



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Sultan School District No. 311

For the period September 1, 2018 through August 31, 2019

Published May 29, 2020

Report No. 1026340





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

May 29, 2020

Board of Directors
Sultan School District No. 311
Sultan, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Sultan School District No. 311's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Sultan School District No. 311 September 1, 2018 through August 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Sultan School District No. 311 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 no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Federal Programs

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

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

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

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2019-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Sultan School District No. 311

September 1, 2018 through August 31, 2019

2019-001 The District did not have adequate internal controls to ensure compliance with federal graduation rate reporting and time and effort requirements.

CFDA Number and Title:	84.010 – Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	0203011, 0271015
Questioned Cost Amount:	N/A

Background

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2019, the District spent \$328,687 in Title I program funds.

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

Graduation rate reporting

School districts must report graduation-rate data for all public high school students to the Office of Superintendent of Public Instruction (OSPI) annually. To do this, districts submit a graduation-rate report indicating each student's enrollment status as graduated, transferred out, dropped out, migrated to another county, or deceased. Districts must retain adequate support for changes to a student's enrollment status. To confirm that a student transferred out, the District must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

Time-and-effort documentation

OSPI requires districts to support payroll expenditures charged to Title I with adequate time and effort documentation. Depending on the number and types of activities an employee performs, time-and-effort documentation can be a semi-annual certification or a monthly personnel activity report, such as a detailed timesheet.

Description of Condition

Graduation rate reporting

The District's controls were not adequate to ensure compliance with Title I graduation reporting requirements. The District did not have adequate written documentation to support its classification for three students it reported as transferring out of the District. Specifically, the District incorrectly reported "transferred out" status for one student who transferred out without confirming enrollment at the other school district, one student who was absent for 20 or more consecutive days, and one student who did not attend the first four days of school.

Time-and-effort documentation

The District's controls were not adequate to ensure compliance with the grantor's time-and-effort documentation requirements. We reviewed payroll transactions charged to the grant and found the District did not design an effective process to collect the correct time-and-effort documentation for one employee.

We consider these internal control deficiencies to be significant deficiencies.

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

Cause of Condition

Graduation rate reporting

The District experienced personnel changes and did not have sufficient procedures in place to ensure staff gathered and retained documentation to support those students being reported as confirmed transfers.

Time-and-effort documentation

The Executive Director of Teaching and Learning started working for the District in July 2018 and did not have experience with time-and-effort reporting requirements. The employee submitted a semi-annual certification for the portion of their salaries and duties related to Title I, but OSPI requires monthly time-and-effort documentation for program directors.

Effect of Condition

Graduation rate reporting

The District did not have documentation to support three of nine students tested that it reported as having transferred out of the District. This resulted in a 5.23 percent error rate for total students reported to OSPI on the graduation rate report. Because the District improperly coded students and did not keep proper documentation for the classification of the students' enrollment status, the District cannot ensure it has provided accurate reports to the grantor. This puts the District at risk of incorrectly calculating graduation rates.

Time-and-effort documentation

Because the District did not obtain the correct time-and-effort documentation for one employee, it cannot assure the grantor that payroll costs of \$27,139 charged to the program were accurate and valid. However, the District provided adequate alternative forms of documentation that indicate the costs charged to the program are allowable. As a result, we are not questioning costs.

Recommendations

We recommend the District:

- Establish and follow controls to obtain and keep adequate documentation supporting the status of all students reported as “transferred out” of the District in the graduation rate report submitted to OSPI
- Ensure staff responsible for administering its federal programs ensure the correct time-and-effort certifications are collected for all staff salaries and benefits charged to its federal programs

District's Response

Time & Effort Reporting – the district agrees with the auditor's recommendations and has put in place a process of secondary review of all time and effort reports to ensure appropriateness and accuracy.

Graduation Rate Reporting – the district agrees with the auditor's recommendations and has instituted the following process to maintain complete and accurate records.

