



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Wahluke School District No. 73

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

Published May 23, 2019

Report No. 1023933





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

May 23, 2019

Board of Directors
Wahluke School District No. 73
Mattawa, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Wahluke School District No. 73'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

Wahluke School District No. 73 **September 1, 2017 through August 31, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Wahluke School District No. 73 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, with the exception of the 84.010 - Title I Grants to Local Educational Agencies on which we issued a qualified opinion on compliance with applicable requirements.

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.010	Title I Grants to Local Educational Agencies

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2018-001 and 2018-002.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Wahluke School District No. 73 September 1, 2017 through August 31, 2018

2018-001 **The District lacked adequate internal controls to ensure compliance with federal Title I requirements for procurement, suspension and debarment, eligibility, cost principles and high school graduation rate reporting.**

CFDA Number and Title:	84.010 Title I, Part A, Grants to Local Educational Agencies
Federal Grantor Name:	Department of Education
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	202822, 261220, 261221, 263276
Questioned Cost Amount:	\$115,232

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 low-income families. In fiscal year 2018, the District received \$598,377 in federal funding through its Title I program. Of this amount, \$389,951 was spent on salaries and benefits.

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 program controls.

Description of Condition

During fiscal year 2018, the District's internal controls were not adequate to ensure compliance with requirements over procurement, suspension and debarment, eligibility, cost principles for time-and-effort reporting, and high school graduation rate reporting.

Procurement/Suspension and debarment

Grantees must follow the more restrictive of federal, state, or local requirements when purchasing goods and services with federal funds. A grantee may solicit goods or services from only one contractor if it determines the goods or services are available from only a single source. If it solicits from only one contractor, the grantee must keep records showing how it arrived at this decision. Grantees cannot restrict competition by specifying brand names when an equal product is available that meets the District's needs. When claiming a sole-source exemption, state law requires the governing body to record its waiver of competitive bidding requirements. The District did not have procedures in place to perform a competitive process to procure curriculum and materials purchased through the Title I program in accordance with federal requirements.

Federal requirements prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The District must verify that all contractors receiving \$25,000 or more are not suspended or debarred from participating in federal programs. This verification may be accomplished by obtaining a written certification from the contractor or inserting a clause in the contract where the contractor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List System (EPLS) issued by the U.S General Services Administration. This requirement must be met before entering into a contract. The District did not have controls in place to ensure compliance with suspension and debarment requirements.

We consider these internal control deficiencies to be a material weaknesses.

These issues were reported as a finding in the prior audit as finding 2017-001.

Eligibility

The District is required to allocate grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher amount per low-income child to areas or schools with lower percentages of poverty than areas with higher percentages.

The District could not demonstrate it had an adequate internal control process in place to ensure its allocation of grant funds to schools complied with these regulations. The District's allocation of Title I funding to three elementary schools, one middle school and one high school for fiscal year 2018 was based on poverty information that was not supported. The District re-created a report from its

financial system during the audit; however, the low-income counts for each school building did not agree to the counts it used to determine its allocation of program funding to its school buildings.

We consider this internal control deficiency to be a material weakness. This issue was reported in the prior audit as finding 2017-001.

Cost principles for time-and-effort reporting

We reviewed payroll transactions to determine whether salaries and benefits charged to federal grants were supported by adequate time-and-effort documentation as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet. Timesheets should be detailed enough to show actual time worked on each program.

The District did not design an effective process to monitor, review, and retain time-and-effort documentation for employees' whose positions were funded, in whole or in part, with federal grant funds to ensure semi-annual certifications or monthly personnel activity reports were completed and reconciled to actual time worked on the program. The District charged salaries and benefits to the Title I program monthly based on each employee's budgeted allocation. Our audit found the District did not retain: all monthly timesheets for two multiple-cost objective employees; at least one monthly timesheet for two other multiple-cost objective employees; and the semi-annual certification for the first half of the year for one employee who worked solely on Title I. In addition, the District did not require employees who work on multiple cost objectives to record the amount of time worked on each program to support the hours charged to Title I.

We consider these internal control deficiencies to be a material weakness. This issue was not reported as a finding in the prior audit.

High school graduation rate reporting

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 changes to a student's status. To confirm a student transferred out, the District must have official written documentation that the student enrolled in another school or in an education program that culminates in the award of a regular high school diploma.

The District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District did not have official written documentation before reporting students as having transferred out of the District.

We consider this control deficiency to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

The District had turnover among key staff responsible for monitoring program controls, and current staff could not find supporting records to show grant requirements were met. Further, the District was unaware of the requirement to obtain Board approval for sole-source purchases. Because the prior audit finding was issued in May 2018, the District did not have the opportunity to correct the eligibility issue for the 2018 school year.

Effect of Condition and Questioned Costs

Procurement/suspension and debarment

The District paid federal funds totaling \$87,085 to four contractors for the purchase of curriculum and materials. The District considered the contractors to be sole sources but did not document its rationale for not performing a competitive process to procure these items. Further, the District did not formally waive procurement requirements. As a result, the District cannot ensure it obtained the best price for the curriculum and materials purchased and cannot show the contractors were the only sources available to provide the items purchased.

In addition, the District did not ensure one contractor paid over \$25,000 was not suspended or debarred. Any payments made to a suspended or debarred party are unallowable and would be subject to recovery by the funding agency. We are not questioning costs, because the District confirmed during our audit that the vendor was not suspended or debarred and purchases were allowable under grant requirements.

Eligibility

Without adequate internal controls in place to ensure funds are properly allocated based on accurate percentage of poverty values, the type and nature of services provided at schools with higher percentages of poverty may be unfairly limited. The District ranked all six of its school buildings as having a poverty rate over 75 percent; however, the District did not retain support for these percentages. Based on the District's re-created report we could not verify the allocations were

appropriate and determined the District did not properly rank all schools. We were able to determine all schools were eligible to receive Title I funds because they all exceeded the 75 percent poverty rate; therefore we are not questioning costs.

Cost principles for time-and-effort reporting

Timesheets for all multiple-cost objective employees tested were not kept or not detailed enough to determine how much time was worked on the Title I program. Without proper support for salaries and benefits, federal grantors cannot be assured expenditures charged to the programs were accurate and valid. Therefore, we are questioning costs of \$115,232 for these multiple-cost objective employees. Further, the District charged \$19,967 to the program for one employee's salary and benefits and did not keep one semi-annual certification to support these costs. We are not questioning the costs for this employee because the District provided alternative documentation and we verified the employee worked solely on this program.

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

High school graduation rate reporting

The District did not retain documentation to support its graduation rate information for transferred students. Specifically, the District did not keep official written records for two of four students tested who were reported to OSPI as transferring to another district. Although there are no questioned costs associated with this requirement, the District is at risk of incorrectly calculating graduation rates.

Recommendations

We recommend the District strengthen internal controls and ensure staff responsible for compliance understand federal requirements and retain documentation to support compliance. We further recommend the District design and follow controls to ensure it:

- Procures goods and services using the required competitive process and verifies that contractors are not suspended or debarred before awarding contracts
- Allocates Title I funds to school attendance areas properly based on supported poverty percentages
- Keeps and completes time-and-effort documentation with sufficient detail to support payroll costs charged to the grant are allowable
- Keeps adequate support for all students it reports as "transferred out" of the District to ensure it submits accurate reports to OSPI

District's Response

The Wahluke School District concurs with the audit finding. We recognize the inadequate internal controls to ensure compliance with federal Title I requirements for procurement, suspension and debarment, eligibility, cost principles and high school graduation rate reporting.

There have been significant changes already in place as corrective action through the hiring of new administrative staff, key to Title I compliance and grant administration.

The district hired a new director of finance and operations in December 2018 who has extensive knowledge of and experience with federal grants. She has reorganized and trained staff to perform duties to ensure compliance with federal grant requirements. In addition, a fiscal specialist started with the district on May 1, 2019. The primary responsibilities of this position involve fiscal analysis of the district's grants and monitoring procurement.

Below are the corrective actions for moving forward in each category addressed in the audit findings:

Procurement

The Wahluke School District will review board policy and district procedures and update both to address state and federal purchasing laws and best practices.

The Wahluke School District provided purchasing training to all administrators on April 18, 2019 in a 5-hour work session regarding Title I and federal funds.

The Wahluke School District will create a document that will assist purchasing authorities to ensure state and federal procurement laws will be met.

Suspension and Debarment

The Wahluke School District will begin verifying all vendors' suspension and debarment status when adding new vendors into the vendor database. The district will file an electronic copy of this verification from SAM.gov in the vendor's electronic file.

The Wahluke School District will prepare a document for vendors that are not in the SAM.gov database to sign certifying that they have not been suspended or debared.

Eligibility

In April of 2019 the Wahluke School District reviewed the allocations of the federal Title I funds to ensure compliance. The funds were allocated based on the percentage of low income students at each school in the worksheet from the grant application submitted to OSPI.

Cost Principles for Time-and-Effort Reporting

The Wahluke School District will design an effective process to monitor, review, and retain time-and-effort documentation for employees whose positions are funded, in whole or in part, with federal grant funds.

High School Graduation Rate Reporting

The Wahluke School District will design and follow adequate controls to ensure compliance with the Title I graduation reporting requirements. This will include requiring written documentation before reporting students as having transferred or withdrawing out of the district.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit. We thank District staff for the assistance we received during the audit.

Applicable Laws and Regulations

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

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

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Procurement/Suspension and debarment

Title 2 CFR Part 200, Uniform Guidance, section 320, Methods of procurement to be followed, establishes requirements for procuring with Federal funds by non-Federal entities

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

Eligibility

Title 2 CFR Part 200, Uniform Guidance, Section 78, Allocation of funds to school attendance areas and schools, describes requirements of Title I funds to be disbursed on rank order based on applicable Poverty Rate Metrics.

High school graduation rate reporting

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.

Cost principles for time and effort

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

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

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Wahluke School District No. 73 September 1, 2017 through August 31, 2018

2018-002 The District did not have adequate internal controls to ensure it reported accurate meal counts for reimbursement from the Child Nutrition Cluster programs.

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.559 Summer Food Service Program for Children
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Background

The District participates in the Child Nutrition Cluster, which includes the National School Lunch, School Breakfast and Summer Food Service programs, and received \$1,520,440 to administer the programs during the 2017-18 school year. The Office of Superintendent of Public Instruction (OSPI) reimburses the District for the programs by applying the “national average payments” rates for free, reduced-price and full-cost meals to the number of meals served in each category.

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 controls.

Description of Condition

The District submitted to OSPI 10 monthly claims for reimbursement based on meals served to students. Nutrition staff did not accurately transfer meal counts from the District's meal count reports to the monthly claims submitted to OSPI, and there was no independent review of the monthly claims to ensure errors were detected before report submission.

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

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

Cause of Condition

The District did not establish an effective review process for monthly claims to ensure they were accurate and agreed to the meal count reports before it submitted the claims to OSPI for reimbursement.

Effect of Condition and Questioned Costs

The District incorrectly reported the number of meals served for three of five monthly claims tested that it submitted to OSPI. Specifically:

- The District over-claimed 2,630 meals served for free, reduced and paid breakfasts from the School Breakfast Program and received \$4,870 more in federal funding than it was allowed.
- The District under-claimed 4,904 meals served for free, reduced and paid lunches and after-school snacks from the National School Lunch Program and received \$14,106 less in federal funding than it was allowed.

Without adequate controls in place, the District cannot ensure it provides accurate meal counts to OSPI and receives reimbursement for actual meals served in accordance with federal regulations.

Recommendation

We recommend the District establish and follow internal controls to ensure monthly claims are supported by meal count reports and reviewed for accuracy before it submits the claims to OSPI for reimbursement.

District's Response

The Wahluke School District concurs with the audit finding. We recognize the inadequate internal controls to ensure reporting accurate meal counts for reimbursement from the Child Nutrition Cluster programs.

The Wahluke School District will establish internal controls to ensure accurate meal count reporting, including independent review of claims, procedures for reporting and verification of claims by the business office staff.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit. We thank District staff for the assistance we received during the audit.

Applicable Laws and Regulations

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

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

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

Title 7 *U.S. Code of Federal Regulations* (CFR) Part 210, *National School Lunch Program*, section 7, Reimbursement for school food authorities, establishes requirements to claim reimbursement for meal served under the National School Lunch Program.

Title 7 *U.S. Code of Federal Regulations* (CFR) Part 210, *National School Lunch Program*, section 8, Claims for reimbursement, establishes requirements for internal controls for monthly claims under the National School Lunch Program.

Title 7 *U.S. Code of Federal Regulations* (CFR) Part 220, *School Breakfast Program*, section 11, Reimbursement procedures, establishes requirements for internal controls for monthly claims and requirements to claim reimbursement under the School Breakfast Program.



WAHLUKE SCHOOL DISTRICT NO. 73

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Wahluke School District No. 73 September 1, 2017 through August 31, 2018

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

Audit Period: September 1, 2016 through August 31, 2017	Report Ref. No.: 45072	Finding Ref. No.: 2017-001	CFDA Number(s): 84.010				
Federal Program Name and Granting Agency: Title I, Part A, Grants to Local Educational Agencies, Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction					
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal Title I requirements for procurement, suspension and debarment, earmarking and eligibility.							
Background: The Title I program's objective is to improve the teaching and learning of children who are at risk of not meeting academic standards who reside in areas of high concentration of children from low-income families. During the fiscal year that ended August 31, 2017, the District spent \$788,962 in Title I program funds. Federal regulations required recipients of federal funds to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.							
Status of Corrective Action: (check one) <table><tr><td><input type="checkbox"/> Fully Corrected</td><td><input checked="" type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>				<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
<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				

Corrective Action Taken:

- *In 2018 extensive training was provided to staff regarding federal procurement guidelines. Staff was trained again in February 2019.*
- *In May of 2018 Julie Chemodurow was hired as the Title I Grant Manager.*
- *In February of 2019 budget training was provided to building administrators.*
- *During the 2017-2018 fiscal year account codes were created in the general ledger for all Title I set-asides and expenditures were charged to these accounts.*
- *In December of 2018 Tracy Plouse was hired as the Director of Finance and Operations. Ms. Plouse has extensive experience working with federal grants in the higher education setting as well as extensive accounting experience.*

**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**

**Wahluke School District No. 73
September 1, 2017 through August 31, 2018**

Board of Directors
Wahluke School District No. 73
Mattawa, 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 Wahluke School District No. 73, 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 15, 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 15, 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**

**Wahluke School District No. 73
September 1, 2017 through August 31, 2018**

Board of Directors
Wahluke School District No. 73
Mattawa, Washington

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

We have audited the compliance of Wahluke School District No. 73, 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.

Basis for Qualified Opinion on 84.010 - Title I Grants to Local Educational Agencies

As described in Finding 2018-001 in the accompanying Schedule of Federal Award Findings and Questioned Costs, the District did not comply with requirements regarding its 84.010 - Title I Grants to Local Educational Agencies for Cost Principles, Eligibility, Procurement and Suspension and Debarment and Special Tests and Provisions - High School Graduation Rate Reporting. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the program.

Qualified Opinion on 84.010 - Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its 84.010 - Title I Grants to Local Educational Agencies for the year ended August 31, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the accompanying Schedule of Findings and Questioned Costs for the year ended August 31, 2018.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 to be 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 15, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Wahluke School District No. 73 **September 1, 2017 through August 31, 2018**

Board of Directors
Wahluke School District No. 73
Mattawa, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Wahluke School District No. 73, 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 Wahluke School District No. 73, 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 Wahluke School District No. 73, 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 15, 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 15, 2019

FINANCIAL SECTION

Wahluke School District No. 73 September 1, 2017 through August 31, 2018

FINANCIAL STATEMENTS

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Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

Wahluke School District No. 073

Balance Sheet

Governmental Funds

August 31, 2018

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	1,288,773.84	33,432.07	6,117.01	3,763.20	0.00	0.00	1,332,086.12
Minus Warrants Outstanding	-1,263,948.76	-16,876.72	0.00	-3,763.20	0.00	0.00	-1,284,588.68
Taxes Receivable	802,909.14		475,573.67	0.00	0.00		1,278,482.81
Due From Other Funds	0.00	80.00	0.00	0.00	0.00	0.00	80.00
Due From Other Governmental Units	823,148.44	0.00	0.00	0.00	0.00	0.00	823,148.44
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	9,457.77	0.00		0.00			9,457.77
Prepaid Items	120,883.91	0.00			0.00	0.00	120,883.91
Investments	4,234,658.85	196,644.04	762,447.85	35,947.81	272,768.29	0.00	5,502,466.84
Investments/Cash With Trustee	94,924.85		0.00	0.00	0.00	0.00	94,924.85
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	6,110,808.04	213,279.39	1,244,138.53	35,947.81	272,768.29	0.00	7,876,942.06
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	6,110,808.04	213,279.39	1,244,138.53	35,947.81	272,768.29	0.00	7,876,942.06
LIABILITIES:							
Accounts Payable	135,117.73	3,247.34	0.00	28,166.06	0.00	0.00	166,531.13
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	43,193.85	0.00		0.00			43,193.85
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Wahluke School District No. 073

Balance Sheet

Governmental Funds

August 31, 2018

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	22,543.97	0.00		0.00			22,543.97
Due To Other Governmental Units	436,726.10	0.00		0.00	0.00		436,726.10
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	80.00	0.00	0.00	0.00	0.00		80.00
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	637,661.65	3,247.34	0.00	28,166.06	0.00	0.00	669,075.05
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Unavailable Revenue - Taxes Receivable	802,909.14		475,573.67	0.00	0.00		1,278,482.81
TOTAL DEFERRED INFLOWS OF RESOURCES	802,909.14	0.00	475,573.67	0.00	0.00	0.00	1,278,482.81
FUND BALANCE:							
Nonspendable Fund Balance	130,341.68	0.00	0.00	0.00	0.00		130,341.68
Restricted Fund Balance	753,817.54	210,032.05	768,564.86	0.00	272,768.29		2,005,182.74
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00		0.00
Assigned Fund Balance	0.00	0.00	0.00	7,781.75	0.00		7,781.75
Unassigned Fund Balance	3,786,078.03	0.00	0.00	0.00	0.00		3,786,078.03
TOTAL FUND BALANCE	4,670,237.25	210,032.05	768,564.86	7,781.75	272,768.29	0.00	5,929,384.20
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	6,110,808.04	213,279.39	1,244,138.53	35,947.81	272,768.29	0.00	7,876,942.06

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

Wahluke School District No. 073

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
REVENUES:							
Local	2,075,971.98	353,386.13	1,016,303.37	3,842.19	3,045.80		3,452,549.47
State	25,391,225.18		0.00	0.00	111,968.40		25,503,193.58
Federal	4,205,393.14		0.00	0.00	0.00		4,205,393.14
Federal Stimulus	0.00						0.00
Other	0.00			0.00	0.00	0.00	0.00
TOTAL REVENUES	31,672,590.30	353,386.13	1,016,303.37	3,842.19	115,014.20	0.00	33,161,136.19
EXPENDITURES:							
CURRENT:							
Regular Instruction	14,737,747.26						14,737,747.26
Federal Stimulus	0.00						0.00
Special Education	2,685,411.02						2,685,411.02
Vocational Education	1,547,035.26						1,547,035.26
Skill Center	0.00						0.00
Compensatory Programs	4,628,540.98						4,628,540.98
Other Instructional Programs	343,720.19						343,720.19
Community Services	124,311.32						124,311.32
Support Services	7,379,224.16						7,379,224.16
Student Activities/Other		301,601.41				0.00	301,601.41
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				283,912.18			283,912.18
Equipment				52,645.97			52,645.97
Instructional Technology				0.00			0.00
Energy				76,527.66			76,527.66
Transportation Equipment					148,187.96		148,187.96
Sales and Lease							
Other	48,374.46			0.00			48,374.46
DEBT SERVICE:							
Principal	0.00		1,015,000.00	0.00	0.00		1,015,000.00
Interest and Other Charges	0.00		67,000.00	0.00	0.00		67,000.00
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	31,494,364.65	301,601.41	1,082,000.00	413,085.81	148,187.96	0.00	33,439,239.83

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

Wahluke School District No. 073

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
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	178,225.65	51,784.72	-65,696.63	-409,243.62	-33,173.76	0.00	-278,103.64
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	350,000.00	50,000.00		400,000.00
Transfers Out (GL 536)	-400,000.00		0.00	0.00	0.00	0.00	-400,000.00
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
TOTAL OTHER FINANCING SOURCES (USES)	-400,000.00		0.00	350,000.00	50,000.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-221,774.35	51,784.72	-65,696.63	-59,243.62	16,826.24	0.00	-278,103.64
BEGINNING TOTAL FUND BALANCE	4,892,011.60	158,247.33	834,261.49	67,025.37	255,942.05	0.00	6,207,487.84
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	4,670,237.25	210,032.05	768,564.86	7,781.75	272,768.29	0.00	5,929,384.20

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Wahluke 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.

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

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.

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

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

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

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

includes anticipated recovery of revenues that have been received but are restricted as to their usage.

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

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

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

The Superintendent is the only person 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.

The District also remits funds to Educational Service District No. 105 (ESD105) for payment of the district's unemployment compensation benefits which are a liability of the District. ESD105 is the trustee of a risk sharing unemployment compensation pool formed in 1988. Twenty school

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

districts participate in the pool which is governed by a cooperative pool agreement. According to the cooperative pool agreement, only upon dissolution of the pool would the district be entitled to its equitable share of the assets remaining in the pool after all liabilities of each district have been paid. The Investments/Cash held by Trustee represents the district's share of assets currently held by ESD105 on behalf of the district before all liabilities of the pool have been paid. The funds held by ESD105 are not considered readily available to the district.

Inventory

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

NOTE 2: DEPOSITS AND INVESTMENTS

The Grant 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,

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Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

- 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	Total
County Treasurer's Investment Pool	\$5,502,466.84

The district's participation in the Grant County Investment Pool is voluntary and the pool does not have a credit rating. The district reports its investment in the pool at the fair value amount, which is the same as the value of the pool per share. The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a (duration/weighted average maturity) of **1478 days**.

NOTE 3: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The board of directors approved two \$80,000 resolutions to transfer funds from General Fund to Capital Projects Fund in the 2017-18 fiscal year. The transfers were made in December of 2018.

NOTE 4: PENSION PLANS

General Information

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

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

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Notes to the Financial Statements

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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

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Notes to the Financial Statements

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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.

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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.

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Notes to the Financial Statements

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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:

Pension Rates			
	9/1/18 Rate	7/1/17 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.83%	12.70%	
Pension Rates			
	9/1/18 Rate	9/1/17 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.41%	15.20%	
TRS 2			
Member Contribution Rate	7.06%	7.06%	
Employer Contribution Rate	15.41%	15.20%	
TRS 3			
Member Contribution Rate	*	*	
Employer Contribution Rate	15.41%	15.20%	**

WAHLUKE SCHOOL DISTRICT NO. 073**Notes to the Financial Statements****September 1, 2017 Through August 31, 2018**

Pension Rates			
SERS 2			
Member Contribution Rate	7.27%	7.27%	
Employer Contribution Rate	13.58%	13.48%	
SERS 3			
Member Contribution Rate	*	*	
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 table.

The Collective 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 \$8,579,913 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2018, the district's proportionate share of each plan's net pension liability is reported below:

WAHLUKE SCHOOL DISTRICT NO. 073**Notes to the Financial Statements****September 1, 2017 Through August 31, 2018**

June 30, 2018	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	257,534	405,867	758,981	825,199
Proportionate Share of the Net Pension Liability	1,720,700	693,832	5,329,912	835,469

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.

Change in Proportionate Shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.035829%	0.232003%	0.182494%	0.185613%
Prior year proportionate share of the Net Pension Liability	0.035071%	0.210590%	0.182852%	0.187327%
Net difference percentage	0.003458%	0.021412%	-0.000357%	-0.001714%

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

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Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

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. 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

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Notes to the Financial Statements

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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 Wahluke 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%)
PERS 1 NPL	\$5,488,477,000	\$4,466,034,000	\$3,580,392,000
Allocation Percentage	0.038529%	0.038529%	0.038529%
Proportionate Share of Collective NPL	\$2,114,632	\$1,720,700	\$1,379,474
SERS 2/3 NPL	\$1,127,549,000	\$299,062,000	\$(383,817,000)
Allocation Percentage	0.232003%	0.232003%	0.232003%
Proportionate Share of Collective NPL	\$2,615,944	\$693,832	\$(890,466)
TRS 1 NPL	\$3,650,431,000	\$2,920,592,000	\$2,288,760,000

WAHLUKE SCHOOL DISTRICT NO. 073**Notes to the Financial Statements****September 1, 2017 Through August 31, 2018**

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
Allocation Percentage	0.182494%	0.182494%	0.182494%
Proportionate Share of Collective NPL	\$6,661,826	\$5,329,912	\$4,176,855
TRS 2/3 NPL	\$2,805,439,000	\$450,114,000	(\$1,463,229,000)
Allocation Percentage	0.185613%	0.185613%	0.185613%
Proportionate Share of Collective NPL	\$5,207,255	\$835,469	\$(2,715,941)

**NOTE 5: 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.

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 26) are eligible to participate in the PEBB plan under this arrangement.

