# Office of the Washington State Auditor
# Pat McCarthy

July 9, 2020

Board of Directors
Innovation-Willow Public Charter School
Walla Walla, Washington

## Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Willow Public Charter School for the fiscal year ended August 31, 2019. The Public Charter School contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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Financial Statements
August 31, 2019

# Innovation Schools dba Willow Public Schools

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## Independent Auditor's Report

The Board of Directors
Innovation Schools dba Willow Public Schools
Walla Walla, Washington

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Innovation Schools dba Willow Public Schools (the School) as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Innovation Schools dba Willow Public Schools as of August 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**
Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Employer's Share of Net Pension Liability and the Schedule of Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 on our consideration of the School'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 solely 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 effectiveness of the School's 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 School's internal control over financial reporting and compliance.

Eide Bailly LLP

Spokane, Washington
March 31, 2020

**Overview**

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. Innovation Schools dba Willow Public Schools (the School) MD&A presents an overview of its financial condition and results of operations for the fiscal year ended August 31, 2019. The MD&A's purpose is to aid readers in understanding the accompanying financial statements through analysis of the School's financial activities based on currently known facts and conditions. This MD&A should be read in conjunction with the accompanying financial statements and footnote disclosures.

**Financial Highlights**

In fiscal year 2019, net change in fund balances in the general fund was approximately ($141,000) compared to $154,000 in fiscal year 2018. General fund balance as of August 31, 2019 was $186,000 compared to $328,000 as of August 31, 2018.

Management believes the future outlook is bright as the School continues to fill up all available student slots, and increased revenues of approximately $406,000 over prior year. Much of the current year losses were due to initial expenditures during the process of stabilizing the School. As of 2019, the School operates a 6$^{th}$-8$^{th}$ grade school. Revenues in current and future years from state apportionments and grants is expected to return much of the initial and growth expenditures. Management believes that with steady growth, Innovation Schools dba Willow Public Schools will continue to empower its students to become community leaders.

**Government-Wide Financial Analysis**

Government-wide financial statements provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents all of the School's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as Net Position. Changes in net position over time serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of Activities shows how the School's net position changed during the current year. These statements are prepared using the accrual basis of accounting, similar to the method used by private-sector businesses. Accrual accounting considers all of the year's revenues and expenses, regardless of when the cash is received or paid.

Change in Net Position tells the reader whether the financial position of the School has improved or diminished. However, in evaluating the overall position of the School, nonfinancial information (such as changes in the School's student count) will also need to be considered.

**Statement of Net Position**

The following is a summary of the statements of net position as of August 31, 2019 and 2018:

| | 2019 | Unaudited 2018 |
|---|---|---|
| Current Assets | $ 222,775 | $ 543,764 |
| Capital Assets | 250,503 | 179,786 |
| Total Assets | 473,278 | 723,550 |
| Deferred Outflows of Resources | 52,947 | - |
| Current Liabilities | 62,034 | 216,140 |
| Long-Term Liabilities | 221,875 | - |
| Total Liabilities | 283,909 | 216,140 |
| Deferred Inflows of Resources | 65,334 | - |
| Total Net Position | $ 151,286 | $ 507,410 |

Assets include the School's cash, accounts receivable, prepaid expenses, and capital assets. Total assets decreased $250,000 primarily due to several large grant receivables outstanding in 2018 which were collected in 2019. These resources were utilized to assist in funding the day to day operations of the school. There was a decrease in cash, accounts receivable, and prepaid expenses of $321,000, offset by an increase in capital assets of $71,000. Capital asset increases were primarily a result of a new fire sprinkler system in 2019. Management expects assets to increase moving forward as the School continues to grow.

Liabilities include amounts payable to vendors for goods and services, advanced revenues, long-term debt, and net pension liability. Total liabilities increased approximately $93,000 from prior year, driven primarily by a decrease in accounts payable of $206,000, offset by an increase in advanced revenues, long-term debt, and net pension liability of $299,000.

Deferred outflow and inflow of resources relates to pension obligations, which were the result of the school's participation in the Washington State Department of Retirement Systems pension plans. Prior to 2019, the school did not participate in these plans.

