



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Arlington School District No. 16

For the period September 1, 2019 through August 31, 2020

Published May 24, 2021

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

May 24, 2021

Superintendent and Board of Directors
Arlington School District No. 16
Arlington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Arlington School District No. 16'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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Arlington School District No. 16 September 1, 2019 through August 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Arlington School District No. 16 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 reported no 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 no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	COVID-19 – Child Nutrition Cluster – Summer Food Service Program for Children
84.425D	COVID-19 – Education Stabilization Fund

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

None reported.

INDEPENDENT AUDITOR'S REPORT

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*

Arlington School District No. 16 September 1, 2019 through August 31, 2020

Superintendent and Board of Directors
Arlington School District No. 16
Arlington, 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 Arlington School District No. 16, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 19, 2021.

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 4 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

May 19, 2021

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Arlington School District No. 16 September 1, 2019 through August 31, 2020

Superintendent and Board of Directors
Arlington School District No. 16
Arlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Arlington School District No. 16, 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, 2020. 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, 2020.

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

that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 19, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Arlington School District No. 16 September 1, 2019 through August 31, 2020

Superintendent and Board of Directors
Arlington School District No. 16
Arlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Arlington School District No. 16, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 16.

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 Arlington School District No. 16, as of August 31, 2020, 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 Arlington School District No. 16, as of August 31, 2020, 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 4 to the 2020 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the District is unknown. 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 also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021 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 19, 2021

FINANCIAL SECTION

Arlington School District No. 16 September 1, 2019 through August 31, 2020

FINANCIAL STATEMENTS

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Schedule of Long-Term Liabilities – 2020
Schedule of Expenditures of Federal Awards – 2020
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Arlington School District No. 016
Balance Sheet - Governmental Funds

August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Assets							
Cash and Cash Equivalents	2,370,499.93	14,981.24	20,975.83	7,609.86	0.70	0.00	2,414,067.56
Minus Warrants Outstanding	-1,295,294.05	-2,703.00	0.00	-2,820.04	0.00	0.00	-1,300,817.09
Taxes Receivable	3,736,456.73		2,562,110.03	0.00	0.00	0.00	6,298,566.76
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	729,355.75	0.00	0.00	0.00	0.00	0.00	729,355.75
Accounts Receivable	24,995.00	320.00	0.00	0.00	0.00	0.00	25,315.00
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	61,559.34	0.00		0.00			61,559.34
Prepaid Items	15,502.35	0.00			0.00	0.00	15,502.35
Investments	13,491,789.97	800,766.04	6,440,501.87	17,001,026.54	705,754.36	0.00	38,439,838.78
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	0.00
Self-Insurance Security Deposit	0.00					0.00	0.00
TOTAL ASSETS	19,134,865.02	813,364.28	9,023,587.73	17,005,816.36	705,755.06	0.00	46,683,388.45
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00	0.00	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 OUTFLOWS OF RESOURCES	19,134,865.02	813,364.28	9,023,587.73	17,005,816.36	705,755.06	0.00	46,683,388.45
LIABILITIES							
Accounts Payable	613,874.98	42,961.73	0.00	1,062,887.84	167,545.82	0.00	1,887,270.37
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00

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

Arlington School District No. 016
Balance Sheet - Governmental Funds

August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Accrued Salaries	91,830.53	0.00	0.00	0.00	0.00		91,830.53
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
LIABILITIES:							
Payroll Deductions and Taxes Payable	1,906,883.51	0.00	0.00	0.00			1,906,883.51
Due To Other Governmental Units	729.51	0.00	0.00	0.00	0.00	0.00	729.51
Deferred Compensation Payable	0.00		0.00	0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Payable	0.00	0.00	0.00	0.00	0.00		0.00
Deposits	0.00	0.00	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	2,613,318.53	42,961.73	0.00	1,062,887.84	167,545.82	0.00	3,886,713.92
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue	63,100.17	0.00	0.00	0.00	0.00	0.00	63,100.17
Unavailable Revenue - Taxes Receivable	3,736,456.73		2,562,110.03	0.00	0.00		6,298,566.76
TOTAL DEFERRED INFLOWS OF RESOURCES	3,799,556.90	0.00	2,562,110.03	0.00	0.00	0.00	6,361,666.93
FUND BALANCE:							
Nonspendable Fund Balance	77,061.69	0.00	0.00	0.00	0.00	0.00	77,061.69
Restricted Fund Balance	101,712.96	770,402.55	6,461,477.70	14,627,357.44	538,209.24	0.00	22,499,159.89
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	1,664,755.00	0.00	0.00	1,315,571.08	0.00	0.00	2,980,326.08

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

Arlington School District No. 016
Balance Sheet - Governmental Funds

August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Unassigned Fund Balance	10,878,459.94	0.00	0.00	0.00	0.00	0.00	10,878,459.94
TOTAL FUND BALANCE	12,721,989.59	770,402.55	6,461,477.70	15,942,928.52	538,209.24	0.00	36,435,007.60
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	19,134,865.02	813,364.28	9,023,587.73	17,005,816.36	705,755.06	0.00	46,683,388.45

