



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Ferndale School District No. 502

For the period September 1, 2019 through August 31, 2021

Published May 31, 2022

Report No. 1030671



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

May 31, 2022

Board of Directors
Ferndale School District No. 502
Ferndale, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Ferndale School District No. 502's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Federal Award Findings and Questioned Costs.....	6
Summary Schedule of Prior Audit Findings	10
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	12
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	15
Independent Auditor's Report on the Financial Statements	18
Financial Section.....	22
Corrective Action Plan for Findings Reported Under Uniform Guidance	61
About the State Auditor's Office.....	62

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Ferndale School District No. 502 September 1, 2020 through August 31, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Ferndale School District No. 502 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 deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
84.010	Title I Grants to Local Educational Agencies
84.425	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

See Finding 2021-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Ferndale School District No. 502 September 1, 2020 through August 31, 2021

2001-001 The District did not have adequate internal controls for ensuring compliance with federal requirements for cash management.

CFDA Number and Title:	84.425, COVID-19 – Education Stabilization Fund
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	84.425D,120274 and 84.425D,120548
Questioned Cost Amount:	\$0

Description of Condition

The objectives of the Education Stabilization Fund (ESF) program are to prevent, prepare for and respond to the COVID-19 pandemic. The District spent \$1,081,845 of its ESF awards during fiscal year 2021. This included \$700,063 of its Elementary and Secondary School Emergency Relief (ESSER) Fund subprogram award funded by the Coronavirus Aid, Relief, and Economic Security (CARES) Act (ESSER I), and \$381,782 was of its ESSER subprogram award funded by the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (ESSER II).

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

The CARES Act allowed Districts to claim for lost revenue related to unrealized enrollment for the 2020-2021 school year. The Office of Superintendent of Public Instruction (OSPI) provided guidance on how to quantify unrealized enrollment and that any claim against ESSER funds must be spent on allowable uses. Specifically, funds claimed due to unrealized enrollment must be spent in alignment with the allowable uses of funds outlined in the CARES Act, such as expenses necessary for

maintaining operations and continuing public school services during the pandemic, providing mental health services, purchasing educational technology, etc.

OSPI's grant system (iGrants) and claims system operates on a reimbursement basis. This means the District is required to incur and pay for eligible costs prior to requesting reimbursement.

Our audit found the District's internal controls were inadequate for ensuring that costs associated with reimbursement requests were incurred and paid for prior to submission. The District calculated lost revenue due to unrealized enrollment using OSPI's guidance and submitted a reimbursement request for this amount under its ESSER I subprogram award. However, the District did not specifically identify allowable costs until year-end and did not ensure it had incurred the costs before requesting reimbursement. This resulted in a cash advance, which the awarding agency does not allow.

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

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

Cause of Condition

The District attended multiple trainings and reviewed available guidance to ensure it used program funds for allowable purposes. However, District officials stated they were not aware that cash management requirements applied to the unrealized enrollment lost revenue claimed under the ESSER I subprogram and that they were required to incur and pay costs before requesting reimbursement.

Effect of Condition

Without adequate internal controls, the District cannot demonstrate it complied with the cash management requirements. Our audit found that the District requested and received reimbursement for \$301,523 in costs that it had incurred and paid for after the submitted request. This resulted in a cash advance, which the granting agency does not allow.

We estimated the District earned \$340 of interest on the cash advance. The District is not liable for paying the interest earned to the grantor as the calculated interest is below the \$500 federal threshold for repayment.

Recommendation

We recommend the District develop and follow internal controls to ensure it complies with federal and OSPI requirements for cash management. This should include the District ensure before submitting claims related to loss revenues that all related costs are incurred and paid.

District's Response

The District disagrees with this finding.

The District followed OSPI guidance and instructions for claiming unrealized enrollment revenue, an allowable use of ESSER funds. At the time of the claim, the District had sufficient expenditures to support the claims, and is able to demonstrate that no cash advance was received. Unrealized enrollment revenue was used to offset the cost of Basic Education teachers and paraeducators for the months in question, October and November 2021.

Auditor's Remarks

Cash management requirements are outlined in the Department of Education guidance including what is considered a cash advance. While the District states it had sufficient expenditures to support the reimbursement claims, those were not the expenditures the District coded to the program and provided at the time of the audit.