1. *Maintain records of student transfers according to the records retention schedule.*
2. *Continue with student exit conferences and exit phone calls when conferences are not possible.*

3. *Follow-up on information provided during exit conference to verify the communicated plans were carried out.*
4. *Code students as transferred to another program once the transfer has been verified with paperwork.*

Auditor's Remarks

We appreciate the steps the District is taking to resolve these issues. We will review the conditions during our next audit.

Applicable Laws and Regulations

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

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

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

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 describes requirements for reporting cohort graduation rates and how changes in student status are classified.

Office of Superintendent of Public Instruction's *Addendum to Bulletin 048-17 Federal Fiscal Policy*, describes time and effort reports and documentation standards.

**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**

**Sultan School District No. 311
September 1, 2018 through August 31, 2019**

Board of Directors
Sultan School District No. 311
Sultan, 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 Sultan School District No. 311, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 27, 2020.

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.

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative effect on the District.

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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

May 27, 2020

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

**Sultan School District No. 311
September 1, 2018 through August 31, 2019**

Board of Directors
Sultan School District No. 311
Sultan, Washington

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

We have audited the compliance of Sultan School District No. 311, 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, 2019. The District’s major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001 that we consider to be significant deficiencies.

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 27, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Sultan School District No. 311 September 1, 2018 through August 31, 2019

Board of Directors
Sultan School District No. 311
Sultan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Sultan School District No. 311, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 21.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law 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 state law 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 Sultan School District No. 311, as of August 31, 2019, 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 Sultan School District No. 311, as of August 31, 2019, or the changes in financial position or cash flows thereof 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.

Matters of Emphasis

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative effect on the District. Our opinion is not modified with respect to this matter.

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 27, 2020 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

May 27, 2020

FINANCIAL SECTION

Sultan School District No. 311 September 1, 2018 through August 31, 2019

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2019

Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Long-Term Liabilities – 2019

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

Sultan School District No. 311

Balance Sheet

Governmental Funds

August 31, 2019

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	913,176.89	27,282.98	30,592.32	29,531.38	162,905.92	0.00	1,163,489.49
Minus Warrants Outstanding	-511,357.78	-8,413.31	0.00	-18,069.01	0.00	0.00	-537,840.10
Taxes Receivable	1,229,692.41		7,785.59	403,750.41	0.00		1,641,228.41
Due From Other Funds	280,478.00	12,426.04	0.00	0.00	0.00	0.00	292,904.04
Due From Other Governmental Units	270,282.67	0.00	0.00	0.00	0.00	0.00	270,282.67
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	0.00	0.00		0.00			0.00
Prepaid Items	0.00	0.00			0.00	0.00	0.00
Investments	2,865,589.20	103,518.04	92,600.00	843,638.38	23,413.34	0.00	3,928,758.96
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	5,047,861.39	134,813.75	130,977.91	1,258,851.16	186,319.26	0.00	6,758,823.47
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	5,047,861.39	134,813.75	130,977.91	1,258,851.16	186,319.26	0.00	6,758,823.47
LIABILITIES:							
Accounts Payable	218,799.12	15,057.04	0.00	126,150.02	0.00	0.00	360,006.18
Contracts Payable Current	0.00	0.00		0.00	0.00		0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Sultan School District No. 311

Balance Sheet

Governmental Funds

August 31, 2019

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	58,740.51	0.00		0.00			58,740.51
Due To Other Governmental Units	83,860.47	0.00		0.00	0.00		83,860.47
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	170.00	0.00	280,308.00	0.00	0.00	280,478.00
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	361,400.10	15,227.04	0.00	406,458.02	0.00	0.00	783,085.16
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Unavailable Revenue - Taxes Receivable	1,229,692.41		7,785.59	403,750.41	0.00		1,641,228.41
TOTAL DEFERRED INFLOWS OF RESOURCES	1,229,692.41	0.00	7,785.59	403,750.41	0.00	0.00	1,641,228.41
FUND BALANCE:							
Nonspendable Fund Balance	0.00	0.00	0.00	0.00	0.00		0.00
Restricted Fund Balance	501,287.09	119,586.71	93,509.34	172,737.39	186,319.26	0.00	1,073,439.79
Committed Fund Balance	0.00	0.00	0.00	-156,269.63	0.00	0.00	-156,269.63
Assigned Fund Balance	0.00	0.00	29,682.98	432,174.97	0.00	0.00	461,857.95
Unassigned Fund Balance	2,955,481.79	0.00	0.00	0.00	0.00	0.00	2,955,481.79
TOTAL FUND BALANCE	3,456,768.88	119,586.71	123,192.32	448,642.73	186,319.26	0.00	4,334,509.90
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	5,047,861.39	134,813.75	130,977.91	1,258,851.16	186,319.26	0.00	6,758,823.47

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

Sultan School District No. 311

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2019

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	3,585,065.98	221,394.57	1,767.41	630,431.60	623.68		4,439,283.24
State	25,029,669.90		29,682.98	241,215.53	161,940.87		25,462,509.28
Federal	1,661,756.26		0.00	0.00	0.00		1,661,756.26
Other	24,259.48			0.00	0.00	0.00	24,259.48
TOTAL REVENUES	30,300,751.62	221,394.57	31,450.39	871,647.13	162,564.55	0.00	31,587,808.26
EXPENDITURES:							
CURRENT:							
Regular Instruction	15,486,143.53						15,486,143.53
Special Education	4,647,433.33						4,647,433.33
Vocational Education	1,205,111.03						1,205,111.03
Skill Center	0.00						0.00
Compensatory Programs	1,989,929.22						1,989,929.22
Other Instructional Programs	55,075.22						55,075.22
Community Services	1,831.50						1,831.50
Support Services	5,958,493.40						5,958,493.40
Student Activities/Other		268,561.71				0.00	268,561.71
CAPITAL OUTLAY:							
Sites				10,000.00			10,000.00
Building				443,625.46			443,625.46
Equipment				191,754.15			191,754.15
Instructional Technology				172,092.64			172,092.64
Energy				0.00			0.00
Transportation Equipment					120,306.98		120,306.98
Sales and Lease				0.00			0.00
Other	60,543.58						60,543.58
DEBT SERVICE:							
Principal	0.00		64,225.18	0.00	0.00		64,225.18
Interest and Other Charges	0.00		7,901.52	0.00	0.00		7,901.52
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	29,404,560.81	268,561.71	72,126.70	817,472.25	120,306.98	0.00	30,683,028.45
REVENUES OVER (UNDER) EXPENDITURES	896,190.81	-47,167.14	-40,676.31	54,174.88	42,257.57	0.00	904,779.81
OTHER FINANCING SOURCES (USES):							

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

Sultan School District No. 311

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2019

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
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	280,308.00		72,127.00	0.00	0.00		352,435.00
Transfers Out (GL 536)	-72,127.00		0.00	-280,308.00	0.00	0.00	-352,435.00
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)	208,181.00		72,127.00	-280,308.00	0.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,104,371.81	-47,167.14	31,450.69	-226,133.12	42,257.57	0.00	904,779.81
BEGINNING TOTAL FUND BALANCE	2,352,397.07	166,753.85	91,741.63	674,775.85	144,061.69	0.00	3,429,730.09
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	3,456,768.88	119,586.71	123,192.32	448,642.73	186,319.26	0.00	4,334,509.90

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

SULTAN SCHOOL DISTRICT

Notes to the Financial Statements

September 1, 2018 Through August 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

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

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 revenue and is recorded as a deferred inflow of resources.

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

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. 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 Snohomish County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

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

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

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

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

The District's investments as of August 31, 2019, are as follows:

Type of Investment	Sultan's own investments	Investments held by Sultan as an agent for other organizations	Total
State Treasurer's Investment Pool (all funds)	\$3,928,758.96	\$0.00	\$3,928,758.96

The Washington State Local Government Investment Pool (LGIP) was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. Participation in the pool is voluntary and the pool does not have a credit rating). Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASBS 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The pool maintains a

Weighted Average Maturity (WAM) of 60 days or shorter. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

NOTE 3: PENSION PLANS

General Information

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

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

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

Membership Participation

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

Membership participation by retirement plan as of June 30, 2019, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	45,792	401	1,535
SERS 2	10,072	6,175	28,494
SERS 3	10,007	8,983	35,746
TRS 1	32,645	120	349
TRS 2	5,874	2,779	21,788
TRS 3	13,745	8,675	55,733

Membership & Plan Benefits

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

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

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

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

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

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

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

TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

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

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

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

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

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

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

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

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

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

Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.34 and 41.40 RCW for PERS, 41.34 and 41.35 RCW for SERS, and 41.32 and 41.34 RCW for TRS. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The employer and employee contribution rates for the various plans are effective as of the dates shown in the table. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2018 and 2019 are listed below:

Pension Rates			
	7/1/19 Rate	9/1/18 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.86%	12.83%	
Pension Rates			
	9/1/19 Rate	9/1/18 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.51%	15.41%	
TRS 2			
Member Contribution Rate	7.77%	7.06%	
Employer Contribution Rate	15.51%	15.41%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.51%	15.41%	**
SERS 2			
Member Contribution Rate	8.25%	7.27%	
Employer Contribution Rate	13.19%	13.58%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.19%	13.58%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

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

The Net Pension Liability as of June 30, 2019:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$11,696,634	\$6,352,843	\$8,355,496	\$16,545,194
Plan fiduciary net position	(\$7,851,279)	(\$6,118,345)	(\$5,879,693)	(\$15,942,660)
Participating employers' net pension liability	\$3,845,355	\$234,498	\$2,475,803	\$602,534
Plan fiduciary net position as a percentage of the total pension liability	67.12%	96.31%	70.37%	96.36%

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

At June 30, 2019, the school district reported a total liability of \$7,675,774 for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2019, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2019	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	237,784	385,067	958,447	1,016,143
Proportionate Share of the Net Pension Liability	1,275,193	451,113	4,778,093	1,171,375

At June 30, 2019, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.033162%	0.192374%	0.192992%	0.194408%
Prior year proportionate share of the Net Pension Liability	0.030331%	0.183841%	0.178829%	0.177518%
Net difference percentage	0.002831%	0.008533%	0.014162%	0.016890%

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, 2018, with the results rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the *2007–2012 Experience Study Report and the 2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2018 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, 2019, 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%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

The following table presents the Sultan 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%)
PERS1 NPL	\$4,815,609,000	\$3,845,355,000	\$3,003,532,000
Allocation %	0.033162%	0.033162%	0.033162%
Proportionate Share of Collective NPL	\$ 1,596,947	\$ 1,275,193	\$ 996,028
SERS2/3 NPL	\$1,141,883,000	\$234,498,000	(\$513,722,000)
Allocation %	0.192374%	0.192374%	0.192374%
Proportionate Share of Collective NPL	\$ 2,196,684	\$ 451,113	\$ (988,267)
TRS1 NPL	\$3,164,358,000	\$2,475,803,000	\$1,878,531,000
Allocation %	0.192992%	0.192992%	0.192992%
Proportionate Share of Collective NPL	\$ 6,106,946	\$ 4,778,093	\$ 3,625,408
TRS2/3 NPL	\$3,283,747,000	\$602,534,000	(\$1,577,475,000)
Allocation %	0.194408%	0.194408%	0.194408%
Proportionate Share of Collective NPL	\$ 6,383,872	\$ 1,171,375	\$ (3,066,740)

NOTE 4: 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), 76 of the state's K–12 school districts and educational service districts (ESDs), and 249 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 227 K–12 school districts and ESDs. The District's retirees (approximately 6) are eligible to participate in the PEBB plan under this arrangement.

Eligibility

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

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

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

Medical Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 medical coverage for 2019.

