



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

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

# **Aberdeen School District No. 5**

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

**Published May 23, 2019**

**Report No. 1023898**





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

May 23, 2019

Board of Directors  
Aberdeen School District No. 5  
Aberdeen, Washington

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

Please find attached our report on Aberdeen School District No. 5'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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Aberdeen School District No. 5 September 1, 2017 through August 31, 2018

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

The results of our audit of Aberdeen School District No. 5 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 each of its major federal programs.

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

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

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) – Special Education Grants to States
84.173	Special Education Cluster (IDEA) – Special Education Preschool Grants

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

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

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

None reported.

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

See finding 2018-001 and 2018-002.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Aberdeen School District No. 5 September 1, 2017 through August 31, 2018

**2018-001    The District did not have adequate internal controls to ensure compliance with the federal requirements for time-and-effort documentation, procurement, and suspension and debarment.**

<b>CFDA Number and Title:</b>	84.027 – Special Education – Grants to States (IDEA, Part B) 84.173 – Special Education – Preschool Grants (IDEA Preschool)
<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 (OSPI)
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$0

#### ***Background***

The objective of the Special Education Program is to help education agencies provide special education and related services to all children with disabilities. During the 2017-18 school year, the District spent \$858,517 in Special Education program funds.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established program controls.

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

The District is responsible for ensuring all 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 work, time-and-effort documentation can take the form of a semi-annual certification or monthly personnel activity report, such as a timesheet.

### *Procurement*

Districts using program funds must follow a competitive process to procure goods and services to ensure they receive the best price from the lowest responsible bidder. Districts must apply the more restrictive of federal requirements, state law, or district policy by obtaining quotes or following a competitive bidding process, depending on the purchase amount.

State law does not require competitive procurement for personal services. However, federal regulations require the District to obtain price or rate quotes from an adequate number of sources for any services greater than \$3,500 but less than \$150,000. For personal service contracts over \$150,000, the District must procure by either sealed bid or competitive proposals and perform a cost or price analysis.

### *Suspension and debarment*

Federal grant recipients are prohibited from purchasing from, contracting with, or making subawards to parties suspended or debarred from doing business with the federal government. For contracts and purchases of \$25,000 or more and all subawards, the District must verify the contractor or subrecipient is not suspended or debarred. The District can obtain a written certification from the contractor or insert a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This verification must be performed prior to entering into a contract or purchasing or making a subaward and retain documentation evidencing this verification was performed.

## ***Description of Condition***

### *Time-and-effort documentation*

We found the District's controls were not effective to ensure it completed accurate time-and-effort documentation as required by federal regulations and the grantor. The District did not obtain adequate time-and-effort documentation for any of the four certificated employees charged to the grant.

We consider this deficiency in internal controls to be a material weakness.

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

### *Procurement*

We found the District paid \$461,749 for five personal service contracts using federal funds. The District did not maintain documentation to show it complied

with federal procurement requirements. Further the District did not perform a cost or price analysis for the one contract that exceeded \$150,000.

We consider this deficiency in internal controls to be a material weakness.

This issue was reported as a finding in the prior audit as finding 2017-001.

#### *Suspension and debarment*

The District did not have controls effective to verify all contractors paid over \$25,000 were not suspended or debarred before entering into the contract. The District did not verify that two contractors paid a total of \$230,886 were not suspended or debarred.

We consider this control deficiency to be a material weakness.

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

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

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

The District experienced turnover in the position responsible for time-and-effort documentation. Further, in prior years, the District used this grant for third-party contractors instead of the District's own employees. The new employee responsible for time-and-effort did not know this requirement applied to this grant.

#### *Procurement, suspension and debarment*

The District experienced turnover in the procurement position, and the District could not find the documentation to show it followed the appropriate procurement method and followed suspension and debarment requirements.

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

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

The District's noncompliance with grant requirements could jeopardize future federal funding and might require it to return federal funds to the grantor. Without proper time-and-effort records, the District did not comply with OSPI's documentation requirements to support costs charged to the federal program and federal grantors cannot be assured the \$354,533 of payroll costs charged to the program were accurate or valid. The District provided alternative documentation in the form of Personnel Action Forms to support the payroll costs charged to the program. Therefore, we are not questioning these costs.



### *Procurement*

The District was unable to show it followed a competitive procurement process for five personal service contracts totaling \$461,749. The District cannot demonstrate it received the best price for the services purchased. The services are allowable under the federal program; therefore, we are not questioning the costs.

### *Suspension and debarment*

Any payments of program funds to a contractor that has been suspended or debarred would be unallowable and subject to recovery by the grantor.

We verified that the contractors were not suspended or debarred. Therefore, we are not questioning the related costs.

### ***Recommendations***

We recommend the District:

- Establish internal controls to ensure it complies with federal and OSPI requirements for time-and-effort documentation
- Keep all documents necessary to demonstrate compliance with applicable procurement requirements
- Complete a cost or price analysis for all federal purchases of services over \$150,000
- Establish internal controls to verify that all contractors paid \$25,000 or more are not suspended or debarred from participating in federal programs before making purchases

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

*The Aberdeen School District recently change the source of expenditure for this grant from third-party vendor to enrollment. In changing to paying to employee's the district will comply with the time-and-effort requirements by providing semi-annual certification for certificated staff and timesheets for the classified staff. Procurement procedures have been revised and the district now publishes an RFP for services provided by third-party vendors. This was revised during the prior year's audit and disclosed to the Auditor's at that time. Records are now kept in the Business Office to demonstrate the process. Suspension & Debarment status is now determined as a condition of the RFP. Should we not be able to provide the needed services with the previously approved vendors, the Suspension & Debarment process is checked while determining if the applicant is an eligible candidate.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular 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 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, establishes requirements for management of Federal awards to non-Federal entities.