We reaffirm our finding. We appreciate the District's communication and assistance throughout the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

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

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

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

Title 2 CFR Part 200, Uniform Guidance, section 305, establishes cash management procedures for grants and contracts over federal programs and comply with federal program requirements.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Ferndale School District No. 502 September 1, 2019 through August 31, 2021

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

Audit Period: September 1, 2019 to August 31, 2020	Report Reference No.: 1028148	Finding Ref. No.: 2020-001	CFDA Number(s): 10.553/10.555/10.559
Federal Program Name and Granting Agency: Nutrition Cluster, U.S. Department of Agriculture		Pass-Through Agency Name: Office of the Superintendent of Public Instruction	
Finding Caption: <p>The District did not have adequate internal controls to ensure compliance with federal procurement requirements.</p>			
Background: <p>The District received \$1,155,590 in Child Nutrition Cluster grant funds during the 2019-2020 school year.</p> <p>Although the District has controls in place over procurement, they were not effective in ensuring compliance with all applicable requirements. The District did not perform competitive procurement procedures or establish an interlocal agreement to piggyback on another district's existing contract before purchasing \$81,581 in milk-related products from the contractor for the federally funded Nutrition program.</p>			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			
Corrective Action Taken: <p><i>As of September 2020, the District established procurement procedures that follow federal procurement requirements when selecting vendors for the food service department. The procedures require an assessment at the beginning of the school year of all food service contracts which are expected to exceed the threshold and would require a formal bidding</i></p>			

process. During this assessment the Food Service Director will determine if a formal bid process is required or if renewal of an interlocal agreement for piggy-backed contracts should be executed. For the 2020/2021 school year all federal procurement requirements were followed.

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*

Ferndale School District No. 502 September 1, 2019 through August 31, 2021

Board of Directors
Ferndale School District No. 502
Ferndale, 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 Ferndale School District No. 502, as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 26, 2022.

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 3 to the 2021 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 26, 2022

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

Ferndale School District No. 502 September 1, 2020 through August 31, 2021

Board of Directors
Ferndale School District No. 502
Ferndale, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Ferndale School District No. 502, 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, 2021. 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, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-001 that we consider to be a material weakness.

District's Response to Findings

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

Purpose of this Report

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

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

Pat McCarthy, State Auditor

Olympia, WA

May 26, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Ferndale School District No. 502 September 1, 2019 through August 31, 2021

Board of Directors
Ferndale School District No. 502
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Ferndale School District No. 502, as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 22.

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 Ferndale School District No. 502, as of August 31, 2021, 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 Ferndale School District No. 502, as of August 31, 2021, 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 3 to the 2021 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 26, 2022 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 26, 2022

FINANCIAL SECTION

Ferndale School District No. 502 September 1, 2019 through August 31, 2021

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2021
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2021
Statement of Fiduciary Net Position – Fiduciary Funds – 2021
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Long-Term Liabilities – 2021
Schedule of Expenditures of Federal Awards – 2021
Notes to the Schedule of Expenditures of Federal Awards – 2021

Ferndale School District No. 502
Balance Sheet - Governmental Funds

August 31, 2021

	General		ASB		Debt Service		Capital Projects		Transportation Vehicle		Permanent		Total
	Fund		Fund		Fund		Fund		Fund		Fund		
Assets													
Cash and Cash Equivalents	1,903,240.38		72,620.37		17,422.73		286,915.34		393,038.37		0.00		2,673,237.19
Minus Warrants Outstanding	-1,875,895.30		-15,626.17		0.00		-279,537.34		0.00		0.00		-2,171,058.81
Taxes Receivable	3,524,188.71				3,183,152.86		23.38		0.00		0.00		6,707,364.95
Due From Other Funds	1,952.35		5,716.05		0.00		0.00		0.00		0.00		7,668.40
Due From Other Governmental Units	668,683.44		0.00		0.00		0.00		0.00		0.00		668,683.44
Accounts Receivable	24,270.48		0.00		0.00		0.00		0.00		0.00		24,270.48
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	11,844.81		1,801.48				0.00						13,646.29
Prepaid Items	105,240.58		1,102.08						0.00		0.00		106,342.66
Investments	18,551,009.77		367,299.83		3,359,146.37		69,703,230.08		1,302,481.00		0.00		93,283,167.05
Investments/Cash With Trustee	0.00				0.00		0.00		0.00		0.00		0.00
Investments-Deferred Compensation	0.00						0.00						0.00
Self-Insurance Security Deposit	0.00												0.00
TOTAL ASSETS	22,914,535.22		432,913.64		6,559,721.96		69,710,631.46		1,695,519.37		0.00		101,313,321.65
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	22,914,535.22		432,913.64		6,559,721.96		69,710,631.46		1,695,519.37		0.00		101,313,321.65
LIABILITIES													
Accounts Payable	628,284.57		17,193.74		0.00		5,023,791.63		0.00		0.00		5,669,269.94
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.