Total net position decreased as a result of operations as discussed in the statement of activities.

**Statement of Activities**

The following is a summary of the statements of activities for the years ended August 31, 2019 and 2018:

| | 2019 | Unaudited 2018 |
|---|---|---|
| Revenues | | |
| Operating grants and contributions | $ 480,362 | $ 1,075,918 |
| State sources | 1,001,049 | - |
| Investment earnings | 26 | - |
| Total revenues | 1,481,437 | 1,075,918 |
| Expenditures | | |
| Salaries and benefits | 813,188 | 314,505 |
| Purchased services and rent | 635,061 | 252,196 |
| Supplies | 77,612 | 150,651 |
| Other | 35,135 | 23,769 |
| Depreciation | 49,796 | 1,052 |
| Pension expense | 226,769 | - |
| Total expenditures | 1,837,561 | 742,173 |
| Change in Net Position | $ (356,124) | $ 333,745 |

Revenues include operating grants and contributions, state revenues, and investment earnings. Operating grants consist primarily of grants from the Washington State Charter School System and other private sources, which decreased the amount of the grants in 2019 by $596,000, as the School received $1,001,000 in state apportionments to help fund day to day operations, with less needed from other sources.

Expenditures are separated by class in the above table. Overall expenditures increased $1,095,000 in 2019, as the school continues to grow. Primary increases were to salaries and benefits of $499,000, purchased services and rent of $383,000, and pension expenses of $227,000. While instructional costs have begun to level off, the School continues to set up a strong system to support its overall needs. Management expects these costs to level off in future periods.

**Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities. Like other governments, the School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

All the funds of the School are considered governmental funds. Governmental funds account for essentially the same functions reported as Governmental Activities on the government-wide financial statements. Most of the School's basic services are reported in these funds, with the focus on how money flows into and out of the funds and what year-end balances remain available for spending.

These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the School's general government operations and the basic services being provided, along with the financial resources available.

The focus of Governmental funds is narrower than that of the Government-wide financial statements, so it is useful to compare the two. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances facilitate this comparison between governmental funds and governmental activities.

Fund balance in the general fund as of August 31, 2019 was $186,000, compared to $151,000 in Governmental Activities. This difference is due to the pension liability and related deferred inflow and outflows, capital assets, and long-term debt, which are not included in modified accrual accounting.

Changes in fund balances for the general fund for the year ended August 31, 2019 was ($141,000) compared to ($356,000) in Governmental Activities. This difference is due to the pension expense, capital asset expenditures, and issuance and payments on long-term debt.

**Capital Assets**

| | 2019 | Unaudited 2018 | Change |
|---|---|---|---|
| Construction in process | $ - | $ 66,136 | $ (66,136) |
| Leasehold Improvements | 174,574 | - | 174,574 |
| Computer equipment and software | 95,097 | 95,097 | - |
| Furniture and fixtures | 19,605 | 19,605 | - |
| Curriculum | 12,075 | - | 12,075 |
| | 301,351 | 180,838 | 120,513 |
| Less Accumulated Depreciation | 50,848 | 1,052 | 49,796 |
| Net Capital Assets | $ 250,503 | $ 179,786 | $ 70,717 |

As of August 31, 2019 and 2018, the School had approximately $251,000 and $180,000, respectively, invested in capital assets, including leasehold improvements, computer equipment and software, and furniture and fixtures, net of accumulated depreciation. The School has had significant capital expenditures relating to leasehold improvements in 2019. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

**Long-term Debt**

Total long-term debt as of August 31, 2019 and 2018 was $59,000 and $0, respectively. The outstanding debt consists of cash advanced for leasehold improvements in 2019. More detailed information about the School's long-term debt is presented in Note 4 to the financial statements.

**Budgetary Highlights**

The Board of Directors adopts the annual operating budget for the School effective September 1st, consistent with the upcoming school year. The total budget for 2019 was approximately $2,275,000, of which $1,308,000 was funded by state apportionment. Final revenues were $1,481,000, with state apportionment being $307,000 under budget, and grants being $323,000 under budget. Included in the budgeted state apportionment was $26,000 of advanced revenue which have not yet been utilized for their required purpose and will be carried over into fiscal year 2020.

Instructional expenditures were approximately $297,000 below budget and support services were approximately $280,000 below budget as the School continues to build a strong support system while monitoring total costs.

**Economic Outlook**

The School continues to focus on student and overall growth as it continues to expand overall operations.

Management believes the School is well positioned to grow into a strong financial position and to continue to provide excellent service to its students. Management will continue to maintain a close watch over resources and expenses to ensure that the School's finances are sustainable for future growth.

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 141,520 |
| Accounts receivable | 71,255 |
| Prepaid expenses | 10,000 |
| Capital assets, net of accumulated depreciation | 250,503 |
| Total assets | 473,278 |
| **Deferred Outflows of Resources** | |
| Relating to pensions | 52,947 |
| **Liabilities** | |
| Accounts payable | 10,473 |
| Advanced revenue | 25,865 |
| Long-term debt, due within one year | 25,696 |
| Long-term debt, due in more than on year | 33,189 |
| Net pension liability | 214,382 |
| Total liabilities | 309,605 |
| **Deferred Inflows of Resources** | |
| Relating to pensions | 65,334 |
| **Net Position** | |
| Net investment in capital assets | 217,314 |
| Unrestricted | (66,028) |
| Total net position | $ 151,286 |

| Functions / Programs | Expenses | Operating Grants and Contributions | Net (Expense) Revenue Changes in Net Position |
|---|---|---|---|
| Governmental Activities | | | |
| Instruction | $ 832,139 | $ 480,362 | $ (351,777) |
| Support services | 1,005,422 | - | (1,005,422) |
| Total governmental activities | $ 1,837,561 | $ 480,362 | (1,357,199) |
| General Revenues | | | |
| State sources | | | 1,001,049 |
| Investment earnings | | | 26 |
| Change in Net Position | | | (356,124) |
| Net Position, Beginning of Year | | | 507,410 |
| Net Position, End of Year | | | $ 151,286 |

| | General Fund |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 141,520 |
| Accounts receivable | 71,255 |
| Prepaid expenses | 10,000 |
| Total assets | 222,775 |
| **Liabilities** | |
| Accounts payable | 10,473 |
| Advanced revenue | 25,865 |
| Total liabilities | 36,338 |
| **Fund Balance** | |
| Nonspendable | 10,000 |
| Unassigned | 176,437 |
| Total fund balances | $ 186,437 |

| | | |
|---|---|---|
| Total fund balance - total governmental funds | $ | 186,437 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. These assets consist of the following: | | |
| Cost of capital assets | | 301,351 |
| Accumulated depreciation | | (50,848) |
| Deferred outflows of resources related to pension accruals not reported in the funds. | | 52,947 |
| Long-term liabilities, applicable to governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of the following: | | |
| Long-term debt | | (58,885) |
| Net pension liability | | (214,382) |
| Deferred inflows of resources related to pension accruals not reported in the funds. | | (65,334) |
| Total net position of governmental activities | $ | 151,286 |

| | General Fund |
|---|---|
| **Revenues** | |
| State apportionment | $ 1,001,049 |
| Grants and contributions | 480,362 |
| Investment earnings | 26 |
| Total revenues | 1,481,437 |
| **Expenditures** | |
| Instructional | |
| Basic education | 462,043 |
| Special education | 116,536 |
| Title I and IV | 22,144 |
| Learning assistance | 30,077 |
| Other | 19,926 |
| Total instructional | 650,726 |
| Support Services | |
| Administration | 476,454 |
| Buildings and maintenance | 225,692 |
| Food services | 114,131 |
| Transportation | 11,493 |
| Information systems | 25,893 |
| Health services | 55,107 |
| Capital outlay | 120,513 |
| Debt service payments | 17,636 |
| Total support services | 1,046,919 |
| Total expenditures | 1,697,645 |
| Deficiency of Revenues over Expenditures | (216,208) |
| **Other Financing Sources** | |
| Debt issuance | 75,021 |
| Net Change in Fund Balances | (141,187) |
| Fund Balance, Beginning of Year | 327,624 |
| Fund Balance, End of Year | $ 186,437 |