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	\$710.65	\$1,415.33	\$1,945.84
Kaiser Permanente NW CDHP	\$604.16	\$1,196.38	\$1,596.81
Kaiser Permanente WA Classic	\$733.39	\$1,460.80	\$2,006.37
Kaiser Permanente WA CDHP	\$600.44	\$1,189.46	\$1,587.47
Kaiser Permanente WA Sound Choice	\$603.21	\$1,200.44	\$1,648.37
Kaiser Permanente WA Value	\$656.25	\$1,306.54	\$1,974.25
UMP Classic	\$674.85	\$1,343.72	\$1,845.38
UMP CDHP	\$600.54	\$1,189.65	\$1,587.74
UMP Plus-Puget Sound High Value Network	\$618.07	\$1,230.18	\$1,689.25
UMP Plus-UW Medicine Accountable Care Network	\$618.07	\$1,230.18	\$1,689.25

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

Members enrolled in Part A and B of Medicare

Descriptions	<u>Type of Coverage</u>		
	<u>Employee</u>	<u>Employee & Spouse¹</u>	<u>Full Family¹</u>
Kaiser Permanente NW Senior Advantage	\$169.80	\$333.63	\$862.14
Kaiser Permanente WA Medicare Plan	\$167.91	\$329.85	N/A
Kaiser Permanente WA Classic	N/A	N/A	\$875.41
Kaiser Permanente WA Sound Choice	N/A	N/A	\$777.78
Kaiser Permanente WA Value	N/A	N/A	\$817.56
UMP Classic	\$313.09	\$620.20	\$1,121.86

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 2018-19, 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 \$209,270.38. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its annual required contribution nor the net other post-employment benefit obligation associated with this plan. These amounts are not shown on the financial statements.

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

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

The plan does not issue a separate report; however, additional information is included in the State of Washington Comprehensive Annual Financial Report, which is available on this site <https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report>

NOTE 5: COMMITMENTS UNDER LEASES

Lessor/Equipment/Location	Annual Installment	Final Installment Date	Balance
Lease-Purchase Commitments			
QBSI – Xerox B8075 (D.O.)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox C8045 (D.O.)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox D95 (M&O)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox D95 (G.B.E.)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox D95 (S.E.S.)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox D95 (S.M.S.)	\$1,996.20	05/2024	\$9,618.36
QBSI – Xerox D95 (S.H.S.)	\$1,996.20	05/2024	\$9,618.36
Total Lease Purchase Commitments			\$67,328.52

NOTE 6: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$70,790,932 for fiscal year 2019. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 7: LONG-TERM DEBT

Long-Term Debt

The following is a summary of changes in long-term debt of the District for the fiscal year(s) ended August 31, 2019:

Governmental activities	Balance at Sept. 1, 2018	Increases	Decreases	Balance at Aug. 31, 2019	Due within One Year
General Obligation Bonds	\$293,186	\$0.00	\$64,225	\$228,961	\$34,253

Long-term debt at August 31, 2019, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
LGO Bonds	\$450,000	\$34,253.40	12/01/2026	2.95%	\$228,960.78

Debt service requirements on long-term debt as of August 31, 2019, are as follows:

Years Ending August 31	Bonds		Total
	Principal	Interest	
2020	27,701.86	6,551.54	34,253.40
2021	28,525.09	5,728.31	34,253.40
2022	29,372.79	4,880.61	34,253.40
2023	30,245.67	4,007.73	34,253.40
2024	31,144.51	3,108.89	34,253.40
2025	32,070.04	2,183.36	34,253.40
2026-27	49,900.83	1,479.27	51,380.10
Total	228,960.78	27,939.71	256,900.50

At August 31, 2019, the District had \$123,192.32 available in the Debt Service Fund to service the general obligation bonds.

Short-Term Debt

The district has entered into a Memorandum of Understanding with the Snohomish County Treasurer to cover a cash shortfall in the district in lieu of issuing registered warrants. Interest is charged monthly to the District, on each month's negative average daily cash balance, at a rate that is 50 basis points (1/2 of 1%) higher than the earnings rate of the Washington State Treasurer's Local Government Investment Pool for that month. During the 2018-19 fiscal year the district incurred no interest to the county treasurer, as it was not necessary to access the credit line.

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity:

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900 or 9901	Amount	Description
General Fund	Debt Service Fund	\$72,127.00	For LGO Bond Payments
Cap Proj Fund	General Fund	\$280,308.00	A/R for payments of staff costs related to tech levy

NOTE 9: ENTITY RISK MANAGEMENT ACTIVITIES

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that

they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing the Cooperative Risk Management Pool Account Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 90 school and educational service districts have joined the Pool.

