



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

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

# **Port Angeles School District No. 121**

**For the period September 1, 2017 through August 31, 2018**

**Published May 23, 2019**

**Report No. 1023882**





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

May 23, 2019

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

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

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

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

Sincerely,

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

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Port Angeles School District No. 121 September 1, 2017 through August 31, 2018

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

The results of our audit of Port Angeles School District No. 121 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an 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 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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 qualified as a low-risk auditee under the Uniform Guidance.

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

None reported.

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

See finding 2018-001.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Port Angeles School District September 1, 2017 through August 31, 2018

**2018-001 Port Angeles School District did not have adequate internal controls to ensure compliance with requirements regarding time-and-effort documentation nor for suspension and debarment for its Title I program.**

<b>CFDA Number and Title:</b>	84.010 – Title I Grants to Local Education Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	N/A
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	0202812
<b>Questioned Cost Amount:</b>	\$0

#### *Description of Condition*

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families. In fiscal year 2018, the District spent \$1,150,871 in federal funding through its Title I program. Of this amount, the District spent \$890,461 on salaries and benefits. Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

#### *Time-and-effort documentation*

The District is responsible for ensuring all Title I payroll costs charged to the grant are supported by time-and-effort documentation as required by federal regulations and the grantor. Depending on the number and type of activities employees perform, time-and-effort documentation can take the form of a semi-annual certification or monthly personnel activity report, such as a timesheet.

The District's controls were not effective to ensure it completed accurate time-and-effort documentation as required. Our audit identified the following:

- The District did not collect time-and-effort documentation to support \$59,450 in payroll and benefit costs charged in June 2018 for any fixed schedule Title I employee.
- The District had one year-round variable schedule employee paid \$27,127 out of the program. The District did not reconcile time-and-effort documentation for September 2017 through May 2018 or collect time-and-effort documentation for June, July or August 2018.

We consider this internal control deficiency to be a significant deficiency.

#### *Suspension and debarment*

Federal regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For contracts of \$25,000 or more and all subawards, the District must verify the contractor or subrecipient is not suspended or debarred. This verification may be accomplished by (1) checking the Excluded Parties List System maintained by the General Services Administration, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity. The verification must occur before awarding the contracts.

The District did not have a process to ensure contractors were not suspended or debarred before entering into contracts. The District had one contractor subject to verification for fiscal year 2018. The District paid the contractor \$34,484 and did not verify the contractor's suspension and debarment status before making the purchase.

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

These issues were not reported as a finding in the prior audit.

#### *Cause of Condition*

Staff were not aware of OSPI requirements for time-and-effort documentation. Additionally, staff were not aware of the requirement to check suspension and debarment status for contractors paid with federal funds.

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

Without proper support and required approval for costs charged to grants, federal grantors cannot be assured expenditures charged to the program are valid and

allowable. The District's noncompliance with grant requirements can jeopardize future federal funding and could lead to the District needing to return federal funds to the grantor.

#### *Time-and-effort documentation*

The District provided adequate alternative support that demonstrated the costs charged to the program for all employees were allowable. As a result, we are not questioning costs.

#### *Suspension and debarment*

The District could have paid contractors who were suspended or debarred and would have been responsible to repay the granting agency. We determined the contractor was not suspended or debarred, so we are not questioning these costs.

### ***Recommendations***

We recommend the District:

- Establish internal controls to ensure it complies with federal and OSPI requirements for time-and-effort documentation
- Establish internal controls to ensure contractors paid with federal funds are not suspended or debarred prior to entering into the contract or covered transaction
- Ensure staff responsible for administering federal programs receive adequate training and regular updates to ensure any changes to federal requirements are met

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

*The district agrees to comply with all recommendations and will follow through with the corrective action plan immediately to address such issues.*

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

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

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

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



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

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

Title 2 CFR Part 200, Uniform Guidance, section 213- Suspension and Debarment, establishes suspension and debarment requirements.

Office of Superintendent of Public Instruction (OSPI) Addendum to Bulletin 048-17, Federal Fiscal Policy, establishes requirements for documenting time and effort for employees that work in federal programs.

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

**Port Angeles School District No. 121  
September 1, 2017 through August 31, 2018**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Port Angeles School District No. 121, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 13, 2019.

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

May 13, 2019

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

**Port Angeles School District No. 121  
September 1, 2017 through August 31, 2018**

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

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

We have audited the compliance of Port Angeles School District No. 121, 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, 2018. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

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

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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

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

Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 to be a material weakness.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 to be a significant deficiency.

We also noted certain matters that we have reported to the management of the District in a separate letter dated May 13, 2019.

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

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

## **Purpose of this Report**

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

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

Pat McCarthy  
State Auditor  
Olympia, WA

May 13, 2019



# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port Angeles School District No. 121 September 1, 2017 through August 31, 2018**

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

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

We have audited the accompanying financial statements of Port Angeles School District No. 121, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 21.

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

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

#### **Auditor's Responsibility**

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

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

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Port Angeles School District No. 121, as of August 31, 2018, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

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

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

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

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Port Angeles School District No. 121, as of August 31, 2018, 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 conducted 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 May 13, 2019 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

May 13, 2019

## **FINANCIAL SECTION**

### **Port Angeles School District No. 121 September 1, 2017 through August 31, 2018**

#### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2018

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2018

Notes to Financial Statements – 2018

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Long-Term Liabilities – 2018

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2018

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	1,483,004.12	10,148.67	0.00	0.00	0.00	0.00	1,493,152.79
Minus Warrants Outstanding	-1,443,577.04	-538.33	0.00	0.00	0.00	0.00	-1,444,115.37
Taxes Receivable	4,092,898.75		1,373.59	0.00	0.00	0.00	4,094,272.34
Due From Other Funds	1,690.82	423.59	0.00	17,740.96	0.00	0.00	19,855.37
Due From Other Governmental Units	199,505.20	0.00	0.00	0.00	0.00	0.00	199,505.20
Accounts Receivable	5,308.37	0.00	0.00	0.00	0.00	0.00	5,308.37
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	108,234.97	0.00		0.00			108,234.97
Prepaid Items	117,020.40	0.00			0.00	0.00	117,020.40
Investments	4,194,272.72	506,440.37	37,400.96	656,221.82	420,229.93	0.00	5,814,565.80
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>8,758,358.31</b>	<b>516,474.30</b>	<b>38,774.55</b>	<b>673,962.78</b>	<b>420,229.93</b>	<b>0.00</b>	<b>10,407,799.87</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>8,758,358.31</b>	<b>516,474.30</b>	<b>38,774.55</b>	<b>673,962.78</b>	<b>420,229.93</b>	<b>0.00</b>	<b>10,407,799.87</b>
<b>LIABILITIES:</b>							
Accounts Payable	525,548.07	26,662.31	0.00	64,054.47	0.00	0.00	616,264.85
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	35,575.93	0.00		0.00			35,575.93
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2018

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Payroll Deductions and Taxes Payable	6,332.47	0.00		0.00			6,332.47
Due To Other Governmental Units	0.00	0.00		0.00	0.00		0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	18,164.55	1,690.82	0.00	0.00	0.00	0.00	19,855.37
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>585,621.02</b>	<b>28,353.13</b>	<b>0.00</b>	<b>64,054.47</b>	<b>0.00</b>	<b>0.00</b>	<b>678,028.62</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	18,907.41	0.00	0.00	0.00	0.00	0.00	18,907.41
Unavailable Revenue - Taxes Receivable	4,092,898.75		1,373.59	0.00	0.00		4,094,272.34
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,111,806.16</b>	<b>0.00</b>	<b>1,373.59</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4,113,179.75</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	225,255.37	0.00	0.00	0.00	0.00	0.00	225,255.37
Restricted Fund Balance	75,818.54	488,121.17	37,400.96	0.00	420,229.93	0.00	1,021,570.60
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	609,908.31	0.00	0.00	609,908.31
Unassigned Fund Balance	3,759,857.22	0.00	0.00	0.00	0.00	0.00	3,759,857.22
<b>TOTAL FUND BALANCE</b>	<b>4,060,931.13</b>	<b>488,121.17</b>	<b>37,400.96</b>	<b>609,908.31</b>	<b>420,229.93</b>	<b>0.00</b>	<b>5,616,591.50</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>8,758,358.31</b>	<b>516,474.30</b>	<b>38,774.55</b>	<b>673,962.78</b>	<b>420,229.93</b>	<b>0.00</b>	<b>10,407,799.87</b>

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

**Port Angeles School District No. 121**

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

**Governmental Funds**

**For the Year Ended August 31, 2018**

	<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	9,786,982.59	353,688.40	12,190.24	26,303.95	143,211.07		10,322,376.25
State	35,537,037.86		0.00	0.00	128,929.80		35,665,967.66
Federal	4,387,197.60		0.00	0.00	0.00		4,387,197.60
Federal Stimulus	0.00						0.00
Other	15,684.50			0.00	0.00	0.00	15,684.50
<b>TOTAL REVENUES</b>	<b>49,726,902.55</b>	<b>353,688.40</b>	<b>12,190.24</b>	<b>26,303.95</b>	<b>272,140.87</b>	<b>0.00</b>	<b>50,391,226.01</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	26,660,419.50						26,660,419.50
Federal Stimulus	0.00						0.00
Special Education	7,045,581.58						7,045,581.58
Vocational Education	1,748,121.01						1,748,121.01
Skill Center	0.00						0.00
Compensatory Programs	3,281,135.44						3,281,135.44
Other Instructional Programs	914,971.08						914,971.08
Community Services	47,599.51						47,599.51
Support Services	10,272,084.51						10,272,084.51
Student Activities/Other		309,146.42				0.00	309,146.42
<b>CAPITAL OUTLAY:</b>							
Sites				331,208.89			331,208.89
Building				105,043.54			105,043.54
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					379,253.28		379,253.28
Sales and Lease				0.00			0.00
Other	168,516.92						168,516.92
<b>DEBT SERVICE:</b>							
Principal	0.00		0.00	0.00	0.00		0.00
Interest and Other Charges	0.00		0.00	0.00	0.00		0.00
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>50,138,429.55</b>	<b>309,146.42</b>	<b>0.00</b>	<b>436,252.43</b>	<b>379,253.28</b>	<b>0.00</b>	<b>51,263,081.68</b>

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



Port Angeles School District No. 121

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2018

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	-411,527.00	44,541.98	12,190.24	-409,948.48	-107,112.41	0.00	-871,855.67
<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	2,793.75		0.00	0.00	1,045.00		3,838.75
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,793.75</b>		<b>0.00</b>	<b>0.00</b>	<b>1,045.00</b>	<b>0.00</b>	<b>3,838.75</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>-408,733.25</b>	<b>44,541.98</b>	<b>12,190.24</b>	<b>-409,948.48</b>	<b>-106,067.41</b>	<b>0.00</b>	<b>-868,016.92</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>4,469,664.38</b>	<b>443,579.19</b>	<b>25,210.72</b>	<b>1,019,856.79</b>	<b>526,297.34</b>	<b>0.00</b>	<b>6,484,608.42</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>4,060,931.13</b>	<b>488,121.17</b>	<b>37,400.96</b>	<b>609,908.31</b>	<b>420,229.93</b>	<b>0.00</b>	<b>5,616,591.50</b>

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

**Port Angeles School District**  
**Notes to the Financial Statements**  
**September 1, 2017 through August 31, 2018**

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

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

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

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplemental information.
- (3) Supplemental information required by GAAP is not presented.
- (4) Property Taxes collected after the end of the fiscal period are not considered available for revenue accrual as described below.

**Fund Accounting**

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

The various funds are grouped into governmental funds as follows:

**General Fund**

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

### Capital Projects Funds

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

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

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

### Debt Service Fund

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

### Special Revenue Fund

In the State of Washington, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. Even though this fund accounts for monies raised by associated student bodies of the district, this fund is presented within the financial statements of the District, as financial resources in the fund 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 bodies of the District.

### Permanent Funds

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

## **Measurement focus, basis of accounting and fund financial statement presentation**

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

Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available, if they are likely to be collected within 30 days after year-end.

However, most property taxes receivable are measurable, but not available and are, therefore, not accrued as revenue, but recorded as a deferred inflow of resources. Known categorical program claims are accrued as revenue in accordance with the matching principal of accounting, since the expenditures for such programs have already been incurred and the district is seeking reimbursement for those expenditures. Inter-district billings are measurable and available, and are, therefore, accrued as revenue.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. An obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.

## **Budgets**

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

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

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

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

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

## **Cash and Cash Equivalents**

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

## Due from Other Governments

As of August 31, 2018, the district has recorded revenue due to be collected from other governments of \$199,505.20. This amount consists of compensatory grant accruals which are expected to be collected within 90 days.

## Inventory

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

## Fund Balance Classifications, Policies, and Procedures

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

- *Nonspendable Fund Balance* – This classification is used for that portion of net resources that cannot be spent because of their form or because they must remain intact, such as items relating to inventory or expenses that have been prepaid for consumption in a subsequent year.
- *Restricted Fund Balance* – This classification is used when there are enforceable limitations on the use of certain funds from external sources, such as by creditors, grantors, contributors, or from regulations of oversight government agencies. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.
- *Committed Fund Balance* – This classification is used when there are limitations imposed on funds by formal action of the district's board of directors and use of those funds cannot be changed without formal action of the same.
- *Assigned Fund Balance* – This classification is used to describe the portion of fund balance that reflects the district's intended use of resources, but are neither restricted or committed.

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

In governmental funds other than the general fund, assigned fund balance represents a spendable, positive ending fund balance once all restrictions and commitments are

considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

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

Currently, the district's board of directors has directed management, in its policy #6020, that the district shall end each year with a portion of the general fund balance at least equal to four percent of that year's general fund operating expenditures. This is intended to recognize the importance of maintaining a prudent fund balance in the general fund to ensure operational cash flow needs are met, to set aside resources for known obligations, and to help protect against unforeseen circumstances. Funds under this board policy are considered unassigned, but attributable to a minimum fund balance policy.

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

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

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

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

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

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

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

- 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.

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

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

The District's investments as of August 31, 2018, are as follows:

<b>Type of Investment</b>	<b>District's own investments</b>	<b>Investments held by District as an agent for other organizations</b>	<b>Total</b>
Washington State Local Government Investment Pool	\$5,710,929.43	\$ 0.00	\$5,710,929.43
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 0.00
Other:	\$ 0.00	\$ 0.00	\$ 0.00
Time Deposits (Certificates)	\$ 103,636.37	\$ 0.00	\$ 103,636.37
<b>Total</b>	<b>\$5,814,565.80</b>	<b>\$ 0.00</b>	<b>\$5,814,565.80</b>

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 portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the Government Accounting Standard's Board Statement No. 79, *Certain External Investment Pools and Pool Participants*, for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The pool maintains a Weighted Average Maturity (WAM) of 60 days or shorter.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from:



The Office of the State Treasurer  
Post Office Box 40200  
Olympia, Washington 98504-0200

<https://tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/lgip-publications/>

With respect to other investments, indicated above, the district does not have a policy which addresses a specific risk. However, statutes restrict the deposit of funds to financial institutions that are physically located in Washington unless otherwise expressly permitted and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

## **NOTE 3: PENSION PLANS**

### **General Information**

The 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, 2018, was as follows:



Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	47,037	539	1,986
SERS 2	9,171	6,050	27,786
SERS 3	8,866	8,678	34,930
TRS 1	33,460	147	497
TRS 2	5,453	2,617	20,518
TRS 3	11,960	8,735	55,117

## 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 41.34 and 41.40 RCW for PERS, 41.34 and 41.35 RCW for SERS, and 41.32 and 41.34 RCW for TRS. 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 and 2018 were as follows:

Pension Rates			
	9/1/18 Rate	7/1/17 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.83%	12.70%	
Pension Rates			
	9/1/18 Rate	9/1/17 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.41%	15.20%	
<b>TRS 2</b>			
Member Contribution Rate	7.06%	7.06%	
Employer Contribution Rate	15.41%	15.20%	
<b>TRS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.41%	15.20%	**
<b>SERS 2</b>			
Member Contribution Rate	7.27%	7.27%	
Employer Contribution Rate	13.58%	13.48%	
<b>SERS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.58%	13.48%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

## The Collective Net Pension Liability

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

The Net Pension Liability as of June 30, 2018:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,143,412	\$5,719,600	\$8,722,439	\$14,422,685
Plan fiduciary net position	(\$7,677,378)	(\$5,420,538)	(\$5,801,847)	(\$13,972,571)
Participating employers' net pension liability	\$4,466,034	\$299,062	\$2,920,592	\$450,114
Plan fiduciary net position as a percentage of the total pension liability	63.22%	94.77%	66.52%	96.88%

*\*Dollars are denoted in thousands*

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

At June 30, 2018, the school district reported a total liability of \$15,031,329 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2018, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2018	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$407,012	\$601,748	\$1,390,942	\$1,496,748
Proportionate Share of the Net Pension Liability	\$2,719,427	\$1,028,693	\$9,767,833	\$1,515,377

At June 30, 2018, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.060891%	0.343973%	0.334447%	0.336665%
Prior year proportionate share of the Net Pension Liability	0.059381%	0.342687%	0.345229%	0.347316%
Net difference percentage	<b>0.001511%</b>	<b>0.001286%</b>	<b>-0.010782%</b>	<b>-0.010651%</b>

## Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increases	In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.40%

## 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, 2017, valuation were based on the results of the *2007–2012 Experience Study Report and the 2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 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 7.40% 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, 2018, 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	7.00%	4.90%
Real Estate	18.00%	5.80%
Global Equity	32.00%	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 7.40 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 7.50 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 7.40 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 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

The following table presents the Port Angeles School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.40 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 (6.40 percent) or one percentage-point higher (8.40 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 (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
<b>PERS 1 NPL</b>	\$5,488,477,000	\$4,466,034,000	\$3,580,392,000
Allocation Percentage	0.060891%	0.060891%	0.060891%
Proportionate Share of Collective NPL	\$3,342,006	\$2,719,427	\$2,180,148
<b>SERS 2/3 NPL</b>	\$1,127,549,000	\$299,062,000	(\$383,817,000)
Allocation Percentage	0.343973%	0.343973%	0.343973%
Proportionate Share of Collective NPL	\$3,878,465	\$1,028,693	\$(1,320,227)
<b>TRS 1 NPL</b>	\$3,650,431,000	\$2,920,592,000	\$2,288,760,000
Allocation Percentage	0.334447%	0.334447%	0.334447%
Proportionate Share of Collective NPL	\$12,208,758	\$9,767,833	\$7,654,690
<b>TRS 2/3 NPL</b>	\$2,805,439,000	\$450,114,000	(\$1,463,229,000)
Allocation Percentage	0.336665%	0.336665%	0.336665%



Proportionate Share of Collective NPL	\$9,444,937	\$1,515,377	\$(4,926,183)
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#### **NOTE 4: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

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

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 74 of the state's K–12 school districts and educational service districts (ESDs), and 236 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 238 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

#### **Eligibility**

District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 or 3 of TRS or SERS.

- Age of 65 with 5 years of service
- Age of 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

#### **Medical Benefits**

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 medical coverage for 2018.



**Members not eligible for Medicare  
(or enrolled in Part A only)**

<u>Descriptions</u>	<u>Type of Coverage</u>		
	<u>Employee</u>		
	<u>Employee</u>	<u>&amp; Spouse</u>	<u>Full Family</u>
Kaiser Permanente NW Classic	\$692.66	\$1,380.30	\$1,896.03
Kaiser Permanente NW CDHP	\$590.87	\$1,170.25	\$1,561.04
Kaiser Permanente WA Classic	\$718.39	\$1,431.76	\$1,966.79
Kaiser Permanente WA CDHP	\$589.18	\$1,167.37	\$1,557.27
Kaiser Permanente WA Sound Choice	\$607.11	\$1,209.20	\$1,660.77
Kaiser Permanente WA Value	\$633.52	\$1,262.02	\$1,733.40
UMP Classic	\$657.86	\$1,310.70	\$1,800.33
UMP CDHP	\$588.91	\$1,166.83	\$1,556.50
UMP Plus-Puget Sound High Value Network	\$600.56	\$1,196.10	\$1,642.76
UMP Plus-UW Medicine Accountable Care Network	\$600.56	\$1,196.10	\$1,642.76

Retirees enrolled in Medicare Parts A and B receive an explicit subsidy in the form of reduced premiums on Medicare supplemental plans. Retirees pay the following monthly rates.

**Members enrolled in Part A and B of Medicare**

<u>Descriptions</u>	<u>Type of Coverage</u>		
	<u>Employee</u>		
	<u>Employee</u>	<u>&amp; Spouse<sup>1</sup></u>	<u>Full Family<sup>1</sup></u>
Kaiser Permanente NW Senior Advantage	\$173.07	\$860.71	\$865.85
Kaiser Permanente WA Medicare Plan	\$175.40	\$345.78	\$516.16
Kaiser Permanente WA Classic	N/A	N/A	\$880.81
Kaiser Permanente WA Sound Choice	N/A	N/A	\$797.35
Kaiser Permanente WA Value	N/A	N/A	\$1,275.28
UMP Classic	\$333.64	\$662.26	\$1,151.89

Note 1-Employee, Spouse and Full Family with two Medicare eligible subscribers.

**Funding Policy**

The funding policy is based upon the pay-as-you go financing requirements. According to state law, the state collects a fee from all school districts for its active employees that is intended to cover the administrative 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 2017–18, the district was required to pay the state HCA \$64.07 per month per full-time equivalent employee to support the program, for a total payment of \$375,391.09. This assessment to the district is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The district has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The district does not determine its annual required

contribution nor the net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

For further information on the results of the actuarial valuation of the employer provided subsidies associated with the state's PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Documents/Final.2017.PEBB.OPEB.AVR.pdf>

The plan does not issue a separate report; however, additional information is included in the State of Washington Comprehensive Annual Financial Report, which is available on this site:

<https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report>

## **NOTE 5: OTHER SIGNIFICANT COMMITMENTS**

### **Encumbrances**

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. However, the district did not re-encumber any funds as of September 1, 2018.

## **NOTE 6: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$500,000,000 for fiscal year 2017-2018. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 7: ENTITY RISK MANAGEMENT ACTIVITIES**

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

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

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

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

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

The pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

## **NOTE 8: 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<sup>th</sup> or one-half then and one-half on October 31<sup>st</sup>. Typically, slightly more than half of the collections are made on the April 30<sup>th</sup> date. The October 31<sup>st</sup> collection is not available in time to cover liabilities for the fiscal period ended August 31<sup>st</sup>. Property taxes receivable are measureable as of August 31<sup>st</sup>, but are not considered available to pay the liabilities current as of August 31<sup>st</sup>. For that reason, property taxes levied as of January 1<sup>st</sup> of the current fiscal year, but paid after August 31<sup>st</sup>, are recorded as a deferred inflow of resources.

### **Tax Abatements**

In accordance with RCW 84.36 and WAC 458-16A, Clallam County offers a property tax exemption to senior citizens, age 61 or older as of December 31<sup>st</sup> of the filing year, and disabled persons that meet certain thresholds. You must be the owner and occupant of a single family dwelling, mobile home, or one unit in multiple-unit housing, and have a combined disposable income of \$40,000 or less (including income of spouse and co-tenant). Your household income determines the amount of the exemption from regular property taxes or excess levies.

The district estimates that \$31,277 was exempted from senior citizens in tax year 2018. The district has the option to ask that such exemptions be included in the next year's assessment, and the district requested this option.

## **NOTE 9: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

### **Lincoln Center**

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

### **KCDA**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing a resolution prior to 1973 and has remained in the joint venture ever since. The District's current equity of \$49,447 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 10: FUND BALANCE CLASSIFICATION DETAILS**

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

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Transportation Vehicle Fund</b>
<b>Nonspendable Fund Balance</b>					
Inventory and Prepaid Items	\$225,255.37				
<b>Restricted Fund Balance</b>					
Carryover of Restricted Revenues	\$75,818.54				
Fund Purpose		\$488,121.17			\$420,229.93
Debt Service				\$37,400.96	
Other Items					
<b>Committed Fund Balance</b>					
Fiscal Stability					
Other Commitments					
<b>Assigned Fund Balance</b>					
Contingencies					
Other Capital Projects					

	<b>General Fund</b>	<b>ASB Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Transportation Vehicle Fund</b>
Other Purposes					
Fund Purposes			\$609,908.31		
Unassigned Fund Balance	\$1,754,320.04				
Unassigned FB for Minimum FB Policy	\$2,005,537.18				
<b>TOTAL FUND BALANCE</b>	<b>\$4,060,931.13</b>	<b>\$488,121.17</b>	<b>\$609,908.31</b>	<b>\$37,400.96</b>	<b>\$420,229.93</b>

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

## **NOTE 11: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

### **457 Plan – Deferred Compensation Plan**

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

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

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

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by the TSA Consulting Group. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. Deductions are typically the responsibility of the employee, but certain payments are the responsibility of the district as per negotiated contracts. For the year ended August 31, 2018, the District made \$7,384 in discretionary employer contributions to the plan.

## **NOTE 12: TERMINATION BENEFITS**

### **Compensated Absences**

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

#### **Sick Leave**

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

Accrued vested sick leave for employees is recorded as a long-term debt liability on the Schedule of Long Term Liabilities for the general fund. Expenditures for vested sick leave are recorded when paid. Due to considerations of prior employment credits in the state's retirement system, the district is unable to determine which employees are actually eligible for retirement at the end of a given fiscal year. The district assumes that all employees over the age of 55 are vested and will become eligible for retirement, and so calculates an estimated vested sick-leave liability of one hour for each four hours of accrued sick-leave for all current employees over the age of 55 as of the end of the fiscal year. The amount of accrued sick leave reflected as a long term liability as of August 31, 2018 is \$1,217,440.21.

#### **Vacation**

An employee can be compensated for earned vacation leave up to 240 hours at any time upon termination. Vacation leave that is expected to be liquidated with expendable, available financial resources; i.e., expected compensation that has matured, is reported as an expenditure and a fund liability of the fund that will pay it. Amounts not exceeding 240 hours, and not expected to be liquidated with expendable, available financial resources are reported as long-term debt in the Schedule of Long Term Liabilities for the general fund. The amount reflected as a long term liability for accrued vacation leave as of August 31, 2018 is \$413,943.07.

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

## **NOTE 13: OTHER DISCLOSURES**

#### **Monroe Elementary School**

The district had been carrying Monroe Elementary School in its building inventory during this current fiscal year. The school had originally been built in 1949 and upgraded in 1978. The school was determined in poor condition and no longer needed. A 2008 study of the school gave the school an evaluation score of 32-36% of an ideal facility. No improvements had been made since that time, as the school had not been needed, due to declining enrollment.

During the prior fiscal year, the district board of education authorized the demolition of the school. Funds to pay for the demolition came largely from unused state forest money that had been in the debt service fund. With the authorization of the school board, these unused

funds were transferred from the debt service fund to the capital projects fund in the prior fiscal year for the demolition of the school. No other funds were transferred during this current fiscal year. As of August 31, 2018, the demolition project was complete.

Port Angeles School District No. 121  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2018

Description	Beginning Outstanding Debt September 1, 2017	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2018	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
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	1,410,625.62	408,096.54	187,338.88	1,631,383.28	228,457.36
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	10,437,185.00	0.00	669,352.00	9,767,833.00	
Net Pension Liabilities TRS 2/3	3,205,532.00	0.00	1,690,155.00	1,515,377.00	
Net Pension Liabilities SERS 2/3	1,691,076.00	0.00	662,383.00	1,028,693.00	
Net Pension Liabilities PERS 1	2,817,652.00	0.00	98,225.00	2,719,427.00	
<b>Total Long-Term Liabilities</b>	19,562,070.62	408,096.54	3,307,453.88	16,662,713.28	228,457.36



PORT ANGELES SCHOOL DISTRICT No. 121  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending August 31, 2018

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
<b>U.S. Department of Agriculture</b>									
	WA OSPI	School Breakfast Program	10.553	N/A		\$384,500.61	\$384,500.61	N/A	2
	WA OSPI	National School Lunch Program	10.555	N/A		\$717,628.26	\$717,628.26	N/A	2
	WA OSPI	National School Lunch Program	10.555	N/A		\$101,564.34	\$101,564.34	N/A	3
		<b>Total Child Nutrition Cluster</b>					<b>\$1,203,693.21</b>		
	WA OSPI	Child and Adult Care Food Program	10.558	N/A		\$32,357.06	\$32,357.06	N/A	2
	State Treasurer	School & Roads - Grants to States	10.665	N/A		\$183,702.37	\$183,702.37	N/A	
		<b>U.S. Department of Agriculture Total</b>				<b>\$1,419,752.64</b>	<b>\$1,419,752.64</b>		
<b>U.S. Department of Education</b>									
	WA OSPI	Title 1 Grants to Local Education Agencies	84.010	0202812		\$1,150,870.94	\$1,150,870.94	N/A	4
		Impact Aid	84.041	N/A	\$93,275.17		\$93,275.17	N/A	
	WA OSPI	Career and Technical Education Basic Grants to States	84.048	0174104		\$26,956.02	\$26,956.02	N/A	2
	WA OSPI	Supporting Effective Instruction State Grants	84.367	0524213		\$174,598.30	\$174,598.30	N/A	2
	WA OSPI	Rural Education	84.358	0461529		\$56,728.12	\$56,728.12	N/A	2
	WA OSPI	Student Support and Academic Enrichment Program	84.424	0430049		\$16,868.53	\$16,868.53	N/A	2
		Indian Education Grants to Local Educational Agencies	84.060	S060A171054	\$88,170.47		\$88,170.47	N/A	2
	<b>Special Education Cluster</b>								
	WA OSPI	Special Education - Grants to States	84.027	0306079		\$886,160.00	\$886,160.00	N/A	2
	WA OSPI	Special Education - Preschool Grants	84.173	0365590		\$35,666.91	\$35,666.91	N/A	2
		<b>Total Special Education Cluster</b>					<b>\$921,826.91</b>		
		<b>U.S. Department of Education Total</b>			<b>\$181,445.64</b>	<b>\$2,347,848.82</b>	<b>\$2,529,294.46</b>		
<b>U.S. Department of Health &amp; Human Services</b>									
	WA HCA	Medical Assistance Program	93.778	N/A		\$134,474.85	\$134,474.85	N/A	2
		<b>U.S. Department of Health &amp; Human Services Total</b>				<b>\$134,474.85</b>	<b>\$134,474.85</b>		
<b>Corporation for National &amp; Community Service</b>									
	OFM Serve WA	Americorps	94.006	K2431	\$185,698.82		\$185,698.82	N/A	2
		<b>Corporation for National and Community Service Total</b>			<b>\$185,698.82</b>		<b>\$185,698.82</b>		
		<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<b>\$367,144.46</b>	<b>\$3,902,076.31</b>	<b>\$4,269,220.77</b>		

## **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 Port Angeles School District's financial statements. The district uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

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

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

### **NOTE 3—NONCASH AWARDS**

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

### **NOTE 4—SCHOOLWIDE PROGRAMS**

The Port Angeles School District operates a "schoolwide program" in five elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the district's in its schoolwide program: Title I (84.010) (\$ 1,150,870.94).

### **NOTE 5—SMALL RURAL SCHOOLS ACHIEVEMENT (SRSA)**

As allowed by federal regulations, the Port Angeles School District expended \$56,728.12 from its Small Rural Schools Achievement (SRSA).

### **NOTE 6—FEDERAL INDIRECT RATE**

The Port Angeles School District used the federal *restricted* rate of .0294%. The Port Angeles School District *has not* elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

### Port Angeles School District No. 121 September 1, 2017 through August 31, 2018

This schedule presents the corrective action planned by the District 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).

<b>Finding ref number:</b> 2018-001	<b>Finding caption:</b> Port Angeles School District did not have adequate internal controls to ensure compliance with requirements regarding time-and-effort documentation nor for suspension and debarment for its Title I program.
<b>Name, address, and telephone of District contact person:</b> Kira Acker, Finance Director 216 E. 4th Street Port Angeles, WA 98362 (360) 457-8575	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>To ensure proper documentation is received for time and effort over the summer the district will ask building staff to sign their time and effort forms when they return from summer vacation. Central office staff being coded to Title 1 or other federal programs will sign throughout the summer. All forms will then be reconciled and filed.</i> <i>A federal procurement form has been created as a guide to ensure proper action and documentation is taken when making federal purchases. The form will be attached to all purchase requisitions entered into Skyward and will not be approved unless attached. The form walks staff through each piece of documentation needed including; purchasing thresholds for quotes or bids, a screen shot of SAM.gov Suspension/Debarment verification, and the Sole Source documentation if needed.</i>	
<b>Anticipated date to complete the corrective action:</b> Immediately. Staff will be trained this summer on the federal procurement form and instructed of the changes in time and effort reporting before they leave for summer vacation.	

## 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.

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

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