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

Title 2 CFR Part 200, Uniform Guidance, Subpart E, Cost Principles, establishes requirements for determining allowable costs and supporting costs allocated to federal programs.

Office of Superintendent of Public Instruction Addendum to Bulletin 048-17, establishes requirements for documenting time and effort.

#### ***Procurement***

Title 2 CFR Part 200, Section 319 – Competition, establishes all procurement transactions are to be conducted in a manner providing full and open competition, and requires non-federal entities to have written procedures for procurement transactions.

Title 2 CFR Part 200, Section 320 – Methods of procurement to be followed, describes each allowable procurement method.

#### ***Suspension and debarment***

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

Title 2 CFR Part 180, OMB *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations, implementing Executive Orders 12549 and 12689.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Aberdeen School District No. 5 September 1, 2017 through August 31, 2018

**2018-002**    **The District did not have adequate internal controls to ensure compliance with federal requirements for graduation-rate reporting, time-and-effort documentation, and suspension and debarment.**

<b>CFDA Number and Title:</b>	84.010 – Title I Grants to Local Educational 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 (OSPI)
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$0

#### ***Background***

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. During the 2017-18 school year, the District spent \$1,211,557 in Title I program funds.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established program controls.

#### ***Graduation-rate reporting***

School districts must report graduation-rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done by submitting a Graduation-rate report that indicates the student's enrollment status as graduated, transferred out, dropped out, migrated to another country, or deceased. The District must keep adequate support for how it classifies a student's enrollment status. To confirm a student transferred out, the District must have official written

documentation that the student enrolled in another school or an education program that culminates in the award of a regular high school diploma.

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

The District is responsible for ensuring all 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 work, time-and-effort documentation can take the form of a semi-annual certification or monthly personnel activity report, such as a timesheet.

#### *Suspension and debarment*

Federal grant recipients are prohibited from purchasing, contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For contracts and purchases of \$25,000 or more and all subawards, the District must verify that the contractor or subrecipient is not suspended or debarred. The District can obtain a written certification from the contractor or insert a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This verification must be performed prior to entering into a contract or making a purchase or a subaward.

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

#### *Graduation-rate reporting*

We reviewed the District's documentation for students it classified as transferred out. The District's controls were not adequate to ensure it obtained the required documents to support its classification of students who left the District. Specifically, the District did not obtain annual Intent to Provide Home-Based Education forms (homeschool forms) for two students who left the District to be homeschooled. Without adequate documentation, the District may not report the students as a confirmed transfer out.

We consider these control deficiencies to be a material weakness.

This issue was reported in our 2017-002 finding in the prior audit.

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

We found the District's controls were not effective to ensure it completed time-and-effort documentation as required by federal regulations and OSPI. The

District did not obtain any time-and-effort documentation for preschool teachers or counselors charged to the grant.

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

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

#### *Suspension and debarment*

The District's controls were not adequate to ensure it maintained the required documents to support that it verified one contractor paid \$38,500 was not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness.

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

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

#### *Graduation-rate reporting*

District staff were not aware of the documents required to report students as transfers out until the 2016-17 school year audit. This audit was completed near the end of the 2017-18 school year. The District was unable to fully correct its process for obtaining documentation to support transfers out during the 2017-18 school year.

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

The District obtained semi-annual certifications for certificated employees who were included in the schoolwide plan. The District overlooked obtaining time-and-effort documentation for preschool teachers and counselors because they were not included in the schoolwide plan.

#### *Suspension and debarment*

The District thought including a suspension and debarment clause in the request for proposal would be adequate to comply with this requirement.

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

#### *Graduation-rate reporting*

The District did not obtain adequate official written documentation to support the transfer status for two of six students tested. By not maintaining proper documentation, the District did not comply with Program requirements and cannot

ensure it has provided accurate reports to OSPI. Further, this puts the District at risk of incorrectly calculating graduation rates.

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

The District's noncompliance with grant requirements could jeopardize future federal funding and might require it to return federal funds to the grantor. Without proper time-and-effort records, the District did not comply with OSPI's documentation requirements to support costs charged to the federal program and federal grantors cannot be assured the \$66,322 of payroll costs charged to the program were accurate or valid. The District provided alternative documentation in the form of Personnel Action Forms during the audit to support the payroll costs charged to the program. Therefore, we are not questioning these costs.

#### *Suspension and debarment*

Any payments of program funds to a contractor that has been suspended or debarred would be unallowable and subject to recovery by the grantor.

We verified that the contractor was not suspended or debarred. Therefore, we are not questioning the related costs.

### ***Recommendations***

We recommend the District establish and follow internal controls to:

- Obtain and keep support for all students coded as transferred out before submitting the annual graduation-rate report to OSPI
- Ensure it complies with federal and OSPI requirements for time-and-effort documentation
- Verify that all contractors paid over \$25,000 are not suspended or debarred from participating in federal programs before making purchases

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

*The Aberdeen School District has established a process where Home-school students who come to register in the district to be able to participate in the Running Start program must also complete an Intent to Provide Home-Based Education form. Any course taken in addition to the Running Start classes would be included. If a student decides to withdraw from Running Start and complete their course of instruction with Home-Based programs. This process has been in place since the Spring of 2018. Time-and-effort reporting had a change in personnel. The new process for Time-and-effort for the Preschool teachers will include a fixed schedule with Monthly Reconciliation. In the past, we had provided professional*

*development opportunities for our staff utilizing some of our Title I dollars. Suspension and debarment was not checked at the time of entering the contract and instead a Suspension and Debarment clause was included in the contract. In the future, Title I monies will be utilized for staffing expenditures and minimal supplies to supplement the program.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular 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 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, establishes requirements for management of Federal awards to non-Federal entities.

#### ***Graduation rate reporting***

Title 2 CFR Part 200, Uniform Guidance, Section 34 – High School Graduation Rates, discusses requirements for reporting cohort graduation rates and changes in how changes in student status are classified.