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

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

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

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

Sultan School District

Total Insured Value for FY 2018-19	\$ 70,790,932
Fully accrued Contribution for FY 2018-19	<u>\$ 240,491</u>

Washington Schools Risk Management Pool

Purpose	To provide risk sharing and related services to member school districts.
Participants	80 school districts, 7 interlocal cooperatives and 7 educational service districts.
Governing Board	17 member Executive Board.
FY 2018-19 Confidence Level	90%

Condensed Financial Information (Most recent financials available)

	<u>August 31, 2019 *</u>
Total Assets	\$ 82,090,562
Total Liabilities	<u>60,772,495</u>
Ending Net Position	<u>\$ 21,318,067</u>

Total Revenues	\$ 56,128,690
Total Expenses	<u>(58,535,566)</u>
OPERATING INCOME / (LOSS)	<u>\$ (2,406,876)</u>
Non-Operating Income / (Expense)	<u>2,854,911</u>
CHANGE IN NET POSITION	<u>\$ 448,035</u>

* Unaudited

NOTE 10 PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the

collections are made on the April 30 date. The tax collections occurring after the end of the fiscal period are unavailable for revenue accrual. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due after the end of the fiscal period are recorded as a deferred inflow of resources.

Tax Abatements

Snohomish County has independently entered into agreements that affect the levy rate assessed by the District. Below is a schedule of tax abatements known as of 12/31/2019.

Tax Abatement Program	Total Amount of Taxes Abated
GASB 77 - Religious Activities	\$13,740.47
GASB 77 - Native American	\$82.55

NOTE 11: 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 March 28, 1974, and has remained in the joint venture ever since. The District's current equity of \$23,469.08 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 12: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
For Fund Purpose		\$119,586.71			\$186,319.26
For Carryover of Restricted Revenues	\$272,326.09				
For Debt Service	\$228,961.00			\$93,509.34	
Committed from Levy Proceeds			-\$156,269.63		
Restricted from Impact Fee Proceeds			\$172,737.39		
Fund Purposes			\$432,174.97	\$29,682.98	
Unassigned Fund Balance	\$2,955,481.79				

NOTE 13: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

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

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

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

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 14: 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.

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

No unrecorded liability exists for other employee benefits.

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year. The District has not adopted the buyout provisions for sick leave as authorized under RCW 28A.400.210. As such, no liability exists for buy out of sick leave.

NOTE 15: SUBSEQUENT EVENTS

COVID-19 Pandemic

In February 2020, Governor Inslee declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, canceling public events, limiting gathering sizes, and requiring people to stay home unless they are leaving for an essential function. On April 6, 2020, the Governor closed all public and private K–12 school buildings throughout the remainder of the 2019–20 school year. The school district, however, continues to operate; educating students using continuous learning models.

The length of time these measures will be in place, and the full extent of the financial impact on the school district, is unknown at this time.

Sultan School District No. 311
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2019

Description	Beginning Outstanding Debt September 1, 2018	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2019	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	293,185.96	0.00	64,225.18	228,960.78	34,253.40
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	19,699.24	69,867.00	22,237.74	67,328.50	13,973.40
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	452,889.44	0.00	259,646.48	193,242.96	158,755.97
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	5,222,878.00	0.00	444,786.00	4,778,092.00	
Net Pension Liabilities TRS 2/3	799,032.00	372,343.00	0.00	1,171,375.00	
Net Pension Liabilities SERS 2/3	549,799.00	0.00	98,686.00	451,113.00	
Net Pension Liabilities PERS 1	1,354,571.00	0.00	79,379.00	1,275,192.00	
Total Long-Term Liabilities	8,692,054.64	442,210.00	968,960.40	8,165,304.24	206,982.77

Sultan School District No. 311
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via WA OSPI)	School Breakfast Program	10.553	N/A	139,918	-	139,918	-	
	National School Lunch Program	10.555	N/A	433,526	-	433,526	-	
	National School Lunch Program	10.555	N/A	61,044	-	61,044	-	3
		Total CFDA 10.555:		494,570	-	494,570	-	
		Total Child Nutrition Cluster:		634,488	-	634,488	-	
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via WA OSPI)	Child and Adult Care Food Program	10.558	N/A	38,816	-	38,816	-	
	Forest Service Schools and Roads Cluster							
	Schools and Roads - Grants to States	10.665	N/A	4,829	-	4,829	-	
		Total Forest Service Schools and Roads Cluster:		4,829	-	4,829	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Title I Grants to Local Educational Agencies	84.010	0203011	314,379	-	314,379	-	4, 5, 6

The accompanying notes are an integral part of this schedule.

Sultan School District No. 311
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Title I Grants to Local Educational Agencies	84.010	0271015	14,308	-	14,308	-	5
		Total CFDA 84.010:			328,687	-	328,687	-
		84.027	0306338	433,873	-	433,873	-	5
Special Education Cluster (IDEA)								
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via WA OSPI)	Special Education Grants to States	84.027	0338167	89,607	-	89,607	-	
		Total CFDA 84.027:			523,480	-	523,480	-
		84.173	0365838	31,593	-	31,593	-	5
Total Special Education Cluster (IDEA):								
Office of Career, Technical, and Adult Education, EDUCATION, DEPARTMENT OF (via WA OSPI)	Career and Technical Education -- Basic Grants to States	84.048	0174267	11,490	-	11,490	-	5
		Total Special Education Cluster (IDEA):			555,073	-	555,073	-
		84.365	0402675	15,895	-	15,895	-	5
Total Special Education Cluster (IDEA):								

The accompanying notes are an integral part of this schedule.

Sultan School District No. 311
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	0524540	56,414	-	56,414	-	5
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	0430315	14,363	-	14,363	-	5
Total CFDA 84.367:				70,777	-	70,777	-	
Total Federal Awards Expended:				1,660,055	-	1,660,055	-	

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

NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3—NONCASH AWARDS

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

NOTE 4—SCHOOLWIDE & TARGETED PROGRAMS

The Sultan School District operates a "schoolwide program" in one elementary building and "targeted assistance" in the other elementary building. 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 Sultan School District in its schoolwide program and targeted programs combined: Title I (84.010) \$302,026.

NOTE 5—FEDERAL INDIRECT RATE

The Sultan School District used the federal restricted rate of 4.09%. The Sultan School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 6—FEDERAL INDIRECT RATE

OSPI incorrectly populated an indirect rate of 7.00% for this program. Error was identified in preparing this report. OSPI was contacted and made aware of the error and confirmed Entry posted 08/31/19 to correct ytd revenue to reflect proper rate of 4.09%.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Sultan School District No. 311
September 1, 2018 through August 31, 2019

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2019-001	Finding caption: The District did not have adequate internal controls to ensure compliance with federal graduation rate reporting and time and effort requirements.
Name, address, and telephone of District contact person: Daniel C. Baller – Director of Fiscal Services 514 – 4 th Street Sultan, WA 98294 360-793-9800 x 1020	
Corrective action the auditee plans to take in response to the finding: <i>Title I – Reporting: The Director of Fiscal Services will do a secondary review of time and effort (T&E) submissions to ensure that all required staff are completing/submitting the appropriate type of T&E reports (semi-annual or PAR).</i> <i>Title I – High School Graduation Rates: The district will implement/maintain the following process to ensure accurate and verifiable data of selected COHORT(s).</i> <ol style="list-style-type: none"> 1. <i>Maintain records of student transfers according to the records retention schedule.</i> 2. <i>Continue with student exit conferences and exit phone calls when conferences are not possible.</i> 3. <i>Follow-up on information provided during exit conference to verify the communicated plans were carried out.</i> 4. <i>Code students as transferred to another program once the transfer has been verified with paperwork.</i> 	

Anticipated date to complete the corrective action:

Title I – Payroll (implemented 05/2020).

Title I – Graduation (Implemented 05/2020 and carry the process forward with training as needed. Communication with all relevant staff will take place once the plan is approved.

ABOUT THE STATE AUDITOR'S OFFICE

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov