on an annual basis and approved by the cooperative's advisory board.

In December 1983 the district joined with other school districts and Educational Service District No. 101 to form Northeast Washington Workers' Compensation Cooperative, a public entity risk pool currently operation as a common risk management and insurance program for workers compensation insurance. The district pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Northeast Washington Workers' Compensation Cooperative provides that the pool will be self-sustaining through member premiums. Reinsurance, both specific and aggregate, is maintained. The district made payments totaling $60,098.71 to the workers' compensation cooperative in fiscal year 2015-16.

Mary Walker School District #207 is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **Current membership includes 155 school districts.** The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Acts Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, General Liability, Automotive Liability, Wrongful Acts Liability, and Crime. Liability insurance is subject to a self-insured retention of $100,000. Members are responsible for a $1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the $100,000 self-insured retention (SIR). Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 SIR. The program also purchases a stop loss policy with an **attachment point of $967,749,** as an additional layer of protection for its members. Property insurance is subject to a per-occurrence deductible of $100,000. Members are responsible for a $1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the $100,000 SIR. Equipment Breakdown insurance is subject to a per-occurrence deductible of $10,000. Members are responsible for the deductible amount of each claim. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement. The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **August 31, 2016, were $1,681,707.94.** A board of directors consisting of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

## NOTE 13: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection of property taxes will be recorded as revenue in the 2015-16 school year, consistent with the cash basis of accounting.

## NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing an Amended Articles of Agreement dated February 15, 1994 and has remained in the joint venture ever since. The District's current equity of $1,714.74 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

## NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

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

| | General Fund | ASB Fund | Capital Projects Fund | Debt Service Fund | Transportation Vehicle Fund |
|---|---|---|---|---|---|
| Nonspendable Fund Balance | | | | | |
| Inventory and Prepaid Items | | | | | |
| Restricted Fund Balance | | | | | |
| For Other Items | | | | | |
| For Unequalized Deductible Revenue | | | | | |
| For Fund Purpose | | $19,285.21 | | | $84,606.89 |
| For Carryover of Restricted Revenues | $65,705.41 | | | | |
| For Skill Centers | | | | | |
| For Carryover of Food Service Revenue | | | | | |
| For Debt Service | | | | $205,896.32 | |
| For Arbitrage Rebate | | | | | |
| For Self-Insurance | | | | | |
| For Uninsured Risks | | | | | |
| Committed Fund Balance | | | | | |
| For Economic Stabilization | | | | | |
| Other Commitments | $33,690.98 | | | | |
| Assigned Fund Balance | | | | | |
| Contingencies | | | | | |
| Other Capital Projects | | | | | |
| Other Purposes | | | | | |
| Fund Purposes | | | $173,620.88 | | |
| Unassigned Fund Balance | $647,835.42 | | | | |

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

### 457 Plan – Deferred Compensation Plan

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

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

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

The District complies with IRS regulation 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 Omni Group. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

## NOTE 17: TERMINATION BENEFITS

### Compensated Absences

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

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

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

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

No unrecorded liability exists for other employee benefits.

## NOTE 18: CONDITIONS AND EVENTS GIVING RISE TO SUBSTANTIAL DOUBT ABOUT THE GOVERNMENT'S ABILITY TO CONTINUE AS A GOING CONCERN

The District does not have conditions and/or events giving rise to substantial doubt about the government's ability to continue as a going concern.

## NOTE 19: OTHER DISCLOSURES

The ending Total Fund Balance for the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds includes a Prior Year Adjustment of $32,892.65 to record the amount paid to NEWESD 101 for the purpose of administering and paying unemployment claims.

**Mary Walker School District No. 207**

**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 | 963,000.00 | 0.00 | 179,000.00 | 784,000.00 | 185,000.00 |
| LOCAL Program Proceeds Issued in Lieu of Bonds | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Non-Voted Debt and Liabilities** | | | | | |
| Non-Voted Bonds | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| LOCAL Program Proceeds | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital Leases | 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 | 73,636.00 | 0.00 | 20,976.00 | 52,660.00 | 20,976.00 |
| Claims & Judgements | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Compensated Absences | 119,212.68 | 33,224.13 | 0.00 | 152,436.81 | 27,020.46 |
| Long-Term Notes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Anticipation Notes Payable | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Lines of Credit | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Non-Voted Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Other Liabilities** | | | | | |
| **Non-Voted Notes Not Recorded as Debt** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Pension Liabilities: | | | | | |
| Net Pension Liabilities TRS 1 | 1,411,936.00 | 29,999.00 | 0.00 | 1,441,935.00 | |
| Net Pension Liabilities TRS 2/3 | 395,109.00 | 208,288.00 | 0.00 | 603,397.00 | |
| Net Pension Liabilities SERS 2/3 | 234,330.00 | 125,100.00 | 0.00 | 359,430.00 | |
| Net Pension Liabilities PERS 1 | 466,551.00 | 0.00 | 5,850.00 | 460,701.00 | |
| **Total Long-Term Liabilities** | 3,663,774.68 | 396,611.13 | 205,826.00 | 3,854,559.81 | 232,996.46 |