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (141,187) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | |
| Capital outlay | 120,513 |
| Depreciation expense | (49,796) |
| Repayment of principal on long-term debt is an expenditure in the governmental funds but reduces the liability in the statement of net position. | 16,136 |
| Debt issuance proceeds provide current financial resources to governmental funds, but increases long-term liabilities in the statement of net position. | (75,021) |
| Pension expense related to changes in the deferred outflows, net pension liability, and deferred inflows. | (226,769) |
| Change in Net Position of Governmental Activities | $ (356,124) |

## Note 1 - Summary of Significant Accounting Policies

### Entity and Charter

Innovation Schools dba Willow Public Schools (the School) is organized as a nonprofit corporation providing public charter school educational services as authorized by Section 392 of Washington Code.

Washington Code requires charter schools to comply with the same government reporting requirements imposed on traditional public school districts, i.e. – on a governmental, rather than nonprofit, basis of accounting. Additionally, enabling legislation creates charter schools as public entities, i.e. – as public schools, subject to provisions common with other governmental entities as set forth in Washington Code. Accordingly, the School's basis of presentation follows the governmental, rather than nonprofit, reporting model.

### Financial Reporting Entity

The accompanying financial statements present the activities of the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are volunteers and have decision-making authority, the power to designate management, the ability to significantly influence operation, and the primary accountability for fiscal matters. In addition, the School's reporting entity does not contain any component units.

### Basis of Presentation

The School follows Governmental Accounting Standards Board (GASB) in determining the reporting entity and component units. The financial reporting entity consists solely of the primary government. Accordingly, the financial statements include all funds, and agencies of the primary government whose budgets are controlled or whose boards are appointed by the School's Board of Directors.

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the financial activities of the School. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities.

- Direct expenses - those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

- Indirect expenses - expenses of the general government related to the administration and support of the School's programs, such as personnel and accounting, are allocated to programs based on their percentage of total primary government expenses.

- Program revenues - include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and state formula aid, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The School only maintains a General Fund.

- General Fund: This is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

**Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues.

**Revenues**

Entitlements and shared revenues (which include state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier, if the susceptible to accrual criterial are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria has been met.

Other receipts become measurable and available when cash is received by the School and are recognized as revenue at that time.

**Fund Balances of Fund Financial Statements**

Fund balances of the governmental funds are classified as follows:

- Nonspendable fund balance – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

- Restricted fund balance – amounts that can be spent only for specific purposes because of the sponsoring organization, state or federal laws or externally imposed conditions by grantors or creditors.

- Committed fund balance – amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.

- Assigned fund balance – amounts the School intends to use for a specified purpose. Intent can be expressed by the Board of Directors or by a principal if the Board of Directors delegates the authority.

- Unassigned fund balance – amounts that are available for any purpose.

There is no formal policy regarding the use of fund balances, as the School has only maintained unassigned funds historically. However, moving forward it is the School’s intent that when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available, the School’s intent is to apply restricted fund balance first. When an expenditure is incurred for purposes for which restricted, committed, assigned, and unassigned fund balances are available, the School’s intent is to apply restricted fund balance, then committed fund balance, then assigned fund balance, and then unassigned fund balances.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

**Prepaid Expenses**

Prepaid balances are for payments made by the School in the current year for rent occurring in the subsequent year, and the reserve for these balances has been recorded to signify that a portion of the fund balance is not available for other subsequent expenditures.

**Capital Assets**

Capital assets are stated at cost when purchased or constructed, or if donated, at the estimated acquisition value at the date of the gift. The School's capitalization policy includes all items with a unit cost of $2,500 or more and an estimated useful life of greater than one year. Renovations and improvements to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

**Accounts Payable**

Accounts payable represent operating liabilities that will be paid in the next billing cycle.

**Advanced Revenue**

Advanced revenue represents funds collected from the state prior to any expense being incurred, and therefore revenue recognized.

**Pensions**

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the various pension plans and additions to/deducted from the fiduciary net position have been determined on the same basis as they are reported by the Base Plans. For this purpose, 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.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Income Taxes**

The School is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. Accordingly, no provision for income taxes is made in the financial statements.

**Uncertain Tax Positions**

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the School may recognize tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2019. The School files a Form 990 in the U.S. federal jurisdiction.

## Note 2 - Deposits and Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of August 31, 2019, the carrying amount of the School's deposits was $141,520, and the respective bank balances totaled $282,410. Of the total bank balance, $250,000 was covered by federal depository insurance, leaving $32,410 uninsured, uncollateralized, and exposed to custodial credit risk. The School does not have a formal policy limiting its exposure to custodial credit risk.

## Note 3 - Capital Assets

Capital asset activity for the year ended August 31, 2019 is as follows:

| Governmental Activities | Balance August 31, 2018 | Additions | Transfers | Balance August 31, 2019 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Construction in process | $ 66,136 | $ - | $ (66,136) | $ - |
| Capital assets, being depreciated | | | | |
| Leasehold Improvements | - | 108,438 | 66,136 | 174,574 |
| Computer equipment | 95,097 | - | - | 95,097 |
| Furniture and fixtures | 19,605 | - | - | 19,605 |
| Curriculum | - | 12,075 | - | 12,075 |
| | 114,702 | 120,513 | 66,136 | 301,351 |
| Less accumulated depreciation | (1,052) | (49,796) | - | (50,848) |
| | 113,650 | 70,717 | 66,136 | 250,503 |
| Total capital assets, net | $ 179,786 | $ 70,717 | $ - | $ 250,503 |

Depreciation expense totaled $18,939 and $30,857 charged to instruction and support services, respectively, for the year ended August 31, 2019.

## Note 4 - Long-Term Debt

Long-term debt activity for the year ended August 31, 2019 is as follows:

| | Restated Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Note payable to WA Charter School Development payable in monthly installments of $2,478, including interest at 3.50% through November 2021, unsecured | $ - | $ 75,021 | $ (16,136) | $ 58,885 | $ 25,696 |

Future payments on long-term debt are as follows:

| Years Ended August 31, | | |
|---|---|---|
| 2020 | $ | 25,696 |
| 2021 | | 28,981 |
| 2022 | | 4,208 |
| | $ | 58,885 |

## Note 5 - Pension Plans

### General Information

The Legislature has established various pension plans for employees in Washington State. These plans include:

- Public Employees' Retirement System (PERS) – established in chapters 41.34 and 41.40 RCW
- School Employee's Retirement System (SERS) – established in chapters 41.34 and 41.35 RCW
- Teachers' Retirement System (TRS) – established in chapters 41.32 and 41.34 RCW

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.

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of pension plans administered by DRS and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the plans.

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/administration/annual-report/default.htm.

### Administration

Substantially all the School's full-time and qualifying part-time employees participate in TRS or SERS, which are contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State DRS. While the School does not have any members who participate in PERS, the School is allocated a proportionate share of liability for the plans as required by the Legislature.

*PERS*

PERS is composed of and reported as 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. The School does not have any members or share of liability in plans 2/3 and 3.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated as 2% times the member's Average Final Compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit 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.

PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from inactive status before the age of 65 may also receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional Cost-of-Living Adjustment (COLA), and a duty-related death benefit, if the Washington State Department of Labor & Industries determines the member eligible.

*SERS*

SERS is composed 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.

Although employees can be a member of only 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 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. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

SERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits for Plan 2 are calculated as 2% times the member's AFC times the member's years of service for Plan 2. Retirement benefits for Plan 3 are calculated using 1% times the member's AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months.

Members are eligible for retirement with a full benefit at age 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 Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen.

Other SERS Plan 2/3 benefits include duty and nonduty disability payments; a COLA based on the Consumer Price Index, capped at 3% annually; and a duty-related death benefit, if the Washington State Department of Labor & Industries determines the member eligible.

*TRS*

TRS is a cost-sharing, multiple employer retirement system composed 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 is composed 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 be a member of only 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 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 the terms of the plans define. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated using 2% of the member's AFC times the member's years of service up to a maximum of 60%. AFC is the average of the member's 24 consecutive highest-paid service credit months.