Eligibility

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Notes to the Financial Statements

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

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

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

Medical Benefits

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

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

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

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

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Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

Members enrolled in Part A and B of Medicare

<u>Descriptions</u>	<u>Type of Coverage</u>		
	<u>Employee</u>		
	<u>Employee</u>	<u>& Spouse¹</u>	<u>Full Family¹</u>
Kaiser Permanente NW Senior Advantage	\$173.07	\$860.71	\$865.85
Kaiser Permanente WA Medicare Plan	\$175.40	\$345.78	\$516.16
Kaiser Permanente WA Classic	N/A	N/A	\$880.81
Kaiser Permanente WA Sound Choice	N/A	N/A	\$797.35
Kaiser Permanente WA Value	N/A	N/A	\$1,275.28
UMP Classic	\$333.64	\$662.26	\$1,151.89

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

Funding Policy

The funding policy is based upon the pay-as-you go financing requirements.

According to state law, the 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 \$64.07 per month per full-time equivalent employee to support the program, for a total payment of \$151,715.16. 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>

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Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

NOTE 6: COMMITMENTS UNDER LEASES

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

Apple Equipment Lease

On May 17, 2017 Wahluke School District entered into a cancellable operation lease with Apple, Inc. for personal computers electronic devices, servers and networking equipment with a value not to exceed \$212,693.35. Interest rate is 3.39% with the final installment date of 3/28/2020.

Date	Amount	Annual Installment	Interest 3.39%	Principal	Balance
3/28/2017	\$208,753.65				\$208,753.65
3/28/2017		\$54,826.47	\$0.00	\$54,826.47	\$153,927.18
3/28/2018		\$54,826.47	\$5,218.14	\$49,608.33	\$104,318.85
3/28/2019		\$54,826.47	\$3,536.41	\$51,290.06	\$53,028.79
3/28/2020		\$54,826.47	\$1,797.68	\$53,028.79	\$0.00
Total	\$208,753.65	\$219,305.88	\$10,552.23	\$208,753.65	

Grant County Port District No. 3 Lease

On July 7, 2014 Wahluke School District entered into a lease for a 2000 square foot building, formerly known as the Incubator Bay building, from Grant County Port District No. 3. The initial term of the lease terminates at midnight on July 31, 2019. The district is required to pay monthly rental payments of \$1,100. The Wahluke School District used the building for the Sentinel Tech campus until August of 2018. In November of 2018 the superintendent's and business offices moved into the facility.

Copier Lease

On October 5, 2012 the Wahluke School District entered into a 60-month, cancellable operating lease with Xerox for 13 copiers. In subsequent years, the district entered into various other operating leases listed below with Xerox.

Date	Lessor	Description	Annual Installments	Final Installment Date
6/10/2015	Xerox	1 copier WHS	\$7,731.84	7/25/2020
7/25/2016	Abadon	17 copiers	\$47,687.49	7/25/2021
8/15/2017	Abadon	1 copier WJH	\$748.56	8/15/2021

On July 25, 2016, the district entered into a 60-month copier lease agreement with Abadon for 17 copiers. The new lease arrangement with Abadon superseded the Xerox leases initialed in 2012

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Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

and 2013. The Abadon agreement included a payment stream revenue of \$71,233.19 for remaining payments on 14 Xerox copiers which Abadon stored until their terms end in December 2017. On August 11, 2017 the district entered into a separate 48-month agreement with Abadon for 1 copier at Wahluke Junior High. On November 20, 2017 1 additional copier was added to the original agreement, increasing the annual installment amount. In addition to the monthly installment, Abadon lease includes .005 per copy for black and white and \$.04 per copy for color.

ECEAP Preschool Office Building Lease

On December 29, 2016, Wahluke School District entered into a non-cancelable operating lease with Modern Building Systems, Inc. for a 14 x 66 (924 sq ft) office building. The initial term of the lease terminates at midnight on December 29, 2018. The district is required to pay 24 monthly rental payments of \$560.00, for a total of \$13,440.00. The district is in the process of negotiating a one-year lease for this building.

NOTE 7: OTHER SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2018:

Fund	Amount
General	\$0
ASB Fund	\$0
Capital Projects Fund	\$116,365.33
Transportation Vehicle Fund	\$0

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$85,660,226 for fiscal year 2017-18. 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
2012 Refunding	\$6,130,000	\$1,015,000	12/1/2019	2% - 4%	\$2,320,000
		- \$1,190,000			

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

Long-Term Debt Payable at 9/1/2017	3,335,000
New Issues	\$0
Debt Retired	1,015,000
Long-Term Debt Payable at 8/31/2018	2,320,000

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

Years Ending August 31	Principal	Interest	Total
2019	1,130,000	35,100	1,165,100
2020	1,190,000	11,900	1,201,900
Total	\$2,320,000	\$47,000	\$2,367,000

At August 31, 2018, the District had \$768,564.86 available in the Debt Service Fund to service the general obligation bonds.

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

NOTE 10: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity:

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900	Amount	Description
General Fund	Capital Projects Fund	\$350,000	Portables and renovation of transportation building
General Fund	Transportation Vehicle Fund	\$50,000	Bus purchase

NOTE 11: ENTITY RISK MANAGEMENT ACTIVITIES⑤

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.

Insurance Pool

Wahluke School District is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 154 school districts.

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

Liability insurance is subject to a self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$1,051,056, as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for a \$1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the \$100,000 SIR. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2018, were \$1,687,905.33.

A board of directors, consisting of nine members, is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

Unemployment Insurance

The Wahluke School District remits to Educational Service District No. 105 (ESD105) for payment of the district's unemployment compensation benefits which are a liability of the district. ESD105 is the trustee of a non-risk sharing unemployment compensation pool formed in 1988. Twenty school districts participate in the pool which is governed by a cooperative pool agreement. According to the cooperative pool agreement, only upon dissolution of the pool would the district be entitled to its equitable share of the assets remaining in the pool after all liabilities of each district have been paid. Payments totaling \$20,645.03 were made to the unemployment compensation pool this fiscal year. At August 31, 2018, the district has a balance of \$94,924.85 currently held by ESD105 before all liabilities of the pool have been paid. The funds held by ESD105 are not considered readily available to the district.

NOTE 12: 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

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

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 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association on February 8, 1978 and has remained in the joint venture ever since. The District's current equity of \$16,461.96 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 14: FUND BALANCE CLASSIFICATION DETAILS

The District's financial statements include the following amounts presented in the aggregate.⑤

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$130,341.68				
Restricted Fund Balance					
For Other Items					
For Fund Purpose		\$210,032.05			\$272,768.29
For Carryover of Restricted Revenues	\$588,974.48				
For Skill Centers					
For Carryover of Food Service Revenue	\$164,843.06				
For Debt Service				\$768,564.86	
For Arbitrage Rebate					
For Self-Insurance					
For Uninsured Risks					
Restricted from Bond Proceeds					

WAHLUKE SCHOOL DISTRICT NO. 073**Notes to the Financial Statements****September 1, 2017 Through August 31, 2018**

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Committed from Levy Proceeds					
Restricted from State Proceeds					
Restricted from Federal Proceeds					
Restricted from Other Proceeds					
Restricted from Impact Fee Proceeds					
Restricted from Mitigation Fee Proceeds					
Restricted from Undistributed Proceeds					
Committed Fund Balance					
For Economic Stabilization					
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes			\$7,781.75		
Unassigned Fund Balance	\$3,786,078.03				

NOTE 15: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS^⑤

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)

WAHLUKE SCHOOL DISTRICT NO. 073

Notes to the Financial Statements

September 1, 2017 Through August 31, 2018

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

NOTE 16: 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 vesting method.

NOTE 17: VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Wahluke School District failed to file, at the times required, information on the Unlimited General Obligation Refunding Bonds, 2012 with the Municipal Securities Rulemaking Board. The district filed an Event Notice of Late Filing in February 2018 for the fiscal years ending August 31, 2012 through August 31, 2016. The district has since hired a qualified Business Manager who is aware of the annual filing requirements.

Wahluke School District No. 073
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
Voted Debt					
Voted Bonds	3,335,000.00	0.00	1,015,000.00	2,320,000.00	1,130,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	215,785.81	47,439.54	16,678.38	246,546.97	16,208.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	5,528,095.00	0.00	198,183.00	5,329,912.00	
Net Pension Liabilities TRS 2/3	1,728,921.00	0.00	893,452.00	835,469.00	
Net Pension Liabilities SERS 2/3	1,039,211.00	0.00	345,378.00	693,833.00	
Net Pension Liabilities PERS 1	1,664,135.00	56,565.00	0.00	1,720,700.00	
Total Long-Term Liabilities	13,511,147.81	104,004.54	2,468,691.38	11,146,460.97	1,146,208.00

WAHLUKE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2018

1	2	3	4	5	6	7	8	9	10
						Expenditures			
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note
		Child Nutrition Cluster:							
Department of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		311,106.00	311,106.00		2
		National School Lunch Program	10.555	N/A		1,131,962.00	1,131,962.00		2
		Nat'l School Lunch Prog-Commodities	10.555	N/A		55,403.47	55,403.47		2
		Summer Food Service Program for Children	10.559	N/A		21,969.00	21,969.00		2
		Subtotal Child Nutrition Cluster:				1,520,440.47	1,520,440.47		
		Fresh Fruits and Vegetables Program	10.582	N/A		58,801.28	58,801.28		2
		Total US Department of Agriculture				1,579,241.75	1,579,241.75		
		Title I Grants:							
US Department of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010A	0202822		550,234.20	550,234.20		2, 3, 4
		Title I Grants to Local Educational Agencies	84.010A	0261220		12,627.90	12,627.90		2, 3, 4
		Title I Grants to Local Educational Agencies	84.010A	0261221		19,225.04	19,225.04		2, 3, 4
		Title I Grants to Local Educational Agencies	84.010A	0263276		16,886.29	16,886.29		2, 3, 4
		Subtotal Title I Grants				598,973.43	598,973.43		
		Special Education Cluster:							
		Special Education Grants to States	84.027A	0306190		258,583.19	258,583.19		2, 4
		Special Education Preschool Grants	84.173A	0365684		15,741.00	15,741.00		2, 4
		Subtotal Special Education Cluster				274,324.19	274,324.19		
		Migrant Education State Grant Program	84.011A	0282283		488,066.03	488,066.03		2, 4
		Migrant Education State Grant Program	84.011A	0290885		95,995.16	95,995.16		2, 4
		Career and Technical Ed Basic Grants to States	84.048	0174202		18,152.93	18,152.93		2, 4
		Rural Education	84.358B	0461544		25,290.12	25,290.12		2, 4
		English Language Acquisition State Grants	84.365A	0402548		139,222.06	139,222.06		2, 4
		Supporting Effective Instruction State Grants	84.367A	0524299		3,526.96	3,526.96		2, 4
						750,253.26	750,253.26		
	Unv of Wash	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	N/A	233,242.39	0.00	233,242.39		2, 4
		Total US Department of Education			233,242.39	1,623,550.88	1,856,793.27		
TOTAL FEDERAL AWARDS EXPENDED					233,242.39	3,202,792.63	3,436,035.02		

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Wahluke School District's financial statements. The Wahluke 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—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3—SCHOOLWIDE PROGRAMS

The Wahluke School District operates a "schoolwide program" in all school buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the (district) in its schoolwide program: Title I Part A (84,010) (\$598,973) ;

NOTE 4—FEDERAL INDIRECT RATE

The *Wahluke School District* used the federal *restricted* rate of 5.91%. The *Wahluke School District* has *not* elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



WAHLUKE SCHOOL DISTRICT NO. 73

411 E. Saddle Mountain Drive, P.O. Box 907, Mattawa, WA 99349
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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Wahluke School District No. 73
September 1, 2017 through August 31, 2018

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

Finding ref number: 2018-001	Finding caption: The District lacked adequate internal controls to ensure compliance with federal Title I requirements for procurement, suspension and debarment, eligibility, cost principles and high school graduation rate reporting.
Name, address, and telephone of school district contact person: Tracy Plouse, Director of Finance and Operations P.O. Box 907 Mattawa, WA 99349 (509) 932-4565	
Corrective action the auditee plans to take in response to the finding: <i>The Wahluke School District concurs with the audit finding. We recognize the inadequate internal controls to ensure compliance with federal Title I requirements for procurement, suspension and debarment, eligibility, cost principles and high school graduation rate reporting.</i> <i>There have been significant changes already in place as corrective action through the hiring of new administrative staff, key to Title I compliance and grant administration.</i> <i>The district hired a new director of finance and operations in December 2018 who has extensive knowledge of and experience with federal grants. She has reorganized and trained</i>	

staff to perform duties to ensure compliance with federal grant requirements. In addition, a fiscal specialist started with the district on May 1, 2019. The primary responsibilities of this position involve fiscal analysis of the district's grants and monitoring procurement.

Below are the corrective actions for moving forward in each category addressed in the audit findings:

Procurement

The Wahluke School District will review board policy and district procedures and update both to address state and federal purchasing laws and best practices.

The Wahluke School District provided purchasing training to all administrators on April 18, 2019 in a 5-hour work session regarding Title I and federal funds.

The Wahluke School District will create a document that will assist purchasing authorities to ensure state and federal procurement laws will be met.

Suspension and Debarment

The Wahluke School District will begin verifying all vendors' suspension and debarment status when adding new vendors into the vendor database. The district will file an electronic copy of this verification from SAM.gov in the vendor's electronic file.

The Wahluke School District will prepare a document for vendors that are not in the SAM.gov database to sign certifying that they have not been suspended or debarred.

Eligibility

In April of 2019 the Wahluke School District reviewed the allocations of the federal Title I funds to ensure compliance. The funds were allocated based on the percentage of low income students at each school in the worksheet from the grant application submitted to OSPI.

Cost Principles for Time-and-Effort Reporting

The Wahluke School District will design an effective process to monitor, review, and retain time-and-effort documentation for employees whose positions are funded, in whole or in part, with federal grant funds.

High School Graduation Rate Reporting

The Wahluke School District will design and follow adequate controls to ensure compliance with the Title I graduation reporting requirements. This will include requiring written documentation before reporting students as having transferred or withdrawing out of the district.

Anticipated date to complete the corrective action: September 1, 2019

Finding ref number: 2018-002	Finding caption: The District did not have adequate internal controls to ensure it reported accurate meal counts for reimbursement from the Child Nutrition Cluster programs.
Name, address, and telephone of school district contact person: Tracy Plouse, Director of Finance and Operations P.O. Box 907 Mattawa, WA 99349 (509) 932-4565	
Corrective action the auditee plans to take in response to the finding: <i>The Wahluke School District concurs with the audit finding. We recognize the inadequate internal controls to ensure reporting accurate meal counts for reimbursement from the Child Nutrition Cluster programs.</i> <i>The Wahluke School District will establish internal controls to ensure accurate meal count reporting, including independent review of claims, procedures for reporting and verification of claims by the business office staff.</i>	
Anticipated date to complete the corrective action: September 1, 2019	

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