



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

## **Financial Statements Audit Report**

# **Touchet School District No. 300**

**Walla Walla County**

**For the period September 1, 2015 through August 31, 2017**

**Published June 14, 2018**

**Report No. 1021477**





## Office of the Washington State Auditor

**Pat McCarthy**

June 14, 2018

Board of Directors  
Touchet School District No. 300  
Touchet, Washington

### **Report on Financial Statements**

Please find attached our report on Touchet School District No. 300's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	37

**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**

**Touchet School District No. 300  
Walla Walla County  
September 1, 2015 through August 31, 2017**

Board of Directors  
Touchet School District No. 300  
Touchet, 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 Touchet School District No. 300, Walla Walla County, Washington, as of and for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 5, 2018.

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated June 5, 2018.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

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

Pat McCarthy  
State Auditor  
Olympia, WA

June 5, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Touchet School District No. 300 Walla Walla County September 1, 2015 through August 31, 2017**

Board of Directors  
Touchet School District No. 300  
Touchet, Washington

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

We have audited the accompanying financial statements of Touchet School District No. 300, Walla Walla County, Washington, for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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, Touchet School District No. 300 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 Touchet School District No. 300, for the years ended August 31, 2017 and 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 Touchet School District No. 300, as of August 31, 2017 and 2016, or the changes in financial position or cash flows for the years 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 audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Long-Term Liabilities are 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 June 5, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

June 5, 2018

## **FINANCIAL SECTION**

**Touchet School District No. 300**  
**Walla Walla County**  
**September 1, 2015 through August 31, 2017**

### **FINANCIAL STATEMENTS**

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2017

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

Notes to Financial Statements – 2017 and 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Long-Term Liabilities – 2017

Schedule of Long-Term Liabilities – 2016

**Touchet School District No. 300**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**

**Governmental Funds**

**For the Year Ended August 31, 2017**

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent Fund</b>	<b>Total</b>
<b>REVENUES:</b>							
Local	722,335.06	57,502.63	603,323.58	2,230.52	1,741.46		1,387,133.25
State	2,716,595.19		0.00	304,456.78	22,297.51		3,043,349.48
Federal	143,462.00		0.00	0.00	0.00		143,462.00
Federal Stimulus	0.00						0.00
Other	0.00			0.00	0.00	0.00	0.00
<b>TOTAL REVENUES</b>	<b>3,582,392.25</b>	<b>57,502.63</b>	<b>603,323.58</b>	<b>306,687.30</b>	<b>24,038.97</b>	<b>0.00</b>	<b>4,573,944.73</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	1,772,532.25						1,772,532.25
Federal Stimulus	0.00						0.00
Special Education	252,781.44						252,781.44
Vocational Education	146,761.10						146,761.10
Skill Center	0.00						0.00
Compensatory Programs	240,979.62						240,979.62
Other Instructional Programs	782.93						782.93
Community Services	0.00						0.00
Support Services	1,168,831.28						1,168,831.28
Student Activities/Other		41,755.01				0.00	41,755.01
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				292,859.55			292,859.55
Equipment				20,366.81			20,366.81
Instructional Technology				0.00			0.00
Energy				743.90			743.90
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other							0.00
<b>DEBT SERVICE:</b>							
Principal			345,000.00	0.00	0.00		345,000.00
Interest and Other Charges			255,900.00	0.00	0.00		255,900.00
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>3,582,668.62</b>	<b>41,755.01</b>	<b>600,900.00</b>	<b>313,970.26</b>	<b>0.00</b>	<b>0.00</b>	<b>4,539,293.89</b>

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

**Touchet School District No. 300**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**

**Governmental Funds**

**For the Year Ended August 31, 2017**

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent Fund</b>	<b>Total</b>
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-276.37	15,747.62	2,423.58	-7,282.96	24,038.97	0.00	34,650.84
<b>OTHER FINANCING SOURCES (USES) :</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		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	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	-276.37	15,747.62	2,423.58	-7,282.96	24,038.97	0.00	34,650.84
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>378,603.36</b>	<b>58,772.53</b>	<b>356,076.20</b>	<b>116,283.01</b>	<b>175,295.65</b>	<b>0.00</b>	<b>1,085,030.75</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>378,326.99</b>	<b>74,520.15</b>	<b>358,499.78</b>	<b>109,000.05</b>	<b>199,334.62</b>	<b>0.00</b>	<b>1,119,681.59</b>

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

**Touchet School District No. 300**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**

**Governmental Funds**

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

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent Fund</b>	<b>Total</b>
<b>REVENUES:</b>							
Local	804,490.85	45,192.57	620,203.48	1,109.85	1,265.77		1,472,262.52
State	2,762,624.07		0.00	729,750.58	22,194.17		3,514,568.82
Federal	172,047.86		0.00	0.00	0.00		172,047.86
Federal Stimulus	0.00						0.00
Other	0.00			0.00	0.00	0.00	0.00
<b>TOTAL REVENUES</b>	<b>3,739,162.78</b>	<b>45,192.57</b>	<b>620,203.48</b>	<b>730,860.43</b>	<b>23,459.94</b>	<b>0.00</b>	<b>5,158,879.20</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	1,647,470.43						1,647,470.43
Federal Stimulus	0.00						0.00
Special Education	252,746.67						252,746.67
Vocational Education	184,339.97						184,339.97
Skill Center	0.00						0.00
Compensatory Programs	240,355.31						240,355.31
Other Instructional Programs	1,997.52						1,997.52
Community Services	0.00						0.00
Support Services	1,187,321.66						1,187,321.66
Student Activities/Other		43,854.98				0.00	43,854.98
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				565,139.03			565,139.03
Equipment				170,289.16			170,289.16
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	20,038.45						20,038.45
<b>DEBT SERVICE:</b>							
Principal	0.00		340,000.00	0.00	0.00		340,000.00
Interest and Other Charges	0.00		262,700.00	0.00	0.00		262,700.00
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>3,534,270.01</b>	<b>43,854.98</b>	<b>602,700.00</b>	<b>735,428.19</b>	<b>0.00</b>	<b>0.00</b>	<b>4,916,253.18</b>

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

Touchet School District No. 300

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2016

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	204,892.77	1,337.59	17,503.48	-4,567.76	23,459.94	0.00	242,626.02
<b>OTHER FINANCING SOURCES (USES) :</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		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	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	204,892.77	1,337.59	17,503.48	-4,567.76	23,459.94	0.00	242,626.02
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>173,710.59</b>	<b>57,434.94</b>	<b>338,572.72</b>	<b>120,850.77</b>	<b>151,835.71</b>	<b>0.00</b>	<b>842,404.73</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>378,603.36</b>	<b>58,772.53</b>	<b>356,076.20</b>	<b>116,283.01</b>	<b>175,295.65</b>	<b>0.00</b>	<b>1,085,030.75</b>

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

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## TOUCHET SCHOOL DISTRICT NO. 300

### Notes to the Financial Statements

September 1, 2015 Through August 31, 2017

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

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

The District presents governmental fund financial statements and related notes on the 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.

#### Permanent Funds

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

#### ***Fiduciary Funds***

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

#### Private-Purpose Trust Fund

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

#### Pension (and Other Employee Benefit) Trust Fund

This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans.

#### Agency Funds

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



## **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 Superintendent is the only person (persons) who have the authority to create Assignments of fund balance.

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

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

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

## **Cash and Cash Equivalents**

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

## **Note 2: DEPOSITS AND INVESTMENTS**

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

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

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

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

Type of Investment	Total
General Fund	\$374,070.30
ASB Fund	\$58,936.27
Debt Service Fund	\$356,076.20
Capital Projects Fund	\$116,219.26
Trans Vehicle Fund	\$175,295.65
Total	\$1,080,597.68

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

Type of Investment	Total
General Fund	\$374,473.98
ASB Fund	\$74,520.15
Debt Service Fund	\$358,499.78
Capital Projects Fund	\$109,000.05
Trans Vehicle Fund	\$199,334.62
Total	\$1,115,828.58

The district's participation in the Walla Walla County is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of less than 3 years.

### **Note 3: Significant effects of subsequent events**

Potential drop in student FTE along with ESB 2242 will most likely have an impact on fund balance on the next or future fiscal years.

## **NOTE 4: 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 participation by retirement plan as of June 30, 2017, was as follows:

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

## Membership & Plan Benefits

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

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

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined

benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

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

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

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

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

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

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-

of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

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

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

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

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

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

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

## **Plan Contributions**

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

employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

## The Collective Net Pension Liability

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

The Collective Net Pension Liability as of June 30, 2017:				
	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,241,998	\$5,357,035	\$8,782,761	\$13,446,531
Plan fiduciary net position	(\$7,496,920)	(\$4,863,560)	(\$5,759,493)	(\$12,523,588)
Participating employers' net pension liability	\$4,745,078	\$493,475	\$3,023,268	\$922,943



Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.79%	65.58%	93.14%
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### The School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2017, the District reported a total liability of \$1,298,564 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$20,068	\$27,893	\$91,579	\$98,782
Proportionate Share of the Net Pension Liability	\$158,303	\$101,623	\$791,197	\$247,441

At **June 30, 2017**, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Change in Proportionate shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	.003336%	.020593%	.026170%	.026810%
Prior year proportionate share of the Net Pension Liability	.003466%	.022882%	.028386%	.029318%
Net difference percentage	-.00013%	-.002289%	-.002216%	-.002508%

### Actuarial Assumptions

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

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

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

### Mortality Rates



Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

## Long-term Expected Rate of Return

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

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

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

The long-term expected rate of return of 7.50% 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, 2017, are summarized in the following table:

TRS 1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	% Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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

## Discount Rate

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>PERS 1 NPL</b>	\$5,780,412,000	\$4,745,078,000	\$3,848,257,000
Allocation Percentage	.003336%	.003336%	.003336%
Proportionate Share of Collective NPL	\$192,843	\$158,303	\$128,384
<b>SERS 2/3 NPL</b>	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	.0020593%	.0020593%	.0020593%
Proportionate Share of Collective NPL	\$263,373	\$101,623	(\$31,645)
<b>TRS 1 NPL</b>	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	.002617%	.002617%	.002617%
Proportionate Share of Collective NPL	\$983,837	\$791,197	\$624,455
<b>TRS 2/3 NPL</b>	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	.002681%	.002681%	.002681%
Proportionate Share of Collective NPL	\$840,400	\$247,441	(\$234,152)

## **NOTE 5: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

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

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015–16 and 2016-17, 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 \$2,153.27 and \$64.39 per month per full-time equivalent employee to support the program, for a total payment of \$2,044.37, respectively. 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 6: COMMITMENTS UNDER LEASES**

For the fiscal year(s) ended August 31, 2015 and August 31, 2016, the District had not incurred additional long-term debt.

August 31, 2016

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
<b>Lease-Purchase Commitments</b>					
LEAF – Copier systems	\$32,337.12	\$8,084.28	8/2018	0	\$16,168.56
<b>Total Lease-Purchase Commitments</b>					<b>\$16,168.56</b>

August 31, 2017

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Lease-Purchase Commitments					
LEAF – Copier systems	\$32,337.12	\$8,084.28	8/2018	0	\$8,084.28
<i>Total Lease-Purchase Commitments</i>					\$8,084.28

## **NOTE 7: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$18,418,505 for fiscal year 2016 and \$19,107,355 for the fiscal year 2017. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 8: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Ref. Bonds , 2010	\$2,085,000	\$85,839.58- \$295,875.00	12/01/2021	2.00%-4.00%	\$1,485,000
UTGO Ref. Bonds 2013	\$6,500,000	\$130,769.72- \$603.200.00	12/01/2032	2.00%-4.00%	\$6,100,000
Total General Obligation Bonds	8,585,000				\$7,585,000

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Ref. Bonds , 2010	\$2,085,000	\$85,839.58- \$295,875.00	12/01/2021	2.00%-4.00%	\$1,250,000
UTGO Ref. Bonds 2013	\$6,500,000	\$130,769.72- \$603.200.00	12/01/2032	2.00%-4.00%	\$5,990,000
Total General Obligation Bonds	8,585,000				\$7,240,000

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	7,925,000
New Issues	
Debt Retired	340,000
Long-Term Debt Payable at 8/31/2016	7,585,000

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

Years Ending August 31	Principal	Interest	Total
2016	\$340,000.00	\$261,850.00	\$601,850.00
2017	\$345,000.00	\$255,300.00	\$600,300.00
2018	\$350,000.00	\$247,900.00	\$597,900.00
2019	\$360,000.00	\$237,950.00	\$597,950.00
2020	\$370,000.00	\$225,150.00	\$595,150.00
2021-2025	\$2,065,000.00	\$919,075.00	\$2,984,075.00
2026-2030	\$2,420,000.00	\$556,812.50	\$2,976,812.50
2030-2033	\$1,675,000.00	\$102,300.00	\$1,777,300.00
Total	\$7,925,000.00	\$2,806,337.50	\$10,731,337.50

At August 31, 2016, the District had \$356,076.20 available in the Debt Service Fund to service the general obligation bonds.

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

Long-Term Debt Payable at 9/1/2016	7,585,000
New Issues	
Debt Retired	345,000
Long-Term Debt Payable at 8/31/2017	7,240,000

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

Years Ending August 31	Principal	Interest	Total
2017	\$345,000.00	\$255,300.00	\$600,300.00
2018	\$350,000.00	\$247,900.00	\$597,900.00
2019	\$360,000.00	\$237,950.00	\$597,950.00
2020	\$370,000.00	\$225,150.00	\$595,150.00
2021	\$385,000.00	\$211,300.00	\$596,300.00
2022-2026	\$2,135,000.00	\$848,812.50	\$2,983,812.50
2027-2031	\$2,500,000.00	\$472,075.00	\$2,972,075.00
2032-2033	\$1,140,000.00	\$46,000.00	\$1,186,000.00
Total			\$10,129,487.50

At August 31, 2017, the District had \$358,499.78 available in the Debt Service Fund to service the general obligation bonds.

## **NOTE 9: INTERFUND BALANCES AND TRANSFERS**

The district did not have interfund transfer for 2015-2016 or 2016-2017.

## **NOTE 10: 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.

### **Unemployment**

In fiscal year 1978, school districts within Educational Service District (ESD) #123 joined together to form the Cooperative Unemployment Compensation Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for unemployment compensation. Seventeen districts, including ESD #123, have joined the Pool. Members pool their self-insured losses and administrative services and have established a plan of self-insurance and related services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. Members make a contributions to the fund based on their total gross payroll and unemployment history during the preceding year. The pool is fully funded by its member participants. The financial statements of the pool may be obtained by contacting Educational Service District No. 123. During the fiscal year ending in 8/31/2016 the balance for the district was \$108,187.86 and for the fiscal year ending in 8/31/2017 the balance was \$108,360.81.

The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating members and a six member Executive Board. Five members elected by the Cooperative Board and the ESD Superintendent comprise the Executive Board. ESD #123 is responsible for conducting the business affairs of the Pool.

### **Workers' Compensation**

In fiscal year 1985, school districts within Educational Service District (ESD) #123 joined together to form the Southeast Washington Workers Compensation Cooperative Trust, a public entity risk pool currently operating as a common risk management and insurance program for industrial insurance. For fiscal year 2016-2017, there are nineteen school districts, including ESD #123, in the pool. The pool allows members to pool their self-insured losses and jointly purchases insurance and administrative services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. The district pays an annual contribution to the fund based on their total payroll hours and claims history for the past three years. The pool is fully funded by its member participants. The pool acquires insurance from unrelated underwriters. The pool's per-occurrence retention limit is \$450,000 and the three year aggregate retention is \$13,179,188. The maximum coverage under the excess insurance contract is \$13,179,188. Since the pool is a cooperative program, there is a joint liability among the participating members. The financial statements of the pool may be obtained by contacting Educational Service District No. 123.

A Cooperative Board that is comprised of one designated representative from each participating member and a six member Executive Board governs the Pool. The Executive Board has five members elected by the Cooperative Board and the ESD Superintendent. ESD #123 is responsible for conducting the business affairs of the Pool.

## United Schools Insurance Program

The Touchet School District No. 300 is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 154 school districts.

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

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$994,680 as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for \$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 and August 31, 2017 were \$1,675,950.37.

A board of directors 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 11: 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 and 2016-17 school year, consistent with the cash basis of accounting.

## **NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's equity as of August 31<sup>st</sup>, 2016 and 2017 respectively of \$4,306.60 and \$4,441.62 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 13: Fund balance classification details**

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

August 31, 2016	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Restricted Fund Balance					
For other items			\$116,283.01		
For Fund Purpose		\$58,772.53			\$175,295.65
For Carryover of Restricted Revenues	\$36.46				
For Debt Service				\$356,076.20	
Unassigned Fund Balance	\$378,566.90				

August 31, 2017	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Restricted Fund Balance					
For other items			\$109,000.05		
For Fund Purpose		\$74,520.15			\$199,334.62
For Carryover of Restricted Revenues	\$20,159.31				
For Debt Service				358,499.78	
Unassigned Fund Balance	\$358,167.68				



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

August 31, 2016

Restricted from State Proceeds	\$116,283.01
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August 31, 2017

Restricted from State Proceeds	\$109,000.05
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The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain at least 3% of the *current year* expenditures towards an unassigned minimum fund balance. Any proposed use of these reserves will require approval of the school board and a plan to restore the account as soon as possible. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Unassigned fund balance.

#### **NOTE 14: 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.

#### **NOTE 15: 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 vesting 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.

Touchet School District No. 300  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2017

Description	Beginning Outstanding Debt September 1, 2016	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2017	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	7,585,000.00	0.00	345,000.00	7,240,000.00	350,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt and Liabilities</b>					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	233,971.49	734.33	0.00	234,705.82	7,349.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
<b>Non-Voted Notes Not Recorded as Debt</b>	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	969,165.00	0.00	177,968.00	791,197.00	
Net Pension Liabilities TRS 2/3	402,628.00	0.00	155,187.00	247,441.00	
Net Pension Liabilities SERS 2/3	150,282.00	0.00	48,659.00	101,623.00	
Net Pension Liabilities PERS 1	186,129.00	0.00	27,826.00	158,303.00	
<b>Total Long-Term Liabilities</b>	9,527,175.49	734.33	754,640.00	8,773,269.82	357,349.00

Touchet School District No. 300  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2016

Description	Beginning Outstanding Debt September 1, 2015	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2016	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	7,925,000.00	0.00	340,000.00	7,585,000.00	345,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt and Liabilities</b>					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	265,687.74	0.00	31,716.25	233,971.49	6,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
<b>Non-Voted Notes Not Recorded as Debt</b>					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	895,395.00	73,771.00	0.00	969,166.00	
Net Pension Liabilities TRS 2/3	247,913.00	154,715.00	0.00	402,628.00	
Net Pension Liabilities SERS 2/3	91,721.00	58,561.00	0.00	150,282.00	
Net Pension Liabilities PERS 1	176,594.00	9,534.00	0.00	186,128.00	
<b>Total Long-Term Liabilities</b>	9,602,310.74	296,581.00	371,716.25	9,527,175.49	351,000.00

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>