Members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service or at age 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional COLA, and a one-time, duty-related death benefit, if the Washington State Department of Labor & Industries finds the member eligible.

**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 employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS, respectively.

Employee contribution rates, expressed as a percentage of payroll covered for 2019 were as follows:

| Plan | Rate |
|---|---|
| PERS 1 | 6.00% |
| SERS 2 | 7.27% |
| SERS 3 | Varies* |
| TRS 1 | 6.00% |
| TRS 2 | 7.06% |
| TRS 3 | Varies* |

*Varies from 5% to 15% based on rate selected by the member.

Employer contribution rates, expressed as a percentage of payroll covered for 2019 were as follows:

| Plan | Rate |
|---|---|
| PERS 1 | 12.83% |
| SERS 2/3 | 13.58% |
| TRS 1 | 15.41% |
| TRS 2/3 | 15.41% |

Note: The DRS administrative rate of 0.18% is included.

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars:

| Plan | Contributions |
|---|---|
| PERS 1 | $ 12,051 |
| SERS 2/3 | 19,452 |
| TRS 1 | 20,454 |
| TRS 2/3 | 21,666 |

**Collective Net Pension Liability**

The collective net pension liabilities for the pension plans the School participated in are reported in the following tables. Net pension liability as of June 30, 2019:

| | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| Total pension liability | $ 11,696,634,000 | $ 6,352,843,000 | $ 8,355,496,000 | $ 16,545,194,000 |
| Plan fiduciary net position | (7,851,279,000) | (6,118,345,000) | (5,879,693,000) | (15,942,660,000) |
| Participating employers' net pension liability | 3,845,355,000 | 234,498,000 | 2,475,803,000 | 602,534,000 |
| Plan fiduciary net position as a percentage of the total pension liability | 67.1% | 96.3% | 70.4% | 96.4% |

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

At August 31, 2019, the School reported a total liability of $214,382 for its proportionate shares of the individual plans' collective net pension liability. The School's proportionate share of the collective net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans.

At August 31, 2019, the School's proportionate share of each plan's net pension liability is reported below:

| | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| Proportionate share of Net | 0.001681% | 0.009718% | 0.004119% | 0.004145% |
| Pension Liability | $ 64,640 | $ 22,789 | $ 101,978 | $ 24,975 |

The School did not have a proportionate share as of August 31, 2018, as they were not yet part of the pension system.

**Actuarial Assumptions**

Capital Market Assumptions (CMAs) and expected rates of return by asset class are 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 PERS 1, SERS 2/3, TRS 1, and TRS 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 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 Office of the State Actuary (OSA) selected a 7.50 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns the WSIB provided. See the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional Notes to the Financial Statements information on how this assumption was selected.

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:

| 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.

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of Resources related to the individual plans. At August 31, 2019, the School reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ - | $ 4,319 |
| | $ - | $ 4,319 |

| SERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experiences | $ 14,339 | $ - |
| Net difference between projected and actual earnings on pension plan investments | - | 19,352 |
| Changes in assumptions or other inputs | 698 | 4,840 |
| Contributions subsequent to the measurement date | 3,223 | - |
| | $ 18,260 | $ 24,192 |

| TRS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ - | $ 7,821 |

| TRS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experiences | $ 17,366 | $ 804 |
| Net difference between projected and actual earnings on pension plan investments | - | 21,562 |
| Changes in assumptions or other inputs | 9,415 | 6,636 |
| Contributions subsequent to the measurement date | 7,906 | - |
| | $ 34,687 | $ 29,002 |

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:

| Years ended August 31 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|---|---|---|---|
| 2020 | $ (953) | $ (2,770) | $ (1,605) | $ (3,176) |
| 2021 | (2,258) | (6,785) | (4,199) | (7,881) |
| 2022 | (806) | (1,344) | (1,476) | (1,711) |
| 2023 | (302) | (123) | (541) | 510 |
| 2024 | - | 1,517 | - | 2,328 |
| Thereafter | - | 350 | - | 7,709 |

**Pension Expense**

The School recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the School's proportionate share of the collective net pension liability. For the year ending August 31, 2019, the School recognized a total pension expense as follows:

| | |
|---|---|
| PERS 1 | $ 68,959 |
| SERS 2/3 | 28,721 |
| TRS 1 | 109,799 |
| TRS 2/3 | 19,290 |
| Total | $ 226,769 |

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

The table below presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.40%, 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%) or one percentage point higher (8.40%) than the current rate. Amounts are calculated by plan using the School's allocation percentage.

| | 1% Decrease (6.40%) | Current Discount Rate (7.40%) | 1% Increase (8.40%) |
|---|---|---|---|
| PERS 1 Net Pension Liability | $ 80,950 | $ 64,640 | $ 50,489 |
| SERS 2/3 Net Pension Liability | $ 110,968 | $ 22,789 | $ (49,924) |
| TRS 1 Net Pension Liability | $ 130,340 | $ 101,978 | $ 77,377 |
| TRS 2/3 Net Pension Liability | $ 136,111 | $ 24,975 | $ (65,386) |

Historical trend information showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2019 comprehensive annual financial report (CAFR). Refer to this report for detailed trend information. It is available at http://www.drs.wa.gov/administration/annual-report/ or from:

State of Washington Office of Financial Management
300 Insurance Building
PO Box 43113
Olympia, WA 98504-3113

## Note 6 - Concentrations

The School's principal source of support is state based support revenue. For the year ended August 31, 2019, this funding source accounted for approximately 68% of all revenues.

## Note 7 - Operating Leases

The School rents the primary location under an operating lease expiring in 2021, with two additional two year term renewal options. The expense for this operating lease was $108,000 for fiscal year 2019. As of August 31, 2019, future minimum operating lease commitments are as follows:

| Years Ended August 31, | |
|---|---|
| 2020 | $ 110,000 |
| 2021 | 100,000 |
| | $ 210,000 |

Required Supplementary Information
August 31, 2019

# Innovation Schools dba Willow Public Schools

| | Budget Original and Final | Actual | Variance |
|---|---|---|---|
| Revenues | | | |
| State apportionment | $ 1,308,445 | $ 1,001,049 | $ (307,396) |
| Grants and contributions | 803,758 | 480,362 | (323,396) |
| Charges for services | - | - | - |
| Investment earnings | - | 26 | 26 |
| Total revenues | 2,112,203 | 1,481,437 | (630,766) |
| Expenditures | | | |
| Instructional | | | |
| Basic education | 675,754 | 462,043 | (213,711) |
| Special education | 170,675 | 116,536 | (54,139) |
| Title I and IV | 26,675 | 22,144 | (4,531) |
| Learning assistance | 47,781 | 30,077 | (17,704) |
| Other | 26,700 | 19,926 | (6,774) |
| Total instructional | 947,585 | 650,726 | (296,859) |
| Support Services | | | |
| Administration | 372,896 | 476,454 | 103,558 |
| Buildings and maintenance | 198,190 | 225,692 | 27,502 |
| Food services | 207,228 | 114,131 | (93,097) |
| Transportation | 14,400 | 11,493 | (2,907) |
| Information systems | 3,600 | 25,893 | 22,293 |
| Other | 31,000 | 55,107 | 24,107 |
| Capital outlay | 500,000 | 120,513 | (379,487) |
| Debt service payments | - | 17,636 | 17,636 |
| Total support services | 1,327,314 | 1,046,919 | (280,395) |
| Total expenditures | 2,274,899 | 1,697,645 | (577,254) |
| Other Financing Sources | | | |
| Debt issuance | - | 75,021 | 75,021 |
| Net Change in Fund Balances | $ (162,696) | $ (141,187) | $ 21,509 |

| | | 2019 |
|---|---|---|
| **PERS 1** | | |
| Employer's proportionate share of the net pension liability | | 0.001681% |
| Employer's proportion share of the net pension liability | $ | 64,640 |
| Employer's covered payroll | $ | - |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | | 67.1% |
| **SERS 2/3** | | |
| Employer's proportionate share of the net pension liability | | 0.009718% |
| Employer's proportion share of the net pension liability | $ | 22,789 |
| Employer's covered payroll | $ | 259,945 |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | | 8.8% |
| Plan fiduciary net position as a percentage of the total pension liability | | 96.3% |
| **TRS 1** | | |
| Employer's proportionate share of the net pension liability | | 0.004119% |
| Employer's proportion share of the net pension liability | $ | 101,978 |
| Employer's covered payroll | $ | - |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | | 70.4% |
| **TRS 2/3** | | |
| Employer's proportionate share of the net pension liability | | 0.004145% |
| Employer's proportion share of the net pension liability | $ | 24,975 |
| Employer's covered payroll | $ | 294,904 |
| Employer's proportional share of the net pension liability as a percentage of its covered payroll | | 8.5% |
| Plan fiduciary net position as a percentage of the total pension liability | | 96.4% |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Innovation Schools dba Willow Public Schools will present information for those use for which information is available.

Data reported is measured as of June 30 (measurement date).

| | | 2019 |
|---|---|---|
| PERS 1 | | |
| Statutorily required contribution | $ | 12,051 |
| Contributions in relation to the statutorily required contribution | $ | 12,051 |
| Contribution (deficiency) excess | $ | - |
| Employer's covered payroll | $ | - |
| Contributions as a percentage of the covered payroll | | N/A |
| SERS 2/3 | | |
| Statutorily required contribution | $ | 22,675 |
| Contributions in relation to the statutorily required contribution | $ | 22,675 |
| Contribution (deficiency) excess | $ | - |
| Employer's covered payroll | $ | 283,678 |
| Contributions as a percentage of the covered payroll | | 7.99% |
| TRS 1 | | |
| Statutorily required contribution | $ | 20,454 |
| Contributions in relation to the statutorily required contribution | $ | 20,454 |
| Contribution (deficiency) excess | $ | - |
| Employer's covered payroll | $ | - |
| Contributions as a percentage of the covered payroll | | N/A |
| TRS 2/3 | | |
| Statutorily required contribution | $ | 29,572 |
| Contributions in relation to the statutorily required contribution | $ | 29,572 |
| Contribution (deficiency) excess | $ | - |
| Employer's covered payroll | $ | 346,216 |
| Contributions as a percentage of the covered payroll | | 8.54% |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Innovation Schools dba Willow Public Schools will present information for those use for which information is available.

Data reported is measured as of August 31 (report date).

*Government Auditing Standards* Information
August 31, 2019

# Innovation Schools dba Willow Public Schools

EideBailly

CPAs & BUSINESS ADVISORS

**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***

To the Board of Directors
Innovation Schools dba Willow Public Schools
Walla Walla, 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 the governmental activities and the general fund of Innovation Schools dba Willow Public Schools (the School) as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated March 31, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency. See finding at 2019-01.

**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its 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*.

**The School's Response to Findings**
The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Spokane, Washington
March 31, 2020

**Significant Deficiency**

**2019-01 Preparation of Financial Statements**

**Criteria** – A complete system of internal control contemplates an adequate system for reporting and reviewing the annual financial statements in accordance with generally accepted accounting principles.

**Condition** – While management and the Board of Directors review the fund level financial statements on a monthly basis, there is not currently a process in place to prepare and review the annual financial statements in accordance with generally accepted accounting principles, including note disclosures, in a timely manner. As auditors, we were asked to draft the financial statements and related footnotes.

**Cause** – Due to cost and time constraints and the limited size of staff, the School has requested that the auditors draft the financial statements and related footnotes.

**Effect** – The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

**Recommendation** – This circumstance is not unusual in an entity of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost, time, and other considerations.

**Views of Responsible Officials –** Management has outsourced accounting processing and reporting to a local, governmental organization that provides both experienced transactional and leadership support. This entity provides monthly financial statements, which are reviewed by the board, annual budget documents, and state level compliance reporting (which is also reviewed by the board). School employee turnover and software changes at this entity created some challenges around report timing in 2018-19. Management has tightened controls around timeliness to address this issue and plans to additional review-level controls as well.