Ferndale School District No. 502
Balance Sheet - Governmental Funds
August 31, 2021

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Accrued Salaries	88,654.20	0.00		0.00			88,654.20
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
LIABILITIES:							
Payroll Deductions and Taxes Payable	143,234.75	0.00		0.01			143,234.76
Due To Other Governmental Units	4,975.13	0.00		0.00	0.00	0.00	4,975.13
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	441,980.85						441,980.85
Due To Other Funds	4,066.05	1,952.35	0.00	1,650.00	0.00	0.00	7,668.40
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	1,311,195.55	19,146.09	0.00	5,025,441.64	0.00	0.00	6,355,783.28
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue	39,122.44	2,675.00	0.00	0.00	0.00	0.00	41,797.44
Unavailable Revenue - Taxes Receivable	3,524,188.71		3,183,152.86	23.38	0.00		6,707,364.95
TOTAL DEFERRED INFLOWS OF RESOURCES	3,563,311.15	2,675.00	3,183,152.86	23.38	0.00	0.00	6,749,162.39
FUND BALANCE:							
Nonspendable Fund Balance	117,085.39	2,903.56	0.00	0.00	0.00	0.00	119,988.95
Restricted Fund Balance	312,068.39	408,188.99	3,376,569.10	64,685,166.44	1,695,519.37	0.00	70,477,512.29
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	7,567,142.96	0.00	0.00	0.00	0.00	0.00	7,567,142.96

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

Ferndale School District No. 502
Balance Sheet - Governmental Funds
August 31, 2021

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Unassigned Fund Balance	10,043,731.78	0.00	0.00	0.00	0.00	0.00	10,043,731.78
TOTAL FUND BALANCE	18,040,028.52	411,092.55	3,376,569.10	64,685,166.44	1,695,519.37	0.00	88,208,375.98
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	22,914,535.22	432,913.64	6,559,721.96	69,710,631.46	1,695,519.37	0.00	101,313,321.65

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

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

For the Year Ended August 31, 2021

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	10,196,462.06	234,027.36	7,517,015.51	919,756.06	15,434.11		18,882,695.10
State	52,786,166.18		0.00	0.00	390,516.43		53,176,682.61
Federal	5,625,848.27		0.00	0.00	0.00		5,625,848.27
Other	157,539.00			0.00	0.00	0.00	157,539.00
TOTAL REVENUES	68,766,015.51	234,027.36	7,517,015.51	919,756.06	405,950.54	0.00	77,842,764.98
EXPENDITURES:							
CURRENT:							
Regular Instruction	34,822,875.83						34,822,875.83
Special Education	10,315,251.84						10,315,251.84
Vocational Education	2,310,674.73						2,310,674.73
Skill Center	0.00						0.00
Compensatory Programs	4,113,484.64						4,113,484.64
Other Instructional Programs	244,594.45						244,594.45
Federal Stimulus COVID-19	396,031.50						396,031.50
Community Services	26,383.24						26,383.24
Support Services	12,592,265.82						12,592,265.82
Student Activities/Other		211,605.64				0.00	211,605.64
CAPITAL OUTLAY:							
Sites				1,164,392.05			1,164,392.05
Building				15,417,001.25			15,417,001.25
Equipment				38,582.50			38,582.50
Instructional Technology				0.00			0.00
Energy				435,063.79			435,063.79
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	160,190.55						160,190.55
DEBT SERVICE:							
Principal	0.00		4,455,000.00	0.00	0.00		4,455,000.00

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

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

For the Year Ended August 31, 2021

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Interest and Other Charges	0.00		2,853,780.00	0.00	0.00		2,853,780.00
Bond/Levy Issuance				89,105.40	0.00		89,105.40
TOTAL EXPENDITURES	64,981,752.60	211,605.64	7,308,780.00	17,144,144.99	0.00	0.00	89,646,283.23
REVENUES OVER (UNDER) EXPENDITURES	3,784,262.91	22,421.72	208,235.51	-16,224,388.93	405,950.54	0.00	-11,803,518.25
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	41,450.29		0.00	0.00	0.00		41,450.29
TOTAL OTHER FINANCING SOURCES (USES)	41,450.29		0.00	0.00	0.00	0.00	41,450.29
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	3,825,713.20	22,421.72	208,235.51	-16,224,388.93	405,950.54	0.00	-11,762,067.96
BEGINNING TOTAL FUND BALANCE	14,214,315.32	388,670.83	3,168,333.59	80,909,555.37	1,289,568.83	0.00	99,970,443.94
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	18,040,028.52	411,092.55	3,376,569.10	64,685,166.44	1,695,519.37	0.00	88,208,375.98

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

Ferndale School District No. 502
Statement of Fiduciary Net Position
August 31, 2021

	Custodial Funds	Private Purpose Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	192.69
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	-129.34
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	12.73
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	0.00	76.08
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	0.00	0.00
Held In Trust For Private Purposes	0.00	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	76.08
TOTAL NET POSITION	0.00	76.08