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

Arlington School District No. 016

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

For the Year Ended August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	8,642,648.03	634,744.90	5,764,968.92	236,213.77	10,044.50		15,288,620.12
State	70,151,437.30		78,709.76	0.00	294,660.28		70,524,807.34
Federal	3,673,770.43		0.00	0.00	0.00		3,673,770.43
Other	35,602.55			0.00	0.00	0.00	35,602.55
TOTAL REVENUES	82,503,458.31	634,744.90	5,843,678.68	236,213.77	304,704.78	0.00	89,522,800.44
EXPENDITURES:							
CURRENT:							
Regular Instruction	48,220,245.15						48,220,245.15
Special Education	12,395,150.31						12,395,150.31
Vocational Education	3,314,122.67						3,314,122.67
Skill Center	0.00						0.00
Compensatory Programs	2,446,471.54						2,446,471.54
Other Instructional Programs	411,423.59						411,423.59
Community Services	1,385,674.95						1,385,674.95
Support Services	13,603,226.15						13,603,226.15
Student Activities/Other		587,591.42				0.00	587,591.42
CAPITAL OUTLAY:							
Sites				201,861.72			201,861.72
Building				677,594.71			677,594.71
Equipment				345,160.94			345,160.94
Instructional Technology				0.00			0.00
Energy				19,845.00			19,845.00
Transportation Equipment					883,503.77		883,503.77
Sales and Lease				0.00			0.00
Other	165,717.35						165,717.35
DEBT SERVICE:							
Principal	0.00		5,335,375.56	0.00	0.00		5,335,375.56
Interest and Other Charges	0.00		347,561.14	0.00	0.00		347,561.14

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

Arlington School District No. 016

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

For the Year Ended August 31, 2020

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Bond/Levy Issuance				65,500.00	0.00		65,500.00
TOTAL EXPENDITURES	81,942,031.71	587,591.42	5,682,936.70	1,309,962.37	883,503.77	0.00	90,406,025.97
REVENUES OVER (UNDER) EXPENDITURES	561,426.60	47,153.48	160,741.98	-1,073,748.60	-578,798.99	0.00	-883,225.53
OTHER FINANCING SOURCES (USES) :							0.00
Bond Sales & Refunding Bond Sales	0.00		0.00	15,575,000.00	0.00		15,575,000.00
Long-Term Financing	0.00						
Transfers In	0.00		116,132.87	0.00	0.00		0.00
Transfers Out (GL 536)	-250,000.00		0.00	0.00	-116,132.87	0.00	-366,132.87
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	7,297.41	11,554.34		18,851.75
TOTAL OTHER FINANCING SOURCES (USES)	-250,000.00		116,132.87	15,582,297.41	145,421.47	0.00	15,593,851.75
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	311,426.60	47,153.48	276,874.85	14,508,548.81	-433,377.52	0.00	14,710,626.22
BEGINNING TOTAL FUND BALANCE	12,410,562.99	723,249.07	6,184,602.85	1,434,379.71	971,586.76	0.00	21,724,381.38
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	12,721,989.59	770,402.55	6,461,477.70	15,942,928.52	538,209.24	0.00	36,435,007.60

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

Arlington School District No. 016
Statement of Fiduciary Net Position
August 31, 2020

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	1,100.00	0.00
Cash On Deposit with Cty Treas	1,199.42	0.00
Minus Warrants Outstanding	-1,190.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	9,897.36	0.00
Investments	2,559,306.36	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	2,570,313.14	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	2,500,458.00	0.00
Held In Trust For Private Purposes	69,855.14	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	2,570,313.14	0.00

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

Arlington School District No. 016
Statement of Changes in Fiduciary Net Position
For the Year Ended August 31, 2020

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	7,010.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	7,010.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value		
Interest and Dividends	0.00	0.00
Less Investment Expenses	40,773.30	0.00
Net Investment Income	0.00	0.00
Net Investment Income	40,773.30	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	47,783.30	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	61,450.92	
Other	0.00	0.00
TOTAL DEDUCTIONS	61,450.92	0.00
Net Increase (Decrease)	-13,667.62	0.00
Net Position--Prior Year August Beginning	2,583,980.76	0.00
Prior Year F-196 Manual Revision		
Net Position - Total	0.00	0.00
Net Position - Total	2,583,980.76	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	2,570,313.14	0.00

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

Arlington Public Schools
Notes to the Financial Statements
September 1, 2019 through August 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

Fiduciary Funds

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

Private-Purpose Trust Fund

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

Pension (and Other Employee Benefit) Trust Fund

This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans.

Agency Funds

These funds are used to account for assets that the District holds on behalf of others in a purely custodial capacity.