Title 34 CFR Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, Subpart A – *Improving Basic Programs Operated by Local Educational Agencies*, Section 34 – High School Graduation Rates, discusses requirements for reporting cohort graduation rates and how changes in student status are classified.

Title 34 CFR Part 200, *Subpart A – Improving Basic Programs Operated by Local Educational Agencies*, Section 19 – Other academic indicators – establishes the requirement for Districts to have official written documentation to confirm a student transferred out.

*Comprehensive Education Data and Research System (CEDARS) Reporting Guidance* version 10.1 describes requirements for reporting cohort graduation rates and how changes in student status are classified.

*Time-and-effort documentation*

Title 2 CFR Part 200, Uniform Guidance, Subpart E, Cost Principles, establishes requirements for determining allowable costs and supporting costs allocated to federal programs.

Office of Superintendent of Public Instruction Addendum to Bulletin 048-17, establishes requirements for documenting time and effort.

*Suspension and debarment*

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

Title 2 CFR Part 180, OMB *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations, implementing Executive Orders 12549 and 12689.





## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Aberdeen School District No. 5**  
**September 1, 2017 through August 31, 2018**

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> September 1, 2016- August 31, 2017	<b>Report Ref. No.:</b> 1021321	<b>Finding Ref. No.:</b> 2017-001	<b>CFDA Number(s):</b> 84.027, 84.173
<b>Federal Program Name and Granting Agency:</b> Special Education Cluster – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction (OSPI)	
<b>Finding Caption:</b> The District did not have adequate internal controls to ensure compliance with the federal Special Education Cluster grant requirements for procurement.			
<b>Background:</b> The District must ensure it follows the most restrictive procurement requirements when procuring goods and services. The District procured professional special education services from two contractors at costs of \$276,264 and \$216,458, respectively.  The District did not maintain support to show it followed the most restrictive procurement requirements in awarding either of the two contracts for professional special education services.  We consider this deficiency in internal controls to be a material weakness.			
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input type="checkbox"/> Partially Corrected</div> <div><input checked="" type="checkbox"/> Not Corrected</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
<b>Corrective Action Taken:</b> <i>The Aberdeen School District has resolved this issue.</i>  <i>The District has changed the process and now publishes an RFP for contracted services for Special Education related services. The RFP was established for the 2018-19 school year and can be extended for up to 4 more years. It was scored and is available for review in the Administrative Building of the district.</i>			

<b>Audit Period:</b> September 1, 2016- August 31, 2017	<b>Report Reference No.:</b> 1021321	<b>Finding Ref. No.:</b> 2017-002	<b>CFDA Number(s):</b> 84.010
<b>Federal Program Name and Granting Agency:</b> Title 1 Grants to Local Educational Agencies – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Education (OSPI)	
<b>Finding Caption:</b> The District did not have adequate internal controls to ensure compliance with the federal Title I grant requirements for the annual report card, high school graduation rate.			
<b>Background:</b> Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done by submitting a Graduation Rate Report that indicates the student's enrollment status as graduated, transferred out, dropped out, migrated to another country or deceased. The district must retain adequate support for how it classifies a student's enrollment status. To confirm a student transferred out, the district must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.  Our audit examined the District's documentation for students it classified as "transferred out."  The District's controls were not adequate to ensure it gathered the required documents to support its classification of students that left the District. Specifically, the District did not obtain annual Intent to Provide Home-Based Education forms (homeschool forms) for each student who left the District to be homeschooled. It also did not obtain written documentation confirming students who transferred to another district actually enrolled in the new district. Without these documents, the District cannot report the students as a confirmed transfer.  We consider these control deficiencies to be material weaknesses.			
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The Aberdeen School District has resolved this issue.</i>  <i>The District has changed the paperwork required for the homeschool students at the time of registration. Homeschool students who enroll in the district to participate in Running Start classes only, are asked to complete an "Intent to Homeschool" form at the time of registration. This provides the parent the opportunity to complete the homeschool program with their student, if the student decides not to return to the Running Start program without receiving an AA degree, or the district high school for completion of graduation requirements.</i>			

**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**

**Aberdeen School District No. 5  
September 1, 2017 through August 31, 2018**

Board of Directors  
Aberdeen School District No. 5  
Aberdeen, 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 Aberdeen School District No. 5, 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 14, 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 14, 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**

**Aberdeen School District No. 5  
September 1, 2017 through August 31, 2018**

Board of Directors  
Aberdeen School District No. 5  
Aberdeen, Washington

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

We have audited the compliance of Aberdeen School District No. 5, 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 instances of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2018-001 and 2018-002. 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 are 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 Findings 2018-001 and 2018-002 to be material weaknesses.

*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 2018-002 to be a significant deficiency.

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

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



## **Purpose of this Report**

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

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 14, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Aberdeen School District No. 5 September 1, 2017 through August 31, 2018**

Board of Directors  
Aberdeen School District No. 5  
Aberdeen, Washington

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

We have audited the accompanying financial statements of Aberdeen School District No. 5, 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 30.