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

Ferndale School District No. 502
Statement of Changes in Fiduciary Net Position
For the Year Ended August 31, 2021

	Custodial Funds	Private Purpose Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	21,391.35
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	21,391.35
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	0.00	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	0.00	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	0.00	21,391.35
DEDUCTIONS:		
Benefits		26,269.19
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	0.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	0.00	26,269.19
Net Increase (Decrease)	0.00	-4,877.84
Net Position--Prior Year August Beginning	0.00	4,953.92
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	0.00	4,953.92
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	0.00	76.08

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

FERNDAL SCHOOL DISTRICT NO. 502

Notes to the Financial Statements

September 1, 2020 Through August 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ferndale 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 custodial funds, and are used to account for assets that are held by the District in a fiduciary 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.

Custodial 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 inter-district 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.

Non-spendable Fund Balance. The amounts reported as Non-spendable 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 or Assistant Superintendent are the only persons who have the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Non-spendable. 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.

Accounting and Reporting Change

Fiduciary Activities

During the year ended August 31, 2021, the District implemented the provisions of GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements. The title Agency Funds is replaced with Custodial Funds and ending net position is presented for custodial funds which was not previously required. Beginning net position has been restated to reflect this change.

Due to this accounting change, amounts previously reported in the District's Private Purpose Trust Fund are now reported in the District's General Fund. As of August 31, 2021, there was a nominal amount remaining in the Private Purpose Trust Fund to cover an outstanding warrant that had been written but not cashed on that account.

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

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

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

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

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

The District's investments as of August 31, 2021, are as follows:

Type of Investment	District's own investments	Investments held by district as an agent for other organizations	Total
County Treasurer's Investment Pool	\$93,283,167	\$13	\$93,283,180
Total	\$93,283,167	\$13	\$93,283,180

The district's participation in the Whatcom County Investment Pool (WCIP) is voluntary and the pool does not have a credit rating. The district reports its investment in the pool at the fair value amount, which is the same as the value of the pool per share. The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains a weighted average maturity of 661 days.

NOTE 3: 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 and continuing through the 2020-21 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 were in force and affected the district for the 2020–21 school year.

The district began the 2020-21 school year in a remote learning model, where the majority of students participated in online learning from home. The district provided WiFi hot spots to families without internet access, in order to participate in remote learning. The district also invited a small number of students who did not have internet connectivity at their houses, to attend safe remote internet access sites on our school campuses.

In October 2020, the district began transitioning students to a hybrid model, with students attending in-person school two days per week while participating in remote learning three days per week. To keep class size small and facilitate social distancing, grade levels were split into cohorts. One cohort attended school on Mondays and Tuesdays, the other on Thursdays and Fridays. Wednesdays were a remote learning day for all students on the hybrid model. In May 2021, the District transitioned back to full-time school, 5 days per week, for all students.

The District experienced decreasing enrollment in the 2020-2021 school year, approximately 10% below 2019-2020 actual and projected enrollment. Enrollment for the 2021-22 school year has recovered slightly and is now approximately 6% below pre-pandemic enrollment.

As a result of the pandemic, the District furloughed nearly all of its bus drivers at the start of the 2020-2021 school year. In January 2021, approximately half of the District's bus drivers were working half-time contracts to facilitate transporting elementary students participating in the hybrid model of learning. As of May 2021, bus drivers were working full-time regular routes, however, a shortage of qualified bus drivers was an issue and remains a concern.

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

NOTE 4: PENSION PLANS

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone annual comprehensive financial report 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 (Asset)

The collective net pension liability or asset for the pension plans districts participated in are reported in the following tables

The Collective Net Pension Liability or (Asset) as of June 30, 2021				
	Total Pension Liability	Plan fiduciary net position	Participating employers' net pension liability or (Asset)	Plan fiduciary net position as a percentage of the total pension liability
PERS 1	10,847,066,000	9,625,832,000	1,221,234,000	88.74%
SERS 2/3	7,586,243,000	8,659,940,000	(1,073,697,000)	114.15%
TRS 1	7,850,211,000	7,176,913,000	673,298,000	91.42%
TRS 2/3	20,032,702,000	22,781,509,000	(2,748,807,000)	113.72%

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS report. 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](http://www.drs.wa.gov/administrations/annual-report) 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, 2021, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	42,886	241	875
SERS 2	12,235	6,634	28,835
SERS 3	12,348	9,363	33,615
TRS 1	30,762	84	162
TRS 2	6,594	3,016	24,269
TRS 3	16,963	8,400	55,328