**Mary Walker School District No. 207**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ending August 31, 2016**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Expenditures | | | | |
| Federal Agency Name | Pass Through Agency | Federal Program Title | CFDA Number | Other Identification Number/Award Number | From Direct Awards | From Pass Through Awards | Total | Passed Through to Subrecipients | Foot note |
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | | |
| | WA OSPI | School Breakfast Program | 10.553 | N/A | | 108,847.51 | $108,847.51 | | 6 |
| | WA OSPI | National School Lunch-Cash Assist | 10.555 | N/A | | 278,682.78 | $278,682.78 | | 6 |
| | WA OSPI | National School Lunch - Non Cash Assist Commodities | 10.555 | N/A | | 19,859.23 | $19,859.23 | | 3, 6 |
| | | Child Nutrition Cluster Total | 10.555 | | | $407,389.52 | $407,389.52 | | |
| | WA OSPI | Fresh Fruit & Vegetable Program | 10.582 | N/A | | 9,768.79 | $9,768.79 | | 6 |
| | Office of State Treasurer | Schools and Roads - Grants to States | 10.665 | N/A | | 14,809.96 | $14,809.96 | | 6 |
| U.S.D.A. Total | | | | | | $431,968.27 | $431,968.27 | | |
| | | | | | | | | | |
| U.S. DEPARTMENT OF EDUCATION | | | | | | | | | |
| | | Impact Aid Maintenance Operations | 84.041 | N/A | $ 118,294.50 | | $118,294.50 | | 4, 6 |
| | WA OSPI | Title I Grants to LEA | 84.010 | 0202289 | | 404,056.64 | $404,056.64 | | 4 |
| | WA OSPI | Special Education Grants to States | 84.027 | 0305555 | | 72,259.55 | $72,259.55 | | |
| | WA OSPI | Special Education-Preschool | 84.173 | 0363547 | | 7,974.00 | $7,974.00 | | |
| | | Special Education Cluster Total | | | | 80,233.55 | 80,233.55 | | |
| | ESD 101 | Supporting Effective Instruction State Grant | 84.367B | 15-IA158 | | 9,600.00 | $9,600.00 | | |
| U.S.D.O.E Total | | | | | 118,294.50 | $493,890.19 | $612,184.69 | | |
| | | | | | | | | | |
| HEALTH/HUMAN SERVICES DEPARTMENT | | | | | | | | | |
| | WA DSHS | Medicaid-Medical Assist Program | 93.778 | N/A | | 20,880.36 | $20,880.36 | | 6 |
| | | | | | | | | | |
| H.H.S.D.Total | | | | | | 20,880.36 | 20,880.36 | | |
| | | | | | | | | | |
| **TOTAL FEDERAL AWARDS EXPENDED** | | | | | 118,294.50 | 946,738.82 | 1,065,033.32 | | |

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

# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## NOTE 1—BASIS OF ACCOUNTING

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

## NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

## NOTE 3—NONCASH AWARDS

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

## NOTE 4—SCHOOLWIDE PROGRAMS

Mary Walker School District operates a "schoolwide program" in the elementary and middle school buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by Mary Walker School District in its schoolwide program: Title I (84.010) *($291,476)* ; Migrant Education (84.011) *($0)* .

## NOTE 5—FEDERAL INDIRECT RATE

Mary Walker School District used the federal restricted rate of 4.48%. Mary Walker School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## NOTE 6—NOT AVAILABLE (N/A)

Mary Walker School District was unable to obtain other identification number.

# CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

## Mary Walker School District No. 207
## Stevens 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 Mary Walker School District No. 207.

| **Finding ref number:** 2016-001 | **Finding caption:** The District did not have adequate internal controls to ensure compliance with federal verification requirements. |
|---|---|
| **Name, address, and telephone of auditee contact person:**<br>Sue McIsaac, Business Manager<br>P.O. Box 159<br>Springdale, WA 99173 | |
| **Corrective action the auditee plans to take in response to the finding:**<br>*Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with OSPI to enroll former Charter school students as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*<br><br>*Mary Walker School District is a Provision 2 school for the 2015-2016 school year. The Provision 2 status reduces the burden of processing applications and allows schools with high numbers of low-income children to serve meals at no cost. The District has reviewed the verification process for non-Provision 2 schools. If the District no longer qualifies for a program such as Provision 2 or Community Eligibility Provision, the District will review and follow the verification process as outlined by OSPI and USDA. The District will also seek guidance from the OSPI Child Nutrition staff. The issues that were identified in the finding were all related to the Charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.* | |
| **Anticipated date to complete the corrective action:** 12/01/2017 | |

| **Finding ref number:**<br>2016-002 | **Finding caption:**<br>The District did not have adequate internal controls in place to ensure compliance with federal student eligibility and assessment system security requirements for its Title I program. |
|---|---|

**Name, address, and telephone of auditee contact person:**
Sue McIsaac, Business Manager
P.O. Box 159
Springdale, WA 99173

**Corrective action the auditee plans to take in response to the finding:**

*Memorandum No. 072-15M was issued by OSPI to provide guidance for the transition of Charter school students to Alternative Learning Experience (ALE) students. The District was presented with a one-time opportunity to work with OSPI to enroll these students as Alternate Learning Experience students. The District worked closely with OSPI to enroll students from six of the former Charter schools to ensure the continuity of the students' education. This one-time enrollment and funding opportunity was for the 2015-2016 school year only.*

*The District has a Title I Schoolwide Program in both the K-5 and 6-8 schools. The schoolwide focus is to address the needs of low-achieving students and those at risk of not meeting state student academic achievement standards. The District does not have Title I Targeted Assistance federal compliance requirements due to Title I Schoolwide status. If the District were to implement Targeted Assistance Programs, the District would comply with the eligibility and assessment system security requirements as outlined by OSPI and federal regulations. The issues that were identified in the finding were all related to the charter school students that were enrolled in the Mary Walker ALE program. As these students will not be enrolled in the 2016-2017 school year, these issues have been resolved.*

**Anticipated date to complete the corrective action:** 12/01/2017

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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