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

NOTE 2: DEPOSITS AND INVESTMENTS

All of the District's bank balances are insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Statutes authorize the District to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

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).

The district's participation in the Snohomish County Investment Pool (SCIP) is voluntary and the pool does not have a credit rating. The district reports its investment in the pool at the fair value amount, which is the same as the value of the pool per share. The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains an average maturity of greater than 90 days.

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, 2020, are as follows:

Type of Investment	District Investments reported in Governmental Funds	Private Purpose Trust Fund Investments	Total
State Treasurer's Investment Pool (LGIP)	\$38,439,838.78	\$1,522,285.10	\$39,962,123.88
Snohomish County Treasurer's Investment Pool (SCIP)		1,037,021.26	1,037,021.26
Total	\$38,439,838.78	\$2,559,306.36	\$40,999,145.14

The District is a participant in the Washington State Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the LGIP and adopts rules. The State Treasurer is responsible for establishing the investment policy for the LGIP and reviews the policy annually; proposed changes are reviewed by the LGIP Advisory Committee.

The LGIP is an unrated external investment pool. Investments in the Pool are reported at amortized cost, which approximates fair value. The Pool is invested in manner that meets the maturity, quality, diversification and liquidity requirements set forth by generally accepted accounting principles for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The Pool does not have any legally binding guarantees of share values.

The Pool does not impose liquidity fees or redemption gates on participant withdrawals. It is the policy of the Pool to permit participants to withdraw their investments on a daily basis; therefore, the District's investment balance in the Pool is equal to fair value. Fair value is measured using quoted prices in active markets for identical assets that the pool can access at the measurement date (Level 1 Inputs). Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

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

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Arbitrage Rebate

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the District's seven bond issue(s) after September 1, 1986, currently totaling \$24,731,874 million as of August 31. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals. Because of the uncertainty of having to make this payment, the District is contingently liable for arbitrage rebate currently computed to total \$0 as of August 31, 2020.

NOTE 4: SIGNIFICANT EFFECTS OF 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 included closing schools, canceling public events, limiting gathering sizes, and requiring people to stay home unless they were 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, continued to operate, educating students using continuous learning models.

Many of the precautionary measures put in place during the 2019–20 school year remain in effect; and are affecting the district for the 2020–21 school year in new ways.

The district is using a distance learning model along with a hybrid model for the 2020–21 school year. The hybrid model involves minimizing the number of students on campus to allow social distancing. This is accomplished by separating students into A and B schedules. The District utilized a phased approach for bringing students back for in-person instruction in the hybrid model. Kindergarten through first grade learners were able to attend school in a hybrid model beginning in October 2020, while the rest of the grades were in a distance learning model since the start of the school year. Students identified with special needs, English language learners, and some others are also receiving in person services. Those not able to access school remotely due to lack of connectivity have been provided access on campus through connectivity stations. There is extremely limited on-campus activity, and many of the district's support staff including para-educators, custodial support, and bus drivers have been furloughed or had their hours reduced. The District brought additional students back for hybrid model learning with second and third grade beginning mid-January and fourth and fifth grade students beginning mid-February. The phased approach continues with middle school level students returning to in-person instruction in a hybrid model early March and high school level beginning late March. The decisions and timelines have been based on health metrics and other pandemic related variables, and have been continually adjusted considering recommendations made by the Snohomish County Health District, in collaboration with labor groups, and per Board approval.

The pandemic has caused an 8% decrease in Arlington's student enrollment during the 2020–2021 school year. This along with challenges in the State's transportation funding model for schools, results in as much as an eight million dollar decrease in State funding. The district has taken pre-emptive cost savings measures such as not replacing certain staff vacancies, and reductions in hours, where possible. The district has also experienced moderate operational cost decreases from the limited on-campus learning restrictions.

Due to the COVID-19 pandemic, the district has experienced an unanticipated increase in unemployment costs as a result of increased claim activity in the Unemployment Compensation Pool Cooperative (the Cooperative). The Cooperative is a risk sharing pool. Specific cost increases for either the Cooperative or district are not fully identifiable at this time. However, unemployment compensation costs are estimated to increase over \$600,000 during the 2020–2021 school year.

Other areas of significant cost increase associated with the pandemic include the cost of personal protective equipment (PPE), equipment for health screening and air quality, costs of unique software and technology hardware required for distance learning, costs of providing connectivity for students who need it, additional staff resources and increased employee benefit leave costs.

Due to the closure of facilities, the district expects facility rental and Associated Student Body (ASB) fund revenues to decrease an estimated one million dollars during the 2020–2021 school year. Athletic programs have not been able to have their regular practices or competitive seasons, and other extra-curricular activities that are a vital part of student life and culture of a thriving learning environment, have been severely limited.

The length of time these measures will be in place, the full extent of the financial impact on the school district, and more importantly, the longer term social implications for students and lost learning opportunities, are unknown at this time.

NOTE 5: PENSION PLANS

General Information

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

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability. The DRS total collective net pension liabilities for the pension plans school districts participate in are shown here.

The Collective Net Pension Liability

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

The Collective Net Pension Liability as of June 30, 2020				
	Total Pension Liability	Plan fiduciary net position	Participating employers' net pension liability	Plan fiduciary net position as a percentage of the total pension liability
PERS 1	\$11,256,796,000	\$7,726,256,000	\$3,530,540,000	68.64%
SERS 2/3	\$7,043,384,000	\$6,511,420,000	\$531,964,000	92.45%
TRS 1	\$8,179,362,000	\$5,770,576,000	\$2,408,786,000	70.55%
TRS 2/3	\$18,559,021,000	\$17,023,040,000	\$1,535,981,000	91.72%

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 [Annual Financial Reports](#) or <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, 2020, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	44,359	310	1,181
SERS 2	11,112	6,274	28,943
SERS 3	11,200	9,064	36,772
TRS 1	31,777	92	263
TRS 2	6,201	2,808	22,980
TRS 3	15,316	8,279	56,593

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 Plan Information

TRS was established in 1938, and its retirement provisions are contained in RCW Chapters 41.34 and 41.32. TRS is a cost-sharing multi-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 Information

PERS was established in 1947, and its retirement benefit provisions are contained in RCW Chapters 41.34 and 41.40. PERS is a cost-sharing, multi-employer retirement system. 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 Plan Information

SERS was established by the legislature in 1998, and the plan became effective in 2000. SERS retirement benefit provisions are established in RCW Chapters 41.34 and 41.35. SERS is a cost-sharing, multiemployer 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. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The employer and employee contribution rates for the PERS plan were effective as of July 1, 2019. SERS and TRS contribution rates are effective as of September 1, 2019. All plans will not have a contribution rate change until September 1, 2020. The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2020 are listed below:

Pension Contribution Rates from September 1, 2019 to August 31, 2020			
	Employer	Employee	
PERS Plan 1	12.86%	6.00%	
TRS Plan 1	15.51%	6.00%	
TRS Plan 2/3	15.51%	7.77%	*/**
SERS Plan 2/3	13.19%	8.25%	*/**
<i>Note: The Employer rates include .0018 DRS administrative expense.</i>			
* – TRS and SERS Plan 3 Employee Contribution Variable from 5% to 15% based on rate selected by the employee member.			
** – TRS and SERS Plan 2/3 Employer Contributions for defined benefit portion only.			

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

At June 30, 2020, the school district reported a total liability of \$25,663,121 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, 2020, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2020	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$572,652	\$953,447	\$2,732,249	\$3,028,794
Proportionate Share of the Net Pension Liability	\$2,789,626	\$2,345,497	\$12,532,381	\$7,995,617

At June 30, 2020, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Change in Proportionate Shares - Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year share of the Net Pension Liability	0.079014%	0.440913%	0.520278%	0.520554%
Prior year share of the Net Pension Liability	0.075336%	0.429134%	0.511291%	0.513111%
Net difference percentage	0.003679%	0.011778%	0.008987%	0.007443%

Actuarial Assumptions

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, 2019, with the results rolled forward to June 30, 2020, 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 developed using the Society of Actuaries' Pub.H-2010 Mortality rates, which vary by member status as the base table. OSA applies age offsets for each system to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale to project mortality rates for every year after the 2010 base table. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the *2013–2018 Demographic Experience Study Report and the 2019 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

Long-term Expected Rate of Return

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method. In selecting the assumptions, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided.

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 expected future rates of return are developed by the WSIB for each major asset class. 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, 2020, are summarized in the following table:

TRS 1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Percent 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. Based on the assumptions described in the DRS CAFR Certification Letter, 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, a 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 Arlington 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1 NPL	\$4,422,202,000	\$3,530,540,000	\$2,752,919,000
Allocation Percentage	0.079014%	0.079014%	0.079014%
Proportionate Share of NPL	\$3,494,166	\$2,789,626	\$2,175,196
	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
SERS 2/3 NPL	\$1,517,879,000	\$531,964,000	(\$283,583,000)
Allocation Percentage	0.440913%	0.440913%	0.440913%
Proportionate Share of NPL	\$6,692,521	\$2,345,497	(\$1,250,353)
TRS 1 NPL	\$3,051,911,000	\$2,408,786,000	\$1,847,550,000
Allocation Percentage	0.520278%	0.520278%	0.520278%
Proportionate Share of NPL	\$15,878,418	\$12,532,381	\$9,612,394
TRS 2/3 NPL	\$4,526,645,000	\$1,535,981,000	(\$903,643,000)
Allocation Percentage	0.520554%	0.520554%	0.520554%
Proportionate Share of NPL	\$23,563,651	\$7,995,617	(\$4,703,954)

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

The state, through the Health Care Authority (HCA), administers a defined benefit other post-employment benefit (OPEB) plan that is not administered through a qualifying trust. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of retired employee participation and coverage, including establishment of eligibility criteria. Benefits purchased by PEBB include medical, dental, life insurance and long-term disability insurance.

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

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 2020.

Members not eligible for Medicare			
(or enrolled in Part A only)		Type of Coverage	
Descriptions	Employee	Employee & Spouse	Full Family
Kaiser Permanente NW Classic	\$715.66	\$1,426.75	\$1,959.20
Kaiser Permanente NW CDHP	\$608.85	\$1,206.99	\$1,611.85
Kaiser Permanente WA Classic	\$752.15	\$1,499.24	\$2,059.55
Kaiser Permanente WA CDHP	\$610.16	\$1,210.10	\$1,616.32
Kaiser Permanente WA Sound Choice	\$618.49	\$1,231.92	\$1,692.00
Kaiser Permanente WA Value	\$675.71	\$1,346.36	\$1,849.35
UMP Classic	\$679.72	\$1,354.37	\$1,860.37
UMP CDHP	\$608.35	\$1,206.48	\$1,611.34
UMP Plus-Puget Sound High Value Network	\$644.97	\$1,284.88	\$1,764.82
UMP Plus-UW Medicine Accountable Care Network	\$644.97	\$1,284.88	\$1,764.82

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	Type of Coverage		
	Employee	Employee & Spouse ¹	Full Family ¹
Kaiser Permanente NW Senior Advantage	\$173.01	\$342.75	\$875.70
Kaiser Permanente WA Medicare Plan	\$174.55	\$344.04	N/A
Kaiser Permanente WA Classic	N/A	N/A	\$904.36
Kaiser Permanente WA Sound Choice	N/A	N/A	\$804.11
Kaiser Permanente WA Value	N/A	N/A	\$847.03
UMP Classic	\$320.54	\$636.02	\$1,142.01
Note 1: Employee-Spouse and Full Family with two Medicare eligible subscribers.			

Funding Policy

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

The School Employee Benefits Board (SEBB) collects benefit premiums from all school district entities for covered employees. The premium includes a fee, established in state law. 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 PEBB plan. For the fiscal year 2019–20, SEBB was required to collect for the HCA \$69.56 per month per eligible employee to support the program. This amount 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 the [Office of the State Actuary](https://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx) at the following link: <https://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>

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 the [OFM](https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report) website at the following link: <https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report>

NOTE 7: OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of August 31, 2020:

Project	Project Authorization Amount	Expended as of 8/31/20	Additional Local Funds Committed
Presidents Elementary - Gate	\$6,121	\$0	\$6,121
Elementary School Portables & Installation	\$20,920	\$1,035	\$19,885
Kent Prairie – Flooring	\$440,960	\$379,288	\$61,672
District Wide - Security Improvements	\$1,856,465	\$0	\$1,856,465
Construction Management for Capital Levy Projects including Arlington High School	\$217,800	\$18,824	\$198,976
Total	\$2,542,266	\$399,147	\$2,143,119

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2020:

Fund	Amount
General	\$0
ASB Fund	\$0
Capital Projects Fund	\$2,143,119
Transportation Vehicle Fund	\$83,773

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$222,183,360 for fiscal year 2019-20. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 9: LONG-TERM DEBT

Long-Term Debt

The following is a summary of changes in long-term debt of the District for the fiscal year ended August 31, 2020:

Governmental activities	Balance at Sept. 1, 2019	Increases	Decreases	Balance at Aug. 31, 2020	Due within One Year
General Obligation Bonds	14,492,250.00	15,575,000.00	5,335,375.56	24,731,874.44	8,097,991.09
Notes from Direct Borrowing and Placement					
Total	14,492,250.00	15,575,000.00	5,335,375.56	24,731,874.44	8,097,991.09

Long-term debt at August 31, 2020, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation (GO) Bonds					
3/24/2010	9,935,000.00	857,100.00	12/1/2020	2.75-4.0	2,940,000.00
3/15/2017	6,640,000.00	1,436,100.00	12/1/2020	3.0-4.0	2,880,000.00
Total GO Bonds	16,575,000.00	2,293,200.00			5,820,000.00
Limited General Obligation (LGO) Bonds					
QZAB 2/8/2005	1,500,000.00	0	12/1/2020	0	1,500,000.00
QZAB 9/28/2006	700,000.00	0	12/1/2020	0	700,000.00
3/27/2018	1,212,250.00	116,132.87	12/1/2031	3.47	1,136,874.44
6/30/2020	15,575,000.00	0	6/1/2025	1.38	15,575,000.00
Total LGO Bonds	18,987,250.00				18,911,874.44
Notes from Direct Borrowing and Placement					
Total GO & LGO Bonds	35,562,250.00	2,409,332.87			24,731,874.44

Debt service requirements on long-term debt as of August 31, 2020, are as follows:

Years Ending August 31	Bonds		Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	Principal	Interest	
2021	8,097,991.09	352,117.19			8,450,108.28
2022	2,080,697.38	250,278.16			2,330,975.54
2023	4,548,497.58	219,829.37			4,768,326.95
2024	4,611,394.95	155,264.73			4,766,659.68
2025	4,674,392.85	89,769.82			4,764,162.67
2026-2030	495,702.81	82,899.93			578,602.74
2031-2035	223,197.78	7,811.00			231,008.78
Total	24,731,874.44	1,157,970.20			25,889,844.64

At August 31, 2020, the District had \$6,461,477.70 available in the Debt Service Fund to service the general obligation bonds.

NOTE 10: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity:

Transferred From Fund (536)	Transferred To Fund (9901)	Amount	Description
General Fund	Transportation Vehicle Fund	\$250,000.00	To support the purchase of pupil transportation buses
Transportation Vehicle Fund	Debt Service Fund	\$116,132.87	For the purpose of retiring debt associated with bus purchases

NOTE 11: ENTITY RISK MANAGEMENT ACTIVITIES

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

Risk Management Pool - In 1986, the District joined together with other school districts in the state, pursuant to the provisions of RCW Chapter 39.34, to form Washington Schools Risk Management Pool (WSRMP), a public entity risk pool currently operating as a common risk management and insurance program for Washington schools. The Pool was formed on August 30, 1986 pursuant to authority in RCW Chapter 48.62. The Pool's purpose is to join in a cooperative manner and provide its members the capability to jointly purchase property and liability insurance, maintain a reserve to pay for self-insurance, provide a plan of self-insurance, and related services, including a program of risk management. Over 90 school and educational service districts have joined WSRMP.

The District pays an annual premium (\$587,610 for 2019-20) to the pool for its general insurance coverage. The agreement for formation of the WSRMP provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1 million for each insured event.

The Pool is governed by a board of directors comprised of representatives from each participating member. The executive board is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool. Pool underwriting and rate-setting policies are established by the Pool executive board after consultation with actuaries. Pool members are subject to supplemental assessment in the event of deficiencies. There is no limit on the amount of annual premium contribution increases. The WSRMP is fully funded by its member participants and there is joint liability among the members. Members contract to remain in the Pool for a minimum of three years and must give notice before terminating participation. The Pool Agreement is renewed automatically each year after the initial three-year period. Even after termination, if the assets of the Pool were to be exhausted, a member is still responsible for contributions for any unresolved, unreported, or in-process claims for the period they were part of the agreement. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. The allocation of the liabilities would be determined by the executive board. If the Pool were dissolved, the members would receive the net assets. The allocation would be in proportion to each member's contribution less obligations.

The district did not have significant reductions in insurance coverage as compared to the prior year, nor insurance settlements that exceeded insurance coverage over the last three years.

The WSRMP's financial report for the year ended August 31, 2020 can be obtained from:

Washington Schools Risk Management Pool
PO. Box 88700
Tukwila, WA 98138-2700

Unemployment Insurance – The district joined together with school districts in Island, San Juan, Skagit, Snohomish, and Whatcom Counties on July 1, 1978 to form the Northwest Educational Service District 189 Unemployment Compensation Pool (Pool), a public entity risk pool for unemployment insurance. The District made \$0 payments to the Pool in fiscal year 2019-20. Claims against the district are paid by the Washington State Department of Employment Security (WSEDES). The WSEDES is reimbursed by the Pool for all claims paid. Unemployment claims of \$78,442 were made by the Pool on behalf of the District for fiscal year 2019-20.

Workers Compensation – In January 2018, the district joined the Capital Region Educational Service District (CR ESD) 113 Workers' Compensation Trust (Trust), a public entity risk pool.

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

The Trust provides industrial injury accident insurance coverage for its 46 member districts. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked and the members' experience rated contribution factor. The Trust retains responsibility for the payment of claims, within specified self-insured retention limits, below the excess coverage contracts that the Trust acquired from unrelated underwriters. The Trust's per-occurrence retention limit is \$450,000 and the annual aggregate retention is \$15,645,430 minimum for a two-year period FY 2018-20. Since the Trust is a cooperative program, there is joint liability among participating members.

For fiscal year 2019, there are 46 members in the pool including 45 participating school districts. A board comprised of one designated representative from each participating member and an executive board governs the Trust. The executive board has seven members elected by the board and the CR ESD 113's superintendent.

The CR ESD 113 is responsible for conducting the business affairs of the Trust. As of August 31, 2019, the amount of claim liabilities totaled \$6,460,000. This liability is the CR ESD 113's best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2019, resulted in the following:

	Beginning Balance 9/1/2019	Claims & Changes in Estimates	Ending Balance 8/31/2020
Incurred but not Reported	3,409,729	(556,786)	2,852,943
Open Claims	2,311,271	81,786	2,393,057
Future L&I Assessments	871,000	(72,000)	799,000
Estimated Unallocated Loss Adjustment	425,000	(10,000)	415,000

Pursuant to revenue ruling number 90-74, income of municipal risk pools is excluded from gross income under Internal Revenue Code Section 115(1). Chapter 48.62 RCW exempts the pool from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW

Self-Insurance for Vision Benefits – As far back as fiscal year 2005-06, the District has self-insured its vision coverage through Northwest Benefit Network (NBN). The District’s NBN vision plan is administered by Northwest Administrator’s, Inc (NWA). The plan was funded by contributions paid by the District on behalf of its employees. NWA provided the District with detailed monthly reserve reports, monthly claims paid information and bank statements to monitor the plan. With the implementation of state mandated State Employee Benefits (SEB), the District ceased to self-insure for vision coverage as of December 31, 2019. The plan reserve will continue to service claims for obligations incurred prior to SEB for a period of one year. Reserve funds remaining after one year will be returned to the District.

NBN Self-Funded Vision Account	Reserve Balance at 9/1	Plan Income	Plan Expenses	Reserve Balance at 8/31
2017-2018	\$120,384	\$213,301	\$211,767	\$121,918
2018-2019	\$121,918	\$200,839	\$239,807	\$82,951
2019-2020	\$82,951	\$67,585	\$129,058	\$21,478

As of August 31, 2020 the District’s reserve balance for payment of remaining potential claims liabilities was \$21,478.

NOTE 12: PROPERTY TAXES

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

The Snohomish County independently has entered into agreements that affect the levy rate assessed by the District as follows:

Tax Abatement Program	Total Amount of Taxes Abated
Native American	\$ 86,217
Tribal Lands for Government Services	\$ 3,515
Churches Nonprofit Recognized Religious Denominations	\$ 48,052
Targeted Urban Area	\$ 9,536
Total Abatement Amount	\$147,320

According to the provisions of RCW 84.36.010, certain Native American/Tribal property is exempt from taxation, if it meets the conditions as set for by the RCW and other laws. The property must belong exclusively to a federally recognized Indian tribe, located in the State of Washington and the property must be used exclusively for essential government services (tribal administration, public facilities, fire, police, public health, education, sewer, water, etc.), for a period of 40 years from acquisition. Further property owned by a federally recognized Indian tribe, used for economic development purposes (commercial activities, including those that facilitate the creation or retention of businesses or jobs), may qualify for the exemption.

According to provisions of RCW 84.36.020, churches personal property and grounds, not exceeding five acres in area, upon which a church of any nonprofit recognized religious denomination is or will be built, is exempt from taxation, if it meets the conditions as set by the RCW and other laws.

According to provisions of RCW 84.25.040, targeted urban areas or areas of undeveloped lands zoned for industrial and manufacturing uses, with industrial/manufacturing facilities new construction, may qualify for exemption from taxation, if it meets the conditions as set by the RCW and other laws.

NOTE 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the amended articles for the association on April 10, 1979, and has remained in the joint venture ever since. The District's current equity of \$54,372.85 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 intended to remain a member of KCDA due to its purchasing power and services. However, if the District were to withdraw from the joint venture, the District would receive its equity in ten annual allocations of merchandise or 15 annual payments.

KCDA has published its own financial report for the year ended December 31, 2019, which can be obtained at the following website: www.kcda.org

NOTE 14: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory & Prepaids	\$77,061.69				
Restricted Fund Balance					
For ASB Fund Extra-Curricular Activities		\$770,402.55			
Restricted CTE & LAP Revenues	\$101,712.96				
For Debt Service			\$6,461,477.70		
Restricted Bond Proceeds				\$14,463,860.87	
Restricted Mitigation Fees				\$163,496.57	
For Buses					\$538,209.24
Total Restricted Fund Balance	\$101,712.96	\$770,402.55	\$6,461,477.70	\$14,627,357.44	\$538,209.24
Assigned Fund Balance					
Assigned for Contingencies - Unemployment Insurance	\$636,000.00				
Assigned for Curriculum, Services or Equipment	\$278,755.00				
Assigned for Capital Fund Purposes	\$750,000.00			\$1,315,571.08	
Total Assigned Fund Balance	\$1,664,755.00			\$1,315,571.08	
Unassigned Fund Balance					
Unassigned Fund Balance Minimum Fund Balance Policy	\$6,828,503.00				
Unassigned Fund Balance	\$4,049,956.94				
Total Unassigned Fund Balance	\$10,878,459.94				
Total Fund Balance	\$12,721,989.59	\$770,402.55	\$6,461,477.70	\$15,942,928.52	\$538,209.24

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain a minimum unrestricted fund balance equal to one month's average operating costs at year end. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as part of unassigned fund balance.

NOTE 15: DEFINED CONTRIBUTION PENSION

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. The District does not make employer contributions to the plan.

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). Arlington School District does not participate in 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. Plan assets are assets of the District employees, not the school district, and are therefore not reflected on the financial statements.