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

The employer and employee contribution rates for all plans were effective as of September 1, 2020. PERS contribution rates changed on July 1, 2021. TRS and SERS plans will not have a contribution rate change until September 1, 2021. The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2021 are listed below:

Pension Contribution Rates from September 1, 2020 to June 30, 2021			
	Employer	Employee	
PERS Plan 1	12.97%	6.00%	
Pension Contribution Rates from July 1, 2021 to August 31, 2021			
	Employer	Employee	
PERS Plan 1	10.252%	6.00%	
Pension Contribution Rates from September 1, 2020 to August 31, 2021			
	Employer	Employee	
TRS Plan 1	14.421%	6.00%	
TRS Plan 2/3	14.423%	8.050%	*/**
SERS Plan 2/3	11.653%	7.760%	*/**
<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 (Asset)

At June 30, 2021, the school district reported a total liability of \$3,355,172 for its proportionate shares of the individual plans' collective net pension liability and \$14,301,589 for its proportionate shares of net pension assets. Proportions of net pension amounts are based on annual contributions for each of the employers participating in the DRS administered plans. At

June 30, 2021 the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2021	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	\$476,969	\$811,788	\$2,100,513	\$2,237,198
Proportionate Share of the Net Pension Liability (Asset)	\$781,985	(\$4,139,686)	\$2,573,187	(\$10,161,903)

At June 30, 2021, the school district's percentage of the proportionate share of the collective net pension amount was as follows and the change in the allocation percentage from the prior period is illustrated below.

Change in Proportionate Shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share	0.064032%	0.385554%	0.382176%	0.369684%
Prior year proportionate share	0.077907%	0.446839%	0.420963%	0.413458%
Net difference percentage	-0.013874%	-0.061285%	-0.038786%	-0.043774%

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, 2020, with the results rolled forward to June 30, 2021, 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, 2020, 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, 2021, are summarized in the following table:

TRS 1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	% Long-term Expected Real Rate of Return
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

The inflation component used to create the above table is 2.20% 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%. 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 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% on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset)

The following table presents the Ferndale School District's proportionate share of the collective net pension liability or asset calculated using the discount rate of 7.40%, as well as what the net pension liability or asset would be if it were calculated using a discount rate that is one percentage-point lower (6.40%) or one percentage-point higher (8.40%) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability or asset.

Sensitivity of the Net Pension Liability or Asset to Changes in the Discount Rate			
	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	\$2,080,441,000	\$1,221,234,000	\$471,917,000
Allocation Percentage	0.064032%	0.064032%	0.064032%
Proportionate Share	\$1,332,156	\$781,985	\$302,180
SERS 2/3	(\$11,793,000)	(\$1,073,697,000)	(\$1,952,101,000)
Allocation Percentage	0.385554%	0.385554%	0.385554%
Proportionate Share	(\$45,468)	(\$4,139,686)	(\$7,526,410)
TRS 1	\$1,290,542,000	\$673,298,000	\$134,647,000
Allocation Percentage	0.382176%	0.382176%	0.382176%
Proportionate Share	\$4,932,148	\$2,573,187	\$514,589
TRS 2/3	\$479,331,000	(\$2,748,807,000)	(\$5,382,150,000)
Allocation Percentage	0.369684%	0.369684%	0.369684%
Proportionate Share	\$1,772,011	(\$10,161,903)	(\$19,896,955)

NOTE 5: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

The state, through the Health Care Authority (HCA), administers a defined benefit other post-employment benefit (OPEB) plan that is not administered through a qualifying trust. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits, and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Benefits purchased by PEBB include medical, dental, life insurance and long-term disability insurance.⁽⁵⁾

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

Employers participating in the plan include the state of Washington (which includes general government agencies and higher education institutions), political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the K–12 school districts and ESDs. The District's retirees (approximately 253) 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 PERS 1, 2, 3; TRS 1, 2, or 3; or SERS 2 and 3 plans.

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 2021.

Members not eligible for Medicare (or enrolled in Part A only)			
Descriptions	Type of Coverage		
	Employee	Employee & Spouse	Full Family
Kaiser Permanente NW Classic	\$745.66	\$1,485.75	\$2,040.82
Kaiser Permanente NW CDHP	\$618.76	\$1,226.30	\$1,638.21
Kaiser Permanente WA Classic	\$775.39	\$1,545.22	\$2,122.58
Kaiser Permanente WA CDHP	\$619.29	\$1,227.86	\$1,640.54
Kaiser Permanente WA Sound Choice	\$641.43	\$1,277.28	\$1,754.17
Kaiser Permanente WA Value	\$698.96	\$1,392.34	\$1,912.38
UMP Classic	\$691.72	\$1,377.86	\$1,892.47
UMP Select	\$623.50	\$1,241.43	\$1,704.88
UMP CDHP	\$618.52	\$1,226.31	\$1,638.41
UMP Plus-Puget Sound High Value Network	\$658.79	\$1,312.02	\$1,801.93
UMP Plus-UW Medicine Accountable Care Network	\$658.79	\$1,312.02	\$1,801.93