#### **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 Aberdeen School District No. 5, 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 Aberdeen School District No. 5, 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 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 14, 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 14, 2019

## **FINANCIAL SECTION**

### **Aberdeen School District No. 5 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  
Statement of Net Position – Fiduciary Funds – 2018  
Statement of Changes in Fiduciary Net Position – Fiduciary 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

Aberdeen School District No. 005

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	4,403,513.51	48,843.97	36,521.32	7,143.67	156,145.31	0.00	4,652,167.78
Minus Warrants Outstanding	-1,206,346.49	-5,656.77	0.00	0.00	0.00	0.00	-1,212,003.26
Taxes Receivable	2,563,546.33		1,322,760.78	0.00	0.00	0.00	3,886,307.11
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	718,838.05	0.00	0.00	0.00	0.00	0.00	718,838.05
Accounts Receivable	13,937.52	40.00	0.00	150.00	0.00	0.00	14,127.52
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	315,512.57	0.00		0.00			315,512.57
Prepaid Items	20,249.00	13,289.16			0.00	0.00	33,538.16
Investments	739,778.39	189,913.68	2,192,383.58	135,000.00	142,435.81	0.00	3,399,511.46
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>7,569,028.88</b>	<b>246,430.04</b>	<b>3,551,665.68</b>	<b>142,293.67</b>	<b>298,581.12</b>	<b>0.00</b>	<b>11,807,999.39</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>7,569,028.88</b>	<b>246,430.04</b>	<b>3,551,665.68</b>	<b>142,293.67</b>	<b>298,581.12</b>	<b>0.00</b>	<b>11,807,999.39</b>
<b>LIABILITIES:</b>							
Accounts Payable	1,129,143.07	1,262.16	0.00	17,983.90	0.00	0.00	1,148,389.13
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	402.50	0.00		0.00			402.50
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Aberdeen School District No. 005

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	33,782.89	0.00		0.00			33,782.89
Due To Other Governmental Units	3,004.75	0.00		0.00	0.00		3,004.75
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00		0.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	32,979.34	0.00		0.00			32,979.34
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>1,199,312.55</b>	<b>1,262.16</b>	<b>0.00</b>	<b>17,983.90</b>	<b>0.00</b>	<b>0.00</b>	<b>1,218,558.61</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	91,557.75	42,959.25	0.00	590.00	0.00		135,107.00
Unavailable Revenue - Taxes Receivable	2,563,546.33		1,322,760.78	0.00	0.00		3,886,307.11
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,655,104.08</b>	<b>42,959.25</b>	<b>1,322,760.78</b>	<b>590.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4,021,414.11</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	335,761.57	0.00	0.00	0.00	0.00	0.00	335,761.57
Restricted Fund Balance	846,354.85	202,208.63	2,228,904.90	108,048.96	298,581.12	0.00	3,684,098.46
Committed Fund Balance	13,370.00	0.00	0.00	0.00	0.00	0.00	13,370.00
Assigned Fund Balance	0.00	0.00	0.00	15,670.81	0.00	0.00	15,670.81
Unassigned Fund Balance	2,519,125.83	0.00	0.00	0.00	0.00	0.00	2,519,125.83
<b>TOTAL FUND BALANCE</b>	<b>3,714,612.25</b>	<b>202,208.63</b>	<b>2,228,904.90</b>	<b>123,719.77</b>	<b>298,581.12</b>	<b>0.00</b>	<b>6,568,026.67</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>7,569,028.88</b>	<b>246,430.04</b>	<b>3,551,665.68</b>	<b>142,293.67</b>	<b>298,581.12</b>	<b>0.00</b>	<b>11,807,999.39</b>

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



**Aberdeen School District No. 005**

**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>REVENUES:</b>							
Local	5,766,310.05	408,128.22	2,752,251.29	36,144.11	13,144.07		8,975,977.74
State	37,040,110.73		0.00	0.00	155,428.62		37,195,539.35
Federal	5,230,844.26		0.00	0.00	0.00		5,230,844.26
Federal Stimulus	0.00						0.00
Other	278,358.12			0.00	0.00	0.00	278,358.12
<b>TOTAL REVENUES</b>	<b>48,315,623.16</b>	<b>408,128.22</b>	<b>2,752,251.29</b>	<b>36,144.11</b>	<b>168,572.69</b>	<b>0.00</b>	<b>51,680,719.47</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	20,836,055.82						20,836,055.82
Federal Stimulus	0.00						0.00
Special Education	6,345,652.43						6,345,652.43
Vocational Education	2,002,579.93						2,002,579.93
Skill Center	410,134.87						410,134.87
Compensatory Programs	6,612,599.29						6,612,599.29
Other Instructional Programs	481,981.76						481,981.76
Community Services	280,353.37						280,353.37
Support Services	9,157,435.26						9,157,435.26
Student Activities/Other		379,580.65				0.00	379,580.65
<b>CAPITAL OUTLAY:</b>							
Sites				203,371.45			203,371.45
Building				391,797.25			391,797.25
Equipment				368.29			368.29
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					342,004.11		342,004.11
Sales and Lease				0.00			0.00
Other	933,293.61						933,293.61
<b>DEBT SERVICE:</b>							
Principal	0.00		3,384,000.00	0.00	0.00		3,384,000.00
Interest and Other Charges	0.00		474,427.50	0.00	0.00		474,427.50
Bond/Levy Issuance				19,277.61	0.00		19,277.61
<b>TOTAL EXPENDITURES</b>	<b>47,060,086.34</b>	<b>379,580.65</b>	<b>3,858,427.50</b>	<b>614,814.60</b>	<b>342,004.11</b>	<b>0.00</b>	<b>52,254,913.20</b>

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

Aberdeen School District No. 005

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	1,255,536.82	28,547.57	-1,106,176.21	-578,670.49	-173,431.42	0.00	-574,193.73
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>1,255,536.82</b>	<b>28,547.57</b>	<b>-1,106,176.21</b>	<b>-578,670.49</b>	<b>-173,431.42</b>	<b>0.00</b>	<b>-574,193.73</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>2,459,075.43</b>	<b>173,661.06</b>	<b>3,335,081.11</b>	<b>702,390.26</b>	<b>472,012.54</b>	<b>0.00</b>	<b>7,142,220.40</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>3,714,612.25</b>	<b>202,208.63</b>	<b>2,228,904.90</b>	<b>123,719.77</b>	<b>298,581.12</b>	<b>0.00</b>	<b>6,568,026.67</b>

## Statement Of Fiduciary Net Position

## Fiduciary Funds

August 31, 2018

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	6,002.03	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	-110.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	115,248.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
<b>TOTAL ASSETS</b>	<b>121,140.03</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Held in trust for:</b>		
Held In Trust For Intact Trust Principal	5,000.00	0.00
Held In Trust For Private Purposes	116,140.03	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
<b>TOTAL NET POSITION</b>	<b>121,140.03</b>	<b>0.00</b>

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds

For the Year Ended August 31, 2018

<b>ADDITIONS:</b>			
<b>Contributions:</b>			
Private Donations	Private Purpose Trust	Other Trust	
Employer	28,561.76	0.00	
Members		0.00	
Other	0.00	0.00	
<b>TOTAL CONTRIBUTIONS</b>	<b>28,561.76</b>	<b>0.00</b>	
<b>Investment Income:</b>			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	
Interest and Dividends	0.00	0.00	
Less Investment Expenses	0.00	0.00	
Net Investment Income	0.00	0.00	
<b>Other Additions:</b>			
Rent or Lease Revenue	0.00	0.00	
Total Other Additions	0.00	0.00	
<b>TOTAL ADDITIONS</b>	<b>28,561.76</b>	<b>0.00</b>	
<b>DEDUCTIONS:</b>			
Benefits		0.00	
Refund of Contributions	0.00	0.00	
Administrative Expenses	0.00	0.00	
Scholarships	34,504.38		
Other	0.00	0.00	
<b>TOTAL DEDUCTIONS</b>	<b>34,504.38</b>	<b>0.00</b>	
Net Increase (Decrease)	-5,942.62	0.00	
Net Position--Prior Year August Beginning	127,082.65	0.00	
Prior Year F-196 Manual Revision	0.00	0.00	
Net Position - Total	127,082.65	0.00	
Prior Year(s) Corrections or Restatements	0.00	0.00	
<b>NET POSITION--ENDING</b>	<b>121,140.03</b>	<b>0.00</b>	

**Aberdeen School District No. 5**  
**Notes to the Financial Statements**  
**September 1, 2017 through August 31, 2018**

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

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

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

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary 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**

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

***Governmental Funds***

General Fund

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

### Capital Projects Funds

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

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

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

### Debt Service Fund

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

### Special Revenue Fund

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

### Permanent Funds

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

### ***Fiduciary Funds***

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

### Private-Purpose Trust Fund

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are accrued. Property taxes not collected by the fiscal year end are measurable and recorded as a receivable, however the receivable is not considered available of revenue accrual, but is recorded as a deferred inflow of resources.

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

### **Budgets**

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

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

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

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended. Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

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

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

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

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

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

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

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

The Board of Directors is the only entity who has the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund. In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

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



## **Cash and Cash Equivalents**

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

## **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. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

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

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

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

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

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

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

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

Type of Investment	(Di
State Treasurer's Investment Pool	
Total	

The Washington State Local Government Investment Pool (LGIP) was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. Participation in the pool is voluntary and the pool does not have a credit rating. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASBS 79 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 LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

### **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

At this time, the District has no known knowledge of litigation pending against the district.

## **NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

### **Bond Issuance**

After the year end, on March 5, 2019, the District issued non-voted debt in the total of \$2,500,000, for use to install a modular building to house sixth grade students at Miller Junior High School.

## **NOTE 5: PENSION PLANS**

### **General Information**

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

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

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

### **Membership Participation**

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

Membership participation by retirement plan as of June 30, 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 various plans are effective as of the dates shown in the table. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2017 and 2018 are listed below:

<b>Pension Rates</b>			
	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%	
<b>Pension Rates</b>			
	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 for the pension plans districts participated in are reported in the following tables.

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%

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

At June 30, 2018, the school district reported a total liability of \$ 13,442,833 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	382,817	589,972	1,217,438	1,310,785
Proportionate Share of the Net Pension Liability	2,557,768	1,008,562	8,549,404	1,327,100

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	0.057272%	0.337242%	0.292728%	0.294836%
Prior year proportionate share of the Net Pension Liability	0.060694%	0.358933%	0.315865%	0.320430%
Net difference percentage	-0.003422%	-0.021691%	-0.023137%	-0.025594%



## Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 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 Aberdeen 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	0.057272%	0.057272%	0.057272%
Proportionate Share of Collective NPL	\$ 3,134,337	\$ 2,557,768	\$ 2,050,547
<b>SERS 2/3 NPL</b>	\$1,127,549,000	\$299,062,000	(\$383,817,000)
Allocation Percentage	0.337242%	0.337242%	0.337242%
Proportionate Share of Collective NPL	\$ 3,802,565	\$ 1,008,562	(\$ 1,294,391)
<b>TRS 1 NPL</b>	\$3,650,431,000	\$2,920,592,000	\$2,288,760,000
Allocation Percentage	0.292728%	0.292728%	0.292728%
Proportionate Share of Collective NPL	\$ 10,685,850	\$ 8,549,404	\$ 6,699,852
<b>TRS 2/3 NPL</b>	\$2,805,439,000	\$450,114,000	(\$1,463,229,000)
Allocation Percentage	0.294836%	0.294836%	0.294836%
Proportionate Share of Collective NPL	\$ 8,271,455	\$ 1,327,100	(\$ 4,314,132)

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

The state, through the Health Care Authority (HCA), administers a defined benefit other post-employment benefit (OPEB) plan that is not administered through a qualifying trust. 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. Benefits purchased by PEBB include medical, dental, life insurance and long-term disability insurance.<sup>(5)</sup>

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one, which the employers and plan members understand the plan terms. This understanding is based on communications between the HCA, employers and plan members, and historical pattern of practice with regard to sharing of benefit costs.

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 (approximately 206) 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)**

<b><u>Descriptions</u></b>	<b><u>Type of Coverage</u></b>		
	<b><u>Employee</u></b>	<b><u>&amp; Spouse</u></b>	<b><u>Full Family</u></b>
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**

<b><u>Descriptions</u></b>	<b><u>Type of Coverage</u></b>		
	<b><u>Employee</u></b>	<b><u>&amp; Spouse<sup>1</sup></u></b>	<b><u>Full Family<sup>1</sup></u></b>
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 Washington State Treasurer collects a fee from all school district entities, which have employees who are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees who 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 HCA \$64.39 per month per full-time equivalent employee to

support the program, for a total payment of \$ 353,086.57. 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. 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 7: COMMITMENTS UNDER LEASES**

For the fiscal year(s) ended August 31, 2018, the District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment (Principal amt)	Final Installment Date	Interest Rate	Balance
<b>Lease-Purchase Commitments</b>					
Kelley Printing	\$ 175,800	\$ 42,192	Oct. 2019	0	\$49,224
<i>Total Lease-Purchase Commitments</i>					\$ 49,224

## **NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$ 132,331,713 for fiscal year 2018. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

Bonds payable at August 31, 2018, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Bonds 2006	7,355,000	930,000	12/1/2019	3.75-5.0%	2,045,000
UTGO Bonds R 2011	8,995,000	580,000	12/1/2023	2.8-3.0%	6,780,000
UTGO Bonds R 2012	8,955,000	585,000	12/1/2023	2.0-3.0%	6,665,000
<i>Subtotal</i>	<i>25,305,000</i>	<i>2,095,000</i>			<i>15,490,000</i>
LTGO QZAB 2004	714,000	714,000	9/30/17	0	0
LTGO QZAB 2005	575,000	575,000	1/31/18	0	0
<i>Subtotal</i>	<i>1,289,000</i>	<i>1,289,000</i>		<i>0</i>	<i>0</i>
<b>Total General Obligation Bonds</b>	<b>26,594,000</b>	<b>3,384,000</b>			<b>15,490,000</b>

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2018:

Long-Term Debt Payable at 9/1/2017	18,874,000
New Issues	0
Debt Retired	3,384,000
Long-Term Debt Payable at 8/31/2018	15,490,000

The following is a schedule of annual requirements to amortize debt at August 31, 2018:

Years Ending Aug 31	Principal	Interest	Total
2019	2,235,000	406,178	2,641,178
2020	2,350,000	335,511	2,685,511
2021	2,520,000	261,245	2,781,245
2022	2,655,000	183,621	2,838,621
2023-24	5,730,000	145,594	5,875,594
<b>Total</b>	<b>17,585,000</b>	<b>1,805,674</b>	<b>19,390,674</b>

At August 31, 2018, the District had **\$2,192,383.58** available in the Debt Service fund to service the general obligation bonds.

## **NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES**

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

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 the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool.

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

<b>A. <u>Entity</u></b>	Washington Schools Risk Management Pool
<b>B. <u>Purpose</u></b>	To provide risk sharing and related services to member school districts.
<b>C. <u>Participants</u></b>	79 school districts, 7 interlocal cooperatives and 7 educational service districts.
<b>D. <u>Governing Board</u></b>	17 member Executive Board.
<b>E. <u>FY 2017-18 Confidence Level</u></b>	90%
<b>F. <u>Fully accrued Contribution for FY 2017-18</u></b>	<u>\$ 360,034</u>

**G. Condensed Financial Information (Most recent financials available)**

	<u>August 31, 2018 *</u>
Total Assets	\$ 75,469,525
Total Liabilities	<u>54,599,493</u>
Ending Net Position	<u>\$ 20,870,032</u>
<hr/>	
Total Revenues	\$ 48,784,013
Total Expenses	(44,536,944)
OPERATING INCOME / (LOSS)	<u>\$ 4,247,069</u>
Non-Operating Income / (Expense)	<u>532,552</u>
CHANGE IN NET POSITION	<u>\$ 4,779,621</u>

**\* Unaudited**

**Workers Compensation**

On January 1, 1978 the District joined the Capital Region Educational Service District (CR ESD) 113 Workers' Compensation Trust (Trust), a public entity risk pool.

The Trust is organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation payroll taxes, employee claims, and safety programs. Membership is established by execution of an agreement between the CR ESD 113 and each local school district.

The Trust provides industrial injury accident insurance coverage for its 46 member districts. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked and the members' experience rated contribution factor. The Trust retains responsibility for the payment of claims, within specified self-insured retention limits, below the excess coverage contracts that the Trust acquires from unrelated underwriters. The Trust's per-occurrence retention limit is \$450,000 and the annual aggregate retention is \$18,464,200 minimum for a three-year period FY 2015-18. Since the Trust is a cooperative program, there is joint liability among participating members.

For fiscal year 2018, there are 46 members in the pool including 45 participating school districts. A Board comprised of one designated representative from each participating member and an Executive Board governs the Trust. The Executive Board has seven members elected by the Board and the CR ESD 113's Superintendent.

The CR ESD 113 is responsible for conducting the business affairs of the Trust. As of August 31, 2018, the amount of claim liabilities totaled \$7,211,000. This liability is the CR ESD 113's best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2017, resulted in the following:

	<b>Beginning Balance 9/1/2017</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Ending Balance 8/31/2018</b>
Incurred but not Reported	2,750,673	335,000	2,831,917
Open Claims	2,836,327		3,090,083
Future L&I Assessments	794,000	80,000	874,000
Estimated Unallocated Loss Adjustment	385,000	30,000	415,000

*Exemption from Federal and State Taxes* - Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1). Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

### **Unemployment Insurance**

On January 1, 1978, the District joined with other school districts in the state to form the Unemployment Compensation Pool (Pool). The Pool is organized pursuant to Title 50.44 RCW for the purpose of managing unemployment compensation payroll taxes and employee claims.

Membership is established by execution of an agreement between the Capital Region Educational Service District (CR ESD) 113 and each member school district.

The Pool provides unemployment compensation coverage for members of the Pool arising from former employees. The Pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pays for unemployment claims and for the administration of the Pool. There is provision that members can be additionally assessed if the Pool needs additional funding.

For fiscal year 2018, there are 38 school district members in the Pool in addition to the CR ESD 113. The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the CR ESD 113 Superintendent comprise the Executive Board.

As of August 31, 2018, the amount of claim reserves totaled \$85,335. This liability is the CR ESD 113's best estimate based on available information. Changes in the reported liability since August 31, 2017, resulted in the following:

	<b>Beginning Balance 9/1/2017</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Ending Balance 8/31/2018</b>
Claims Reserves	\$ 56,100	29,235	85,335

#### **NOTE 11: PROPERTY TAXES**

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The tax collections occurring after the end of the fiscal period are unavailable for revenue accrual. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due after the end of the fiscal period are recorded as a deferred inflow of resources.

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

The district is part of a Transportation Cooperative with Hoquiam School District. Hoquiam is the lead district in the Student Transportation Cooperative. The district share certain administrative and support costs and Aberdeen reimburses the Hoquiam district for its portion of the shared cost. For fiscal 2017-18 the cooperative revenues totaled \$ 398,127.24 which includes revenues received from Aberdeen School District. Cooperative expenditures totaled \$

559,070.03 (expenditures plus indirects). Expenditures for the cooperative are split between the Aberdeen and Hoquiam School Districts based upon the STARS funding program which is driven mainly by miles driven by each district. The percentages for the 2017-18 year were:

District Name	Percentage
Aberdeen	60.67%
Hoquiam	39.33%

Pursuant to direction of the Office of Superintendent's Instructions, revenues and expenditures for the transportation cooperative are reflected in the financial statements as gross amounts, rather than net. Hoquiam records the full expenditures for the cooperative. Aberdeen records their expenditure portion as a payment to other school district (activity 52).

The total transportation cooperative expenditures for the fiscal 2017-18 year were \$ 559,070.03. Those expenditures are reduced by revenues brought in by outside work. Revenues generated from vehicle repairs and maintenance of other school district's vehicles and other municipalities vehicles as well as costs for repairs of the Aberdeen motor pool vehicles. These revenues totaled \$ 398,127.24. The net cooperative expenditures to split between the Aberdeen and Hoquiam School Districts were \$ 559,070.03.

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 Resolution 2005-07 dated March 15, 2005, and has remained in the joint venture ever since. The District's current equity of \$ 28,571.06 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.)

### **NOTE 13: FUND BALANCE CLASSIFICATION DETAILS**

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Private Purpose Trust Fund	Transportation Vehicle Fund
<b>Nonspendable Fund Balance</b>						
Inventory and Prepaid Items	\$ 335,761.57	\$14,351.72				
<b>Restricted Fund Balance</b>						
For Fund Purpose		\$187,856.91				\$298,581.12
For Carryover of Restricted Revenues	\$846,354.85					
For Debt Service				\$2,228,904.90		
Trust Restricted					\$ 116,140.03	

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Private Purpose Trust Fund	Transportation Vehicle Fund
Restricted from Other Proceeds			\$108,048.96			
<b>Committed Fund Balance</b>						
Other Commitments	\$13,370.00					
<b>Assigned Fund Balance</b>						
Fund Purposes			\$15,670.81			
<b>Unassigned Fund Balance</b>	\$2,519,125.83					

The board of directors has established a minimum fund balance policy for the General Fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain a 5% percentage of general fund expenditures. 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 balance.

#### **NOTE 14: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

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

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

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

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under 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 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. For the year ended August 31, 2018, the District did not make any employer contributions to the plan.

#### **NOTE 15: TERMINATION BENEFITS**

## **Compensated Absences**

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

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

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

## **NOTE 16: OTHER DISCLOSURES**

### **Skill Center Branch Campus Note**

The District operates a Branch Campus of the New Market Skill Center, hosted by the Aberdeen District. A Skill Center is a regional cooperative program designed to enhance the learning opportunities for career and technical education for students of participating districts by avoiding unnecessary duplication of course offerings and allowing students from many districts to participate.

The Skill Center was created by an agreement of 9 member districts. The Skill Center is governed by an Administrative Council, comprised of the superintendents of all member districts, or their appointed representatives. The administration of the Skill Center is handled by a director, employed by the Aberdeen School District.

A Branch Campus is an extension of the Skill Center core campus located within the Aberdeen School District. A Branch Campus provides three or more career and technical education programs at a location separate from the Core Campus, but is still governed by the Administrative Council that oversees the Skill Center. Branch campuses report their own enrollment, separate from the Core Campus, and receive direct apportionment funding as if they were a Core Campus.

Aberdeen School District No. 005  
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	17,585,000.00	0.00	2,095,000.00	15,490,000.00	2,235,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt and Liabilities</b>					
Non-Voted Bonds	1,289,000.00	0.00	1,289,000.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	234,449.38	0.00	185,225.38	49,224.00	42,192.00
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	1,132,120.48	474,098.77	173,036.51	1,433,182.74	223,202.39
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
<b>Non-Voted Notes Not Recorded as Debt</b>					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	9,549,455.00	0.00	1,000,051.00	8,549,404.00	
Net Pension Liabilities TRS 2/3	2,957,387.00	0.00	1,630,287.00	1,327,100.00	
Net Pension Liabilities SERS 2/3	1,771,243.00	0.00	762,681.00	1,008,562.00	
Net Pension Liabilities PERS 1	2,879,964.00	0.00	322,197.00	2,557,767.00	
<b>Total Long-Term Liabilities</b>	37,398,618.86	474,098.77	7,457,477.89	30,415,239.74	2,500,394.39

**ABERDEEN SCHOOL DISTRICT #5**  
**EIN: 91-6001546**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the fiscal year ending August 31, 2018**

1	2	3	4	5	6	7	8	9	10
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Footnote
Dept of Agriculture	WA OSPI	Child Nutrition Cluster							
		National School Lunch Program (A)	10.555	14-005					
		Cash Assistance				1,528,954.44	\$1,528,954.44	N	
		Non-Cash Assistance				148,930.11	\$148,930.11	N	2
		Summer Food Service Program for Children (A)	10.559	14848		96,092.42	\$96,092.42	N	
		Subtotal for Child Nutrition Cluster				<b>1,773,976.97</b>	<b>\$1,773,976.97</b>		
		Fresh Fruit & Vegetable Program (B)	10.582	14-005		68,106.29	\$68,106.29	N	
		School & Roads -- Grants to State (A)	10.665	N/A		51,587.04	\$51,587.04	N	
		<b>Subtotal - US Dept of Agriculture</b>				<b>1,893,670.30</b>	<b>\$1,893,670.30</b>		
Dept of Education	WA OSPI	Title 1 Grants to Local Educational Agencies (A)							
		Title 1, Part A	84.010A	202658		1,125,236.71	\$1,125,236.71	N	3,4
		Title 1, N/D Local Grays Harbor JDC	84.010A	222544		30,278.74	\$30,278.74	N	4
		Title 1, Focus - Harbor High	84.010A	263201		19,716.93	\$19,716.93	N	4
		Title 1, Focus - McDermodt Elementary	84.010A	263245		20,000.00	\$20,000.00	N	4
		Title 1, Focus - Miller Jr High	84-010A	263200		16,324.72	\$16,324.72	N	4
			<b>84.010A</b>			<b>1,211,557.10</b>	<b>1,211,557.10</b>		
		Migrant Education_State Grant Program (A)	84.011A	282306		64,436.13	\$64,436.13	N	4
		Migrant Education_State Grant Program (A)	84.011A	290872		13,217.44	\$13,217.44	N	4
			<b>84.011A</b>			<b>77,653.57</b>	<b>77,653.57</b>		
		Special Education Cluster							
		Special Education_ Grants to States (A)	84.027A	306147		814,165.57	\$814,165.57	N	4
		Special Education_Preschool Grants (A)	84.173A	365645		44,351.00	\$44,351.00	N	4
		Subtotal for Special Education Cluster				<b>858,516.57</b>	<b>858,516.57</b>		
		Career & Technical Education_Basic Grants to States (A)							
		5-Year Perkins Application Plan	84.048	174048		30,413.00	\$30,413.00	N	-
		Indian Education_Grants to Loc Educ Agencies (A,B)	84.060A	S060A170627		22,998.91	\$22,998.91	N	5
		Education for Homeless Children and Youth (A)	84.196A	456229		25,483.99	\$25,483.99	N	4
		Twenty-First Century Community Learning Centers (A)	84.287C	991021		535,401.00	\$535,401.00	N	4

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





## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Fiscal Year ending August 31, 2018**

### **NOTE 1—BASIS OF ACCOUNTING**

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

### **NOTE 2—NONCASH AWARDS**

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

### **NOTE 3—SCHOOLWIDE PROGRAMS**

The Aberdeen School District operates a "schoolwide program" in four elementary buildings, one middle school and one alternative high school. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Aberdeen School District in its schoolwide programs Title I (84.010) - \$1,125,236.71

### **NOTE 4—FEDERAL INDIRECT RATE**

The Aberdeen School District used the federal restricted rate of **1.71** percent for this program. The Aberdeen School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### **NOTE 5 -- FEDERAL INDIRECT RATE**

The Aberdeen School District used a fixed rate of **1.62** percent for this program.



## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

### Aberdeen School District No. 5 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> The District did not have adequate internal controls to ensure compliance with the federal requirements for time-and-effort documentation, procurement, and suspension and debarment.
<b>Name, address, and telephone of District contact person:</b> Elyssa Louderback, Executive Director of Business & Operations, (360) 538-2007	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The Aberdeen School District recently change the source of expenditure for this grant from third-party vendor to enrollment. In changing to paying to employee's the district will comply with the time-and-effort requirements by providing semi-annual certification for certificated staff and timesheets for the classified staff. Procurement procedures have been revised and the district now publishes an RFP for services provided by third-party vendors. This was revised during the prior year's audit and disclosed to the Auditor's at that time. Records are now kept in the Business Office to demonstrate the process. Suspension &amp; Debarment status is now determined as a condition of the RFP. Should we not be able to provide the needed services with the previously approved vendors, the Suspension &amp; Debarment process is checked while determining if the applicant is an eligible candidate.</i>	
<b>Anticipated date to complete the corrective action:</b> December 31, 2018	

<b>Finding ref number:</b> 2018-002	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal requirements for graduation-rate reporting, time-and-effort documentation, and suspension and debarment.
<b>Name, address, and telephone of District contact person:</b> Elyssa Louderback, Director of Finance, (360) 538-2007	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The Aberdeen School District has established a process where Home-school students who come to register in the district to be able to participate in the Running Start program must also complete an Intent to Provide Home-Based Education form. Any course taken in addition to the Running Start classes would be included. If a student decides to withdraw from Running Start and complete their course of instruction with Home-Based programs. This process has been in place since the Spring of 2018. Time-and-effort reporting had a change in personnel. The new process for Time-and-effort for the Preschool teachers will include a fixed schedule with Monthly Reconciliation. In the past, we had provided professional development opportunities for our staff utilizing some of our Title I dollars. Suspension and debarment was not checked at the time of entering the contract and instead a Suspension and Debarment clause was included in the contract. In the future, Title I monies will be utilized for staffing expenditures and minimal supplies to supplement the program.</i>	
<b>Anticipated date to complete the corrective action:</b> September 1, 2018	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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