NOTE 16: TERMINATION BENEFITS

Compensated Absences

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

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

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

Arlington School District No. 016
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2020

Description	Beginning Outstanding Debt September 1, 2019	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2020	Amount Due Within One Year
Voted Debt					
Voted Bonds	11,080,000.00	0.00	5,260,000.00	5,820,000.00	5,820,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	3,412,250.00	15,575,000.00	75,375.56	18,911,874.44	2,277,991.09
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	3,069,294.00	956,334.00	264,800.00	3,760,828.00	291,280.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	12,658,548.00	0.00	126,167.00	12,532,381.00	
Net Pension Liabilities TRS 2/3	3,091,670.00	4,903,947.00	0.00	7,995,617.00	
Net Pension Liabilities SERS 2/3	1,006,312.00	1,339,185.00	0.00	2,345,497.00	
Net Pension Liabilities PERS 1	2,896,919.00	0.00	107,293.00	2,789,626.00	
Total Long-Term Liabilities	37,214,993.00	22,774,466.00	5,833,635.56	54,155,823.44	8,389,271.09

Arlington School District No. 16
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2020

Federal Agency (Pass-Through Agency)	Expenditures						
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	Note
Child Nutrition Cluster							
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via WA OSPI)	School Breakfast Program	10.553	207WAWA3N10 99	144,004	-	144,004	-
	National School Lunch Program	10.555	207WAWA3N10 99	521,101	-	521,101	-
	National School Lunch Program	10.555	207WAWA3N10 99	151,426	-	151,426	5
Total CFDA 10.555:				672,527	-	672,527	-
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via WA OSPI)	COVID 19 - Summer Food Service Program for Children	10.559	31016	651,014	-	651,014	-
Total Child Nutrition Cluster:				1,467,545	-	1,467,545	-
Forest Service Schools and Roads Cluster							
FOREST SERVICE, AGRICULTURE, DEPARTMENT OF (via OFFICE OF STATE TREASURER)	Schools and Roads - Grants to States	10.665	N/A	13,121	-	13,121	-
	Total Forest Service Schools and Roads Cluster:			13,121	-	13,121	-
U.S. Department of Defense	Air Force JROTC	12.U01	WA-20061	-	65,008	65,008	4
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Title I Grants to Local Educational Agencies	84.010	203454	436,829	-	436,829	3

The accompanying notes are an integral part of this schedule.

Arlington School District No. 16
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			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	271040	10,731	-	10,731	3
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via WA OSPI)	Title I Grants to Local Educational Agencies	84.010	271036	12,210	-	12,210	3
Total CFDA 84.010:				459,770	-	459,770	
Special Education Cluster (IDEA)							
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via WA OSPI)	Special Education Grants to States	84.027	306867	965,680	-	965,680	3
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via WA OSPI)	Special Education Grants to States	84.027	338184	24,788	-	24,788	3
Total CFDA 84.027:				990,468	-	990,468	
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via WA OSPI)	Special Education Preschool Grants	84.173	366354	32,178	-	32,178	
Total Special Education Cluster (IDEA):				1,022,646	-	1,022,646	
Office of Career, Technical, and Adult Education, EDUCATION, DEPARTMENT OF (via WA OSPI)	Career and Technical Education -- Basic Grants to States	84.048	174553	24,364	-	24,364	3

The accompanying notes are an integral part of this schedule.

Arlington School District No. 16
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2020

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)	English Language Acquisition State Grants	84.365	402827	20,990	-	20,990	-	3
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	524876	74,819	-	74,819	-	3
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via WA OSPI)	Student Support and Academic Enrichment Program	84.424	430671	28,728	-	28,728	-	3, 6
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via WA OSPI)	COVID 19 - Elementary and Secondary School Emergency Relief Funds (ESSER)	84.425D	120193	428,451	-	428,451	-	
Medicaid Cluster								
	CENTERS FOR MEDICARE AND MEDICAID SERVICES, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via HEALTH CARE AUTHORITY)	93.778	1070	68,328	-	68,328	-	4
Total Medicaid Cluster:				68,328	-	68,328	-	
Total Federal Awards Expended:				3,608,762	65,008	3,673,770	-	

The accompanying notes are an integral part of this schedule.

Arlington School District No. 16

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 district's financial statements. The Arlington 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—FEDERAL DE MINIMIS INDIRECT RATE

The Arlington School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3—FEDERAL INDIRECT RATE

The district used the federal restricted rate of 2.95%.

NOTE 4—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 Arlington School 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 5—NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities distributed by the Arlington School District during the current year and priced as prescribed by the United States Department of Agriculture (USDA).

NOTE 6—TRANSFERABILITY

As allowed by federal regulations, the Arlington School District No. 16 elected to transfer program funds. The district expended \$28,728. from its Title IV Student Support and Academic Enrichment program on allowable activities of the Title I, Grants to Local Educational Agencies. This amount is reflected in the expenditures of Title IV, Student Support and Academic Enrichment Program.

ABOUT THE STATE AUDITOR'S OFFICE

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