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

Members enrolled in Part A and B of Medicare			
Descriptions	Type of Coverage		
	Employee	Employee & Spouse¹	Full Family¹
Kaiser Permanente NW Senior Advantage	\$174.41	\$343.27	\$898.34
Kaiser Permanente WA Medicare Plan	\$177.10	\$348.64	N/A
Kaiser Permanente WA Classic	N/A	N/A	\$926.01
Kaiser Permanente WA Sound Choice	N/A	N/A	\$825.54
Kaiser Permanente WA Value	N/A	N/A	\$868.68
UMP Classic	\$336.30	\$667.04	\$1,181.65
Note 1: Employee-Spouse and Full Family with two Medicare eligible subscribers.			

Funding Policy

The School Employees Benefits Board (SEBB) Program administers health insurance and other benefits to all employees in school districts and charter schools, and union-represented employees of educational service districts in Washington. The SEBB studies, designs, and approves comprehensive and cost-effective insurance benefit plans for school employees and establishes eligibility criteria for participation in these plans. The SEB Board is separate and independent from the Public Employees Benefits Board (PEBB).

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

The 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. The amount collected 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.

For the fiscal year 2020-21, the Ferndale School District paid \$7,965,865 in total to HCA-SEBB.

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. The plan does not issue a separate report; however, additional information is included in the State of Washington Annual Comprehensive Financial Report, which is available on the OFM website

NOTE 6: COMMITMENTS UNDER LEASES

For the fiscal years ended August 31, 2021, the District had two operating leases for vehicles and copiers. Total future minimum lease payments for all leases is \$462,815, with payments over the next five years as follows:

<u>Year ended</u>	<u>Minimum lease payment</u>
2022	\$190,699
2023	\$141,505
2024	\$111,846
2025	\$ 18,211
2026	\$ 554

NOTE 7: OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of August 31, 2021:

Project	Project Authorization Amount	Expended as of 8/31/21	Additional Local Funds Committed	Additional State Funds Committed
New Ferndale High School	\$105,000,000	\$18,046,334	\$0	\$20,868,238
Security Improvements – District-wide	\$1,000,000	\$1,129,802	\$0	\$0
Modernize Performing Arts Center	\$2,000,000	\$19,546	\$0	\$0
Critical Facility Repairs	\$4,000,000	\$1,895,446	\$0	\$0
Total	\$112,000,000	\$21,091,128	\$0	\$20,868,238

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, 2021:

Fund	Amount
General	\$326,978
ASB Fund	\$2,875
Capital Projects Fund	\$7,678,646
Transportation Vehicle Fund	\$0

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$187,105,568 for fiscal year 2021. 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(s) ended August 31, 2021:

Governmental activities	Balance at Sept. 1, 2020	Increases	Decreases	Balance at Aug. 31, 2021	Due within One Year
General Obligation Bonds					
Series 2012 GO	\$8,440,000		\$870,000	\$7,570,000	\$3,690,000
Series 2013 GO	\$2,585,000		\$2,585,000	\$0	\$0
Series 2019 GO	\$39,970,000		\$1,000,000	\$38,970,000	\$0
Series 2020 GO	\$26,385,000		\$0	\$26,385,000	\$415,000
Total	\$77,380,000		\$4,455,000	\$72,925,000	\$4,105,000

Long-term debt at August 31, 2021, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
Series 2012 GO	\$9,240,000	\$296,072- 3,938,200	June 2023	1.375% - 3.0%	\$7,570,000
Series 2013 GO	\$8,880,000	\$92,073- 3,295,100	June 2021	.8% - 4.0%	\$0
Series 2019 GO	\$39,970,000	\$1,592,693- 3,723,000	June 2039	3.0% - 5.0%	\$38,970,000
Series 2020 GO	\$26,385,000	\$817,535- 2,436,000	June 2039	5.0%	\$26,385,000
Total	\$84,475,000				\$72,925,000

Debt service requirements on long-term debt as of August 31, 2021, are as follows:

	Bonds		Notes from Direct Borrowings and Direct Placements		
Years Ending August 31	Principal	Interest	Principal	Interest	Total
2022	\$4,105,000	\$2,968,375			\$7,073,375
2023	\$3,880,000	\$2,844,450			\$6,724,450
2024	\$1,115,000	\$2,769,525			\$3,884,525
2025	\$2,760,000	\$2,699,750			\$5,459,750
2026	\$2,910,000	\$2,573,950			\$5,483,950
2027–2031	\$17,440,000	\$10,509,025			\$27,949,025
2032–2036	\$23,410,000	\$5,695,350			\$29,105,350
2037–2039	\$17,305,000	\$955,425			\$18,260,425
Total	\$72,925,000	\$31,015,850			\$103,940,850

At August 31, 2021, the District had \$3,376,569 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized but Unissued

As of August 31, 2021, there were \$27,745,000 of General Obligation Bonds authorized but unissued. On September 28, 2021, these bonds were issued. The following is information regarding this bond issue:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
Series 2021 GO	\$27,745,000	\$753,604 - \$2,354,800	June 2039	1.00% - 5.0%	\$27,745,000

NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES

Ferndale School District is a member of Schools Insurance Association of Washington (SIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995, when seven mid-sized school districts in the state of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Membership as of August 31, 2021 includes 37 school

districts.

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

The program acquires Liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$250,000. Members are responsible for a standard deductible of \$5,000 for each claim (some member deductibles vary), while the program is responsible for the \$250,000 SIR. Insurance carriers cover insured losses over \$255,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$250,000 SIR. The program also purchases a Stop Loss Policy with an attachment point of \$7,410,616, which is fully funded in its annual budget.

Property insurance is subject to a per-occurrence SIR of \$250,000. Members are responsible for a \$10,000 deductible for each claim (some member deductibles vary), while the program is responsible for the \$250,000 SIR. Insurance carriers cover insured losses over \$260,000 to the limits of each policy. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Privacy, Security, and Technology (Cyber) insurance is subject to a per-occurrence SIR of \$100,000. Members are responsible for a \$25,000 deductible for each claim, while the program is responsible for the remaining \$75,000 SIR. Members contract to remain in the program for one year and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement. The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending August 31, 2021, were \$3,238,046.

A board of directors, consisting of eight members, is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The board of directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

NOTE 11: PROPERTY TAXES

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

NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing Resolution dated, April 15, 1974, and has remained in the joint venture ever since. The District's current equity of \$53,799 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 13: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non-spendable Fund Balance					
Inventory and Prepaid Items	\$117,085	\$2,904			
Restricted Fund Balance					
For Other Items					
For Fund Purpose		\$408,189			\$1,695,519
For Carryover of Restricted Revenues	\$242,068				
For Debt Service				\$3,376,569	
For Uninsured Risks	\$70,000				

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Restricted from Bond Proceeds			\$64,085,407		
Restricted from Impact Fee Proceeds			\$599,759		
Committed Fund Balance					
Assigned Fund Balance					
Contingencies	\$2,150,000				
Other Purposes	\$5,417,143				
Unassigned Fund Balance	\$10,043,732				

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 4% of the year's budgeted expenditures, as a minimum Unassigned Fund Balance. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Unassigned Fund Balance.

NOTE 14: DEFINED CONTRIBUTION PENSION AND OPEB PLANS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District. 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 as an elective deferral (employee contribution). Plan assets are assets of the employees and not the school district, and therefore are not reflected on the financial statements.

Voluntary Employees' Benefits Association (VEBA)

VEBA Trust is a non-profit, multiple employee voluntary employees' beneficiary association authorized under Internal Revenue Code 501(c)(g). The Trust is managed by a board of trustees appointed by the Association of Washington School Principals, Washington Association of School Administrators, and Washington Association of School Business Officials. The Trust

provides health reimbursement plan for employees and eligible dependents. The plan can be used to reimburse employees for qualified health expenses during employment and after retirement. The terms of the collective bargaining arrangements specify the district's employee contribution rate, ranging from \$25-70 per month. Plan assets are assets of the District employees, not the school district, and are therefore not reflected on the financial statements.

NOTE 15: TERMINATION BENEFITS

Compensated Absences

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

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

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

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.

Ferndale School District No. 502
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2021

Description	Beginning Outstanding Debt September 1, 2020	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2021	Amount Due Within One Year
Voted Debt					
Voted Bonds	77,380,000.00	0.00	4,455,000.00	72,925,000.00	4,105,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,463,947.00	0.00	107,512.00	1,356,435.00	153,277.00
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	10,140,090.00	0.00	7,566,903.00	2,573,187.00	
Net Pension Liabilities TRS 2/3	6,350,634.00	0.00	6,350,634.00	0.00	
Net Pension Liabilities SERS 2/3	2,377,025.00	0.00	2,377,025.00	0.00	
Net Pension Liabilities PERS 1	2,750,522.00	0.00	1,968,537.00	781,985.00	
Total Long-Term Liabilities	100,462,218.00	0.00	22,825,611.00	77,636,607.00	4,258,277.00

Other postemployment benefits other than pensions (OPEB) liabilities are not presented in the Schedule of Long Term Liabilities.

Ferndale School District No. 502
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
FOOD AND NUTRITION SERVICE, AGRICULTURE, DEPARTMENT OF (via Washington OSPI)	National School Lunch Program	10.555	N/A	128,496	-	128,496	-	2
	COVID-19 Summer Food Service Program for Children	10.559	N/A	1,163,295	-	1,163,295	-	
		Total Child Nutrition Cluster:			1,291,791	-	1,291,791	-
Forest Service Schools and Roads Cluster								
FOREST SERVICE, AGRICULTURE, DEPARTMENT OF (via WA State Treasurer)	Schools and Roads - Grants to States	10.665	N/A	50,945	-	50,945	-	
	Total Forest Service Schools and Roads Cluster:			50,945	-	50,945	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Title I Grants to Local Educational Agencies	84.010	203739	894,986	-	894,986	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Title I Grants to Local Educational Agencies	84.010	270244	87,357	-	87,357	-	
		Total CFDA 84.010:			982,343	-	982,343	-
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Migrant Education State Grant Program	84.011	282501	75,490	-	75,490	-	
Special Education Cluster (IDEA)								

The accompanying notes are an integral part of this schedule.

Ferndale School District No. 502
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Special Education Grants to States	84.027	307249	937,119	-	937,119	-	
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Special Education Grants to States	84.027	338344	80,901	-	80,901	-	
		Total CFDA 84.027:		1,018,020	-	1,018,020	-	
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Special Education Preschool Grants	84.173	366638	29,709	-	29,709	-	
		Total Special Education Cluster (IDEA):		1,047,729	-	1,047,729	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF	Impact Aid	84.041	S041B195371 & S041B205371	-	438,487	438,487	-	
Office of Career, Technical, and Adult Education, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Career and Technical Education -- Basic Grants to States	84.048	174778	39,129	-	39,129	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF	Indian Education Grants to Local Educational Agencies	84.060	S060A191111 & S060A201111	-	140,634	140,634	-	
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via Mt. Baker School District)	Education for Homeless Children and Youth	84.196	N/A	5,300	-	5,300	-	

The accompanying notes are an integral part of this schedule.

Ferndale School District No. 502
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	525143	170,074	-	170,074	-	
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Student Support and Academic Enrichment Program	84.424	430858	69,934	-	69,934	-	3
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Education Stabilization Fund	84.425	120274D	700,063	-	700,063	-	
EDUCATION, DEPARTMENT OF, EDUCATION, DEPARTMENT OF (via Washington OSPI)	Education Stabilization Fund	84.425	120548D	381,782	-	381,782	-	
Total CFDA 84.425:				1,081,845	-	1,081,845	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	-	37,368	37,368	-	5
Total Federal Awards Expended:				4,814,580	616,489	5,431,069	-	

The accompanying notes are an integral part of this schedule.

2020-2021
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Ferndale School District #502

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Ferndale School District's financial statements. The Ferndale 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—NONCASH AWARDS

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

NOTE 3—TRANSFERABILITY

As allowed by federal regulations, the Ferndale School District elected to transfer program funds. The district expended \$69,634 from its Title IV, Part A Student Support and Academic Enrichment Grant (84.011) on allowable activities of the Title II, Part A Supporting Effective Instruction State Grant (84.367). This amount is reflected in the expenditures of Title IV, Part A Student Support and Academic Enrichment Grant (84.367).

NOTE 4—FEDERAL INDIRECT RATE

The Ferndale School District used the federal restricted indirect rate of 5.96%. Ferndale School District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 – FEMA EXPENDITURES INCURRED IN PRIOR PERIOD

As approved by FEMA, \$17,642 of the expenditures reported on the 2020/21 schedule for disaster relief were incurred during the 2019/20 school year.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Ferndale School District No. 502 September 1, 2020 through August 31, 2021

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

Finding ref number: 2021-001	Finding caption: The District did not have adequate internal controls for ensuring compliance with federal requirements for cash management.
Name, address, and telephone of District contact person: Mark Deebach, Interim Superintendent P.O. Box 698 Ferndale, WA 98248 (360) 383-9203	
Corrective action the auditee plans to take in response to the finding: <i>The District will continue to follow guidance provided by OSPI, as well as Federal Regulations. The District has reconstructed its accounting department so that detailed grant monitoring work is being performed. This work was previously done by our Grants Manager, but this position was eliminated during the failed levy of February 2020. We believe this work is an important component of our internal control structure.</i>	
Anticipated date to complete the corrective action: 9/1/2021 (completed)	

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov