



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Shelton School District No. 309

Mason County

For the period September 1, 2016 through August 31, 2017

Published May 17, 2018

Report No. 1021330





Office of the Washington State Auditor

Pat McCarthy

May 17, 2018

Board of Directors
Shelton School District No. 309
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Shelton School District No. 309'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 cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Shelton School District No. 309 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 of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017**

2017-001 **The District lacked adequate internal controls to ensure compliance with requirements regarding suspension and debarment and graduation rate reporting for the Title I grant program.**

CFDA Number and Title:	84.010, Title I Grants to Local Agencies
Federal Grantor Name:	United States Department of Education
Federal Award/Contract Number:	Not applicable
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	202335, 222530, 261106
Questioned Cost Amount:	\$0

Background

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families. During fiscal year 2017, the District spent \$1,178,952 in Title I program funds.

Federal regulations require federal-money recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

Suspension and debarment

Federal requirements prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The District must verify that all contractors receiving \$25,000 or more and all sub-awards have not been suspended or debarred. This verification may be accomplished by collecting a written certification from the party, or adding a clause

or condition into the contract. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet one of these requirements before entering into contracts with contractors or sub-recipients.

Graduation rate reporting

Districts must report graduation-rate data for all public high schools to OSPI annually. Among other purposes, this information is used to determine if the District has met adequate yearly progress requirements for Title I funding. The District reports this information in a Graduation Rate Report that indicates the student's enrollment status: graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support for each student's reported status and for changes to a student's status. Students identified on the report as transferred are excluded from that District's graduation rate. To confirm that a student transferred out, the District must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

Description of Condition

Suspension and debarment

The District did not have internal controls in place to ensure contractors were not suspended or debarred from participating in federal programs before entering into contract.

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

We consider this control deficiency to be a significant deficiency.

Graduation rate reporting

We found the District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District did not have official written documentation to support all reports of students transferred out of the District.

This issue was reported as a finding in the prior audit as finding 2016-002.

We consider this control deficiency to be a material weakness.

Cause of Condition

Suspension and debarment

Employees responsible for ensuring compliance with requirements regarding suspension and debarment for the Title I grant program were not aware of the requirements.

Graduation rate reporting

District staff were not aware of the requirement to obtain and retain written documentation for students transferring to another district.

Effect of Condition and Questioned Costs

Suspension and debarment

The District did not ensure two contractors were not suspended or debarred before entering into contract. Without proper controls, the District increases the risk of awarding grant funds to contractors and sub-recipients that are excluded from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We confirmed the contractors were not suspended or debarred; therefore, we are not questioning costs.

Graduation rate reporting

The District did not retain appropriate, official written documentation to support the transfer status for eight of 18 students tested. As a result, the District is at risk of incorrectly calculating graduation rates.

Recommendations

We recommend the District improve internal controls to ensure:

- Staff responsible for ensuring compliance with federal requirements receive appropriate training
- Verification that all contractors receiving \$25,000 or more and all sub-awardees are not excluded from doing business with the federal government
- Accurate reporting of graduation rate data to OSPI and retention of records to support the data reported

District's Response

Suspension and Debarment

The Executive Director of Finance has contacted all staff in the district that receives Federal Funds to remind them of the Suspension and Debarment rules. The rules are listed in the district's board policy no. 6220 procedures. This board policy will also be updated this year in the district's board policy review.

An e-mail was sent to all district staff involved in federal funds on April 12, 2018 directing them to District Board Policy no. 6220 for purchasing with federal funds.

Graduation Rate Reporting

The CHOICE High School principal has instructed the school registrar on proper procedures as far as only indicating that a student transferred if we received written confirmation from the sending school, or could verify in CEDARS (and then printed the verification for the file). In addition, the CHOICE registrar printed all students with a withdraw code for the 2017-2018 school year to review all transfers and make sure we have the necessary written documentation.

The Executive Director of Finance also sent guidance to all district registrars outlining appropriate written confirmation that a student is enrolled at another district, instructing them to ensure this documentation is in place before removing them from the cohort as a transfer out.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls and ensure compliance.

We also wish to thank District management and staff for their cooperation and assistance throughout the audit. We look forward to working with the District on this issue and will review the District's corrective action during our next audit.

Applicable Laws and Regulations

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

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

(Uniform Guidance), section 303, Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

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

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 220, Are any procurement contracts included as covered transactions?, defines covered transactions.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension*, section 300, What must I do before I enter into a covered transactions with another person at the next lower tier?, outlines suspension and debarment requirements and methods of ensuring compliance.

Title 34, *U.S. Code of Federal Regulations* (CFR) Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 19, Other academic indicators, establishes requirements for calculating and reporting graduation rates to the State levels.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Shelton School District No. 309 Mason County September 1, 2016 through August 31, 2017

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

Audit Period: September 1, 2015 – August 31, 2016	Report Ref. No.: 1020276	Finding Ref. No.: 2016 – 001	CFDA Number(s): 84.027 & 84.173
Federal Program Name and Granting Agency: U.S Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction (OSPI)	
Finding Caption: The District lacked adequate internal controls to ensure compliance with requirements regarding time-and-effort, procurement, and suspension and debarment for costs charged to its Special Education grant program.			
Background: <u>Time-and-effort documentation</u> We audited the District’s internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee’s number and type of activities worked. The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Special Education grants were supported by adequate time-and-effort documentation.			

Procurement

The District must use a competitive process to procure federally-funded goods and services to ensure it receives the best price. Price or rate quotes from an adequate number of qualified sources must be obtained for personal services costing less than \$150,000.

The District lacked adequate internal controls to ensure personal services were competitively procured.

Suspension and Debarment

Federal requirements prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The District must verify that all contractors receiving \$25,000 or more and all sub-awards have not been suspended or debarred. This verification may be accomplished by collecting a written certification from the party, or adding a clause or condition into the contract. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet one of these requirements before entering into contracts with contractors or sub-recipients.

The District did not have internal controls in place to ensure contractors were not suspended or debarred from participating in federal programs before entering into contract.

We considered these deficiencies in internal control to be material weaknesses.

Status of Corrective Action: (check one)

- Fully Corrected Partially Corrected Not Corrected Finding is considered no longer valid

Corrective Action Taken:

Time and Effort:

The District has implemented a system of reconciliation and analysis of all time and effort documentation on a quarterly basis to ensure staff is working in classrooms and with children that is consistent with the individual's funding. Documents are reviewed monthly and will be analyzed quarterly to demonstrate adequate and correct documentation for time and effort. Discrepancies, if any, will be addressed quarterly at the time of analyzation.

- Staff coding is reviewed monthly to determine which staff require time and effort documentation. Codes are reviewed by the Special Services Compliance and Fiscal Coordinator and the District Payroll office.*
- Information from the monthly staff coding review is disseminated to the building Principal and building Secretary informing them of staff members needing to submit time and effort documents.*
- Expanded timecards from employees requiring time and effort documentation are completed at the building level, submitted to payroll, and reviewed monthly by the Special Services Compliance and Fiscal Coordinator for accuracy.*

- 100 % verification forms for staff members working on single cost objectives are created, signed, and verified semiannually.
- Reconciliation between payroll and work schedule of employees requiring monthly time and effort is completed quarterly. Any adjustments to schedule or payroll identified through this process are addressed and corrected immediately, through payroll changes made through the Business Office or schedule changes made at the building level.

Procurement:

The district has reviewed the procurement process and has implemented a system that ensures they will receive the best possible price for services. Sole source vendors will be documented and documentation of competitive procurement process has been addressed and corrected.

- Procurement policies were reviewed.
- Documentation of sole source providers will be kept in a file with the contract and purchase order of such providers.
- The district will collect quotes for all non-sole source providers and will review for best price and available services.

Suspension and Debarment:

The district has reviewed the suspension and debarment process and has implemented a system using the EPLS system to ensure contractors have not been excluded from participating in federal programs. Process has been addressed and corrected for Special Education.

- Before entering contractual agreements, the district will use the EPLS system to ensure that contractors have not been excluded from participating in federal programs.
- A printout from the EPLS system is printed and signed by the Director of Special Education and attached to the contract paperwork.
- After the EPLS has been verified, a contract is signed by the District Superintendent.
- After contract completion, a purchase order is processed for agreed upon service.

Audit Period: September 1, 2015 – August 31, 2016	Report Reference No.: 1020276	Finding Ref. No.: 2016 – 002	CFDA Number(s): 84.010
Federal Program Name and Granting Agency: U.S. Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction (OSPI)	
Finding Caption: The District did not have adequate internal controls to ensure compliance with time-and-effort, eligibility and graduation rate reporting requirements.			

Background:Time-and-effort documentation

We audited the District's internal controls over payroll to determine whether salaries and benefits charged to the grant were supported by time-and-effort documentation as required by OSPI. Time-and-effort documentation can consist of a semi-annual certification or a monthly personnel activity report, such as a timesheet, depending on the employee's number and type of activities worked.

The District lacked adequate internal controls to ensure salaries and benefits charged to the federal Title I program were supported by adequate time-and-effort documentation. We found the District used an alternative time-and-effort system without OSPI's approval.

Eligibility – Allocation of Title I funds

Federal regulations require the District to allocate Title I grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher amount per low-income child to areas or schools with lower percentages of poverty than areas or schools with higher poverty percentages. Areas or schools with a poverty rate above 75 percent must be served first and receive a higher allocation of grant funds per low-income child than areas or schools below 75 percent.

The District was unable to demonstrate the allocation of grant funds complied with these regulations. The District chose to allocate funds based on grade span grouping. Although, the elementary school grouping received more funding as a whole compared to the middle school grouping, one elementary school with a poverty rate of 91 percent, received less funding per low-income child than the middle school.

Graduation rate reporting

Districts must report graduation-rate data for all public high schools to OSPI annually. Among other purposes, this information is used to determine if the District has met adequate yearly progress requirements for Title I funding. The District reports this information in a Graduation Rate Report that indicates the student's enrollment status: graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support for each student's reported status and for changes to a student's status. Students identified on the report as transferred are excluded from that District's graduation rate. To confirm that a student transferred out, the District must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

We found the District did not adequately design or follow controls to ensure compliance with the Title I graduation reporting requirements. Specifically, the District incorrectly reported foreign exchange students as graduated even though a high school diploma was not earned,

and it did not have official written documentation to support all reports of students transferred out of the District.

We considered these control deficiencies to be material weaknesses.

Status of Corrective Action: (check one)

Fully
Corrected

Partially
Corrected

Not Corrected

Finding is considered no
longer valid

Corrective Action Taken:

Time and Effort:

Shelton School District applied for and received permission on April 10, 2017 to use an alternative time and effort system of reporting. To improve the internal controls and ensure compliance, the District added a new position. The new Special services Compliance and Fiscal Coordinator will oversee the process. Time and effort forms for each employee will be reviewed on a quarterly basis. Any reconciliation needed will occur at the time of the review.

Eligibility – Allocation of Title I funds:

The district has taken the following steps to ensure the allocations are based on rank order:

- The district receives a Title I allocation from OSPI*
- The district communicates with food services to determine the poverty rate for each school. Any school with a poverty rate over 75% must be funded with Title I funds.*
- The district reviews the mandated set asides required for the grant and all costs needed to support Title I at the district level.*
- The mandated set asides are subtracted from the total Title I allocation.*
- The remaining funds after mandated set asides will be allocated to Title I buildings based on poverty level. The schools are rank ordered based on that poverty level.*
- The district reviews with the building administrators the poverty level, staffing needs and student achievement to determine the level of funding.*
- A per pupil cost will be determined with the highest per pupil allocation being given the highest priority school.*

The determined funding is allocated to the building.

Graduation Rate:

In 2014-15, Shelton High School inadvertently reported seven foreign exchange students as graduates. After a meeting with the Shelton High School Principal, Office Manager, Registrar, and Counseling Secretary, we have taken steps to ensure that this does not happen again. For this 14-15 school year, these foreign exchange students were not withdrawn prior to adding a G0 (graduation) code to our graduating students. In the future, the Counseling Secretary will withdraw our Foreign Exchange Students with a T3 code (confirmed transfer out of Washington – as indicated on page 11 of the 2017-18 CEDARS Reporting Guidance manual) prior to coding our graduates. The registrar, who regularly attends workshops at ESD 113,

has asked that ESD adds this step to their 'End of Year Checklist' for school registrars. In addition, we went back to confirm that since 2014-15, foreign exchange students have been correctly coded in Skyward. In response to this finding, we have already taken the above steps to be sure that prior years are correct, and knowing the correct procedure, we will follow these steps for our two foreign exchange students for 2017-18 and for our foreign exchange students each year thereafter.

**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**

**Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017**

Board of Directors
Shelton School District No. 309
Shelton, 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 Shelton School District No. 309, Mason County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 8, 2018.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because, as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

May 8, 2018

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

**Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017**

Board of Directors
Shelton School District No. 309
Shelton, Washington

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

We have audited the compliance of Shelton School District No. 309, Mason County, Washington, 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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001. 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.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a significant deficiency.

District's Response to Findings

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

Purpose of this Report

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

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

Pat McCarthy
State Auditor
Olympia, WA

May 8, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Shelton School District No. 309 Mason County September 1, 2016 through August 31, 2017

Board of Directors
Shelton School District No. 309
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Shelton School District No. 309, Mason County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 28.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelton School District No. 309, as of August 31, 2017, 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 Shelton School District No. 309, as of August 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Long-Term Liabilities is presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

May 8, 2018

FINANCIAL SECTION

Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017

FINANCIAL STATEMENTS

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SUPPLEMENTARY AND OTHER INFORMATION

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Shelton School District No. 309

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	2,427,408.11	59,058.42	5,748.71	60,004.43	1,117.89	0.00	2,553,337.56
Minus Warrants Outstanding	-2,176,497.64	-27,062.22	0.00	-165,758.72	0.00	0.00	-2,369,318.58
Taxes Receivable	3,544,220.41		1,388,174.32	0.00	0.00	0.00	4,932,394.73
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	865,255.70	0.00	0.00	0.00	0.00	0.00	865,255.70
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	208,855.80	0.00		0.00			208,855.80
Prepaid Items	0.00	0.00			0.00	0.00	0.00
Investments	5,689,506.34	330,017.24	2,868,366.15	64,515,442.34	281,086.60	0.00	73,684,418.67
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	10,558,748.72	362,013.44	4,262,289.18	64,409,688.05	282,204.49	0.00	79,874,943.88
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	10,558,748.72	362,013.44	4,262,289.18	64,409,688.05	282,204.49	0.00	79,874,943.88
LIABILITIES:							
Accounts Payable	1,331,780.60	8,057.07	0.00	228,676.24	0.00	0.00	1,568,513.91
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	127,432.02	0.00		0.00			127,432.02
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Shelton School District No. 309

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	35,615.09	0.00	0.00	0.00			35,615.09
Due To Other Governmental Units	139,295.32	0.00	0.00	0.00		0.00	139,295.32
Deferred Compensation Payable	0.00						0.00
Estimated Employee Benefits Payable	7,524.92						7,524.92
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
interfund Loans Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits	500.00	0.00	0.00	0.00			500.00
Unearned Revenue	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	0.00
TOTAL LIABILITIES	1,642,147.95	8,057.07	0.00	228,676.24	0.00	0.00	1,878,881.26
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	3,544,220.41		1,388,174.32	0.00	0.00		4,932,394.73
TOTAL DEFERRED INFLOWS OF RESOURCES	3,544,220.41	0.00	1,388,174.32	0.00	0.00	0.00	4,932,394.73
FUND BALANCE:							
Nonspendable Fund Balance	208,855.80	0.00	0.00	0.00	0.00	0.00	208,855.80
Restricted Fund Balance	1,060,887.81	353,956.37	2,874,114.86	64,180,998.17	282,204.49	0.00	68,752,161.70
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	13.64	0.00	0.00	13.64
Unassigned Fund Balance	4,102,636.75	0.00	0.00	0.00	0.00	0.00	4,102,636.75
TOTAL FUND BALANCE	5,372,380.36	353,956.37	2,874,114.86	64,181,011.81	282,204.49	0.00	73,063,667.89
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	10,558,748.72	362,013.44	4,262,289.18	64,409,688.05	282,204.49	0.00	79,874,943.88

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, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	7,858,396.21	494,062.58	2,865,743.48	61,722.53	2,070.08		11,281,994.88
State	40,144,007.38		0.00	77,444.77	215,214.35		40,436,666.50
Federal	4,823,116.33		0.00	0.00	0.00		4,823,116.33
Federal Stimulus	0.00						0.00
Other	1,646,825.53			0.00	0.00	0.00	1,646,825.53
TOTAL REVENUES	54,472,345.45	494,062.58	2,865,743.48	139,167.30	217,284.43	0.00	58,188,603.24
EXPENDITURES:							
CURRENT:							
Regular Instruction	27,919,252.57						27,919,252.57
Federal Stimulus	0.00						0.00
Special Education	6,974,288.87						6,974,288.87
Vocational Education	2,265,465.68						2,265,465.68
Skill Center	0.00						0.00
Compensatory Programs	4,011,772.00						4,011,772.00
Other Instructional Programs	891,727.08						891,727.08
Community Services	563,591.13						563,591.13
Support Services	11,073,675.01						11,073,675.01
Student Activities/Other		442,340.60				0.00	442,340.60
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				659,630.36			659,630.36
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					641,102.63		641,102.63
Sales and Lease							0.00
Other	185,972.28						185,972.28
DEBT SERVICE:							
Principal	0.00		2,528,205.88	0.00	0.00		2,528,205.88
Interest and Other Charges	0.00		745,512.41	0.00	0.00		745,512.41
Bond/Levy Issuance				320,053.35	0.00		320,053.35
TOTAL EXPENDITURES	53,885,744.62	442,340.60	3,273,718.29	979,683.71	641,102.63	0.00	59,222,589.85

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, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	586,600.83	51,721.98	-407,974.81	-840,516.41	-423,818.20	0.00	-1,033,986.61
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		10,161,957.00	65,098,959.35	140,330.08		75,401,246.43
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	77,444.77		395,685.89	0.00	0.00		473,130.66
Transfers Out (GL 536)	-256,007.19		0.00	-77,444.77	-139,678.70	0.00	-473,130.66
Other Financing Uses (GL 535)	0.00		-9,043,905.83	0.00	0.00		-9,043,905.83
Other	0.00		0.00	0.00	1,662.40		1,662.40
TOTAL OTHER FINANCING SOURCES (USES)	-178,562.42		1,513,737.06	65,021,514.58	-138,016.30	0.00	66,218,672.92
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	408,038.41	51,721.98	1,105,762.25	64,180,998.17	-421,504.42	0.00	65,325,016.39
BEGINNING TOTAL FUND BALANCE	4,964,341.95	302,234.39	1,768,352.61	13.64	703,708.91	0.00	7,738,651.50
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	5,372,380.36	353,956.37	2,874,114.86	64,181,011.81	282,204.49	0.00	73,063,667.89

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

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2017

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	5,692.72	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	222,842.16	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	225,534.88	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	200,000.00	0.00
Held In Trust For Private Purposes	0.00	0.00
Held In Trust For Pension Or Other Post-Employment Benefits	28,534.88	0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	225,534.88	0.00

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

For the Year Ended August 31, 2017

ADDITIONS:			
Contributions:			
Private Donations	Private Purpose Trust	Other Trust	
Employer	7,201.18	0.00	0.00
Members		0.00	0.00
Other	0.00	0.00	0.00
TOTAL CONTRIBUTIONS	7,201.18	0.00	0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	0.00
Interest and Dividends	1,436.18	0.00	0.00
Less Investment Expenses	0.00	0.00	0.00
Net Investment Income	1,436.18	0.00	0.00
Other Additions:			
Rent or Lease Revenue	0.00	0.00	0.00
Total Other Additions	0.00	0.00	0.00
TOTAL ADDITIONS	\$,637.36	0.00	0.00
DEDUCTIONS:			
Benefits		0.00	0.00
Refund of Contributions	0.00	0.00	0.00
Administrative Expenses	0.00	0.00	0.00
Scholarships	3,647.84		
Other	0.00	0.00	0.00
TOTAL DEDUCTIONS	3,647.84	0.00	0.00
Net Increase (Decrease)	4,989.52	0.00	0.00
Net Position--Prior Year August Beginning	223,545.36	0.00	0.00
Prior Year F-196 Manual Revision	0.00	0.00	0.00
Net Position - Total	223,545.36	0.00	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00
NET POSITION--ENDING	223,545.36	0.00	0.00

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

Shelton School District No. 309
Notes to the Financial Statements
September 1, 2016 Through August 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

Fiduciary Funds

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

Private-Purpose Trust Fund

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

Pension (and Other Employee Benefit) Trust Fund

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

Agency Funds

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

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered “measurable” if the amount of the transaction can be readily determined. Revenues are considered “available” when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are accrued. Property taxes not collected by the fiscal year end are measurable and recorded as a receivable, however the receivable is not considered available of revenue accrual, but is recorded as a deferred inflow of resources.

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

Budgets

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

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

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

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

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

The government's fund balance classifications policies and procedures.

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

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

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

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

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

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

The Superintendent and Executive Director of Finance is/are the only person (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.

Cash With A Trustee

The district was a member of the CR ESD 113 Capital Compensated Absence Pool (Pool). This Pool was established to allow districts to set aside monies to meet the future payouts for accrued leave to employees upon termination or retirement. This Pool does not share risks among its members and therefor monies held by the CR ESD 113 under this arrangement are considered Cash With a Trustee.

As of August 31, 2017 the CR ESD 113 Capital Compensated Absence Pool holds \$0.00 on behalf of the district.

Inventory

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

Summary of Significant Accounting Policies Changes for 2016–2017

Property Taxes – For purposes of revenue recognition, property taxes received after the fiscal year end are not considered available for revenue accrual as defined by GASBS 33 and Interpretation 5. Amounts outstanding are recognized as a deferred inflow of resources on the financial statements.

Tax Abatements – The Shelton School District (District) implemented provisions of GASB Statement 77, Tax Abatement Disclosure. Information about tax abatements entered into by other government entities that affect the district's levy rates will be disclosed in a schedule in the Property Taxes note, as applicable.

Nongovernmental Pension Plans – The Shelton School District (District) implemented provisions of GASB Statement 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Plans. Information about nongovernmental pension plans will be included in a separate note disclosure, as applicable.

NOTE 2: DEPOSITS AND INVESTMENTS

The Mason 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 entirely 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, 2017, are as follows:

Type of Investment	(District's) own investments	Investments held by (district) as an agent for other organizations	Total
State Treasurer's Investment Pool	\$5,689,506.34		\$5,689,506.34
County Treasurer's Investment Pool			
U.S. Government Securities			
Other:			
Total	\$5,689,506.34		\$5,689,506.34

The Washington State Local Government Investment Pool (LGIP) is operated by the Washington State Treasurer and is managed in a manner generally consistent with SEC regulated Rule 2a-7 money market funds. Participation in the pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). Fair value of the he amortized cost of all securities held such that the securities will be valued at their acquisition cost, plus accrued income, amortized daily. The pool maintains a Weighted Average Maturity (WAM) of 60 days or shorter.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

The District has a current lawsuit from a previous employee claiming harm due to actions and conduct of the Shelton School District. The matter is being defended by an attorney assigned by Clear Risk Solutions, the district's liability insurance carrier. Per the district's attorney, there is a very low likelihood of any material impact on the district's financial condition. The suit is for \$500,000.

Arbitrage Rebate

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the District's outstanding bond issue(s) after September 1, 1986, currently totaling \$71,605,000 as of August 31. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is due and payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals.

NOTE 4: PENSION PLANS

General Information

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

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

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

Membership Participation

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

Membership participation by retirement plan as of June 30, 2017, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	48,268	663	2,593
SERS 2	8,229	5,880	27,011
SERS 3	7,735	8,330	33,890
TRS 1	34,225	188	697
TRS 2	5,076	2,532	19,133
TRS 3	10,289	8,568	54,487

Membership & Plan Benefits

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

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

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

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

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit.

Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

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

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

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

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

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

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

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

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

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

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

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

Plan Contributions

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

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

Pension Rates			
	7/1/17 Rate	7/1/16 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.70%	11.18%	
Pension Rates			
	9/1/17 Rate	9/1/16 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.20%	13.13%	

TRS 2			
Member Contribution Rate	7.06%	5.95%	
Employer Contribution Rate	15.20%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.20%	13.13%	**
SERS 2			
Member Contribution Rate	7.27%	5.63%	
Employer Contribution Rate	13.48%	11.58%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.48%	11.58%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

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

The Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,24,998	\$5,357,035	\$8,782,761	\$13,446,531
Plan fiduciary net position	(\$7,496,920)	(\$4,863,560)	(\$5,759,493)	(\$12,523,588)
Participating employers' net pension liability	\$4,745,078	\$493,475	\$3,023,268	\$922,943
Plan fiduciary net position as a percentage of the total pension liability	61.24%	90.79%	65.58%	93.14%

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

At June 30, 2017, the school district reported a total liability of **\$24,754,472** for its proportionate shares of the individual plans' collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2017, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	464,970	626,237	1,415,802	1,462,001
Proportionate Share of the Net Pension Liability	3,667,871	2,281,573	12,231,800	3,662,214

At June 30, 2017, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the changed in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	.077298%	.462348%	.404589%	.396797%
Prior year proportionate share of the Net Pension Liability	.065234%	.416851%	.389365%	.380071%
Net difference percentage	.012064%	.045497%	.015224%	.016727%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the 2007–2012 Experience Study Report and the 2015 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return;

- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB’s implicit and small short-term downward adjustment due to assumed mean reversion. WSIB’s implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans’ target asset allocation as of June 30, 2017, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

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

The following table presents the Shelton School District’s proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate. Amounts are calculated using the school district’s specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1 NPL	\$5,780,412,000	\$4,745,078,000	\$3,848,257,000
Allocation Percentage	.077298%	.077298%	.077298%
Proportionate Share of Collective NPL	\$4,468,168	\$3,667,871	\$2,974,642
SERS2/3 NPL	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	.462348%	.462348%	.462348%
Proportionate Share of Collective NPL	\$5,913,069	\$2,287,573	(\$710,467)
TRS1 NPL	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	.404589%	.404589%	.404589%
Proportionate Share of Collective NPL	\$15,209,977	\$12,231,800	\$9,653,984
TRS2/3 NPL	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	.396797%	.396797%	.396797%
Proportionate Share of Collective NPL	\$12,438,199	\$3,662,214	(\$3,465,530)

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

The state, through the Health Care Authority (HCA), administers an agent multi-employer other post-employment benefit plan. 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. Programs include (medical, dental, life insurance and long-term disability insurance)⁽⁵⁾.

Employers participating in the plan include the state of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2016-17, the District was required to pay the HCA \$64.39 per month per full-time equivalent employee to

support the program, for a total payment of \$428,051.01. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

NOTE 6: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$149,501,601 for fiscal year 2017. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 7: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2017, are comprised of the following individual issues:

General Obligation Bonds

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2007R	\$13,180,000.00	647,000 - 2,351,125	12/1/2018	5.00%	\$ 4,415,000.00
2011R	\$1,790,000.00	68,913 – 216,162	12/1/2022	2.63 - 3.00%	\$ 1,305,000.00
2017	\$65,885,000.00	68,913 – 216,162	12/1/2036	3.00 - 5.00%	\$ 65,885,000.00
Total	\$80,855,000.00	1,023,256 – 3,228,528			\$71,605,000.00

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2017:

Long-Term Debt Payable at 9/1/2016	\$16,875,000
New Issues	65,885,000
Debt Retired	11,155,000
Long-Term Debt Payable at 8/31/2017	\$71,605,000

The following is a schedule of annual requirements to amortize debt at August 31, 2017:

<u>Fiscal Year Ending</u>	<u>Total Annual Principal</u>	<u>Total Annual Interest</u>	<u>Total Installment</u>
2018	2,300,000	2,905,101	5,205,101

2019	2,715,000	3,013,888	5,728,888
2020	2,935,000	2,878,088	5,813,088
2021	3,225,000	2,725,038	5,950,038
2022	3,480,000	2,557,763	6,037,763
2023 - 2037	<u>56,950,000</u>	<u>20,019,730</u>	<u>76,969,730</u>
Total	71,605,000	34,099,608	105,704,608

At August 31, 2017, the District had \$2,874,114.86 available in the Debt Service Fund to service the general obligation bonds.

Refunded Debt

On June 29, 2017, the District issued \$8.04 million in general obligation refunding bonds with an average interest rate of 1.27 percent to advance refund \$8.985 million of outstanding 2006 series bonds with an average interest rate of 3.94 percent. The net proceeds of \$9,043,905.83 after payment of \$45,994.42 in underwriting fees, other issuance costs plus contingency were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 series bonds. As a result, the 2006 series bonds are considered defeased.

The District advance refunded the 2006 series bonds to reduce its total debt service payments over the next 4 years by \$780,404.17 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$727,970.29.)

Cash Flows Difference	
Old Debt Service Cash Flows	10,219,887.50
New Debt Service Cash Flows	9,439,483.33
Total	780,404.17
Economic Gain	
Present Value of Old Debt Service Cash Flows	9,434,847.60
Present Value of New Debt Service Cash Flows	8,706,877.31
Total	727,970.29

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2017, \$0 of bonds outstanding were considered defeased.

NOTE 8: ENTITY RISK MANAGEMENT ACTIVITIES

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

Workers' Compensation Insurance

In July 1983, the District joined the CR ESD 113 Workers' Compensation Trust (Trust), a public entity risk pool.

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

The Trust provides industrial injury accident insurance coverage for its 45 member districts. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked and the members experience rated contribution factor. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts the Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$450,000 and the annual aggregate retention is \$18,464,200 minimum for a two year period FY 2015-18. Since the Trust is a cooperative program, there is joint liability among participating members.

For fiscal year 2017, there are 45 members in the pool including 44 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the CR ESD 113's Superintendent.

The CR ESD 113 is responsible for conducting the business affairs of the Trust. As of August 31, 2017, the amount of claim liabilities totaled \$6,766,000. This liability is the CR ESD 113's best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2016, resulted in the following:

	Beginning Balance 9/1/2016	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2017
Incurred but not Reported	2,689,820		2,750,673
Open Claims	3,429,180	(532,000)	2,836,327
Future L&I Assessments	941,000	(147,000)	794,000
Estimated Unallocated Loss Adjustment	410,000	(25,000)	385,000

Unemployment Compensation Insurance

The district self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the Washington State Department of Employment Security and then reimbursed by the district. This self-insurance program costs the district less than full participation in the state unemployment compensation program. The district made unemployment compensation payments totaling \$33,178.52 for fiscal 2017.

Property and Liability Insurance

Shelton School District is a member of the 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 pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The 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. Presently, the SIAW pool has 37 member 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 Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The pool provides the following forms of group purchased insurance coverage for its members: Property, Earthquake, General Liability, Automotive Liability, Equipment Breakdown, Crime, and Wrongful Acts Liability.

The program acquires liability insurance through their Administrator, Clear Rick Solutions, formerly Canfield, that is subject to a per-occurrence self-insured retention (SIR) of \$100,000. Members are responsible for a standard deductible of \$2,500 for each claim (some member deductibles vary), while the program is responsible for the \$100,000 SIR. Insurance carriers cover insured losses over \$102,500 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 \$100,000 SIR. The program also purchases a Stop Loss Policy with an attachment point of \$3,036,316, which it fully funds 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.

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 ended August 31, 2017, were \$3,233,172.27.

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 9: 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 10: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

Mason County Transportation Cooperative

Operation of a proportionally larger cooperative program to transport the District's students and those of two neighboring Districts are included in these financial statements. For fiscal year 2017, these cooperative revenues totaled \$326,041, as compared to the preceding year's revenues of \$357,982. Expenditures related to the cooperative totaled \$326,041, as compared to the preceding year's expenditures of \$357,982.

Special Services Cooperative

The district has two (2) interdistrict cooperative agreements with other county districts to provide administrative, assessment, and educational services to handicapped students. The financial operations of these cooperatives are included in this financial statement.

The first of these cooperatives is to provide special education administration, assessment, and specialized services to three of the county's school districts with Shelton as the serving district. The services are mostly provided in the outlying district's facility by Shelton staff. The revenues for fiscal year 2017 totaled \$1,596,283 as compared to the preceding year revenues of \$1,884,022. Expenditures for this cooperative for fiscal 2017 totaled \$1,596,283 compared to the preceding year of \$1,884,022.

The other special education cooperative is comprised of two other districts with Shelton as the serving district. This cooperative provides special education instructional programs with students from outlying districts at Shelton's facility. The revenues for fiscal year 2017 totaled \$112,691 as compared to the preceding year revenues of \$64,920. Expenditures totaled \$112,691 for fiscal year 2017, compared to the preceding year's expenditures of \$64,920.

King County Director's Association

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 District's current equity of \$34,689.43 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 11: 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
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$208,855.80				
Restricted Fund Balance					
For Other Items	\$113,214.61				
For Fund Purpose		\$353,956.37			\$703,708.91
For Carryover of Restricted Revenues	\$180,643.19				
For Skill Centers					
For Carryover of Food Service Revenue	\$767,030.01				
For Debt Service				\$2,874,114.86	
For Arbitrage Rebate					
For Self-Insurance					
For Uninsured Risks					
Restricted from Bond Proceeds			\$64,180,998.17		
Committed Fund Balance					
For Economic Stabilization					
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes				\$13.64	
Unassigned Fund Balance	\$4,102,636.75				

The board of directors has established a board policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall have a goal to maintain a minimum fund balance at the end of each fiscal year of 5% of that year’s expenditures.

NOTE 12: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

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

plan, or the District.

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

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under one type of deferral: elective deferrals (employee contribution).

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

NOTE 13: 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 buy out 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.

No unrecorded liability exists for other employee benefits.

Shelton School District No. 309
 Schedule of Long-Term Liabilities
 For the Year Ended August 31, 2017

Description	Beginning Outstanding Debt September 1, 2016	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2017	Amount Due Within One Year
Voted Debt					
Voted Bonds	16,875,000.00	65,885,000.00	11,155,000.00	71,605,000.00	2,300,000.00
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	904,391.74	0.00	358,205.88	546,185.86	326,647.14
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	1,084,960.58	292,057.97	180,074.08	1,196,944.47	258,158.67
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	13,293,844.00	0.00	1,062,044.00	12,231,800.00	
Net Pension Liabilities TRS 2/3	5,219,502.00	0.00	1,557,288.00	3,662,214.00	
Net Pension Liabilities SERS 2/3	2,737,741.00	0.00	456,167.00	2,281,574.00	
Net Pension Liabilities PERS 1	3,503,385.00	164,486.00	0.00	3,667,871.00	
Total Long-Term Liabilities	43,618,824.32	66,341,543.97	14,768,778.96	95,191,589.33	2,884,805.81

SHELTON SCHOOL DISTRICT #309
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending August 31, 2017

1	2	3	4	5	6	7	8	9	10
							Expenditures		
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note
U.S. Dept of Agriculture									
	WA OSPI	School Breakfast Program	10.553	WA 23-309		\$263,635.02	\$263,635.02		
	WA OSPI	USDA National School Lunch	10.555	WA 23-309		\$1,130,911.92	\$1,130,911.92		
	WA OSPI	USDA National School Lunch (Comm)	10.555	WA 23-309		\$133,162.41	\$133,162.41		3
	WA OSPI	Summer Food Services Program	10.559	WA 23-309		\$14,158.16	\$14,158.16		
		Subtotal Child Nutrition Cluster					\$1,541,867.51		
	WA OSPI	Fresh Fruits and Vegetable Program	10.582	WA 23-309		\$45,854.29	\$45,854.29		
	Office of State Treasurer	School and Roads-Grants to States	10.665	N/A		\$9,762.46	\$9,762.46		
		Total US Department of Agriculture				\$1,597,484.26	\$1,597,484.26		
U.S. Dept of Education									
	WA OSPI	Title I Grants to Local Agencies	84.010	202335		\$1,129,993.88	\$1,129,993.88		4
	WA OSPI	Title I Program for Neglected and Titl	84.010	222530		\$18,958.26	\$18,958.26		7
	WA OSPI	Vocational Education Basic Grants to	84.048	173826		\$49,249.74	\$49,249.74		7
	Dept of Ed.	Indian Education	84.060	S060A160970	\$79,240.00		\$79,240.00		
	WA OSPI	Education for Homeless Children and	84.196	456205		\$27,318.00	\$27,318.00		7
	WSAC	Gaining Early Awareness and Readin	84.334			\$196,026.16	\$196,026.16		2,7
	WSAC	Gaining Early Awareness and Readin	84.334			\$179,400.08	\$179,400.08		2,7
	WA OSPI	Rural Education	84.358	461493		\$83,206.77	\$83,206.77		7
	WA OSPI	English Language Acquisition Grant	84.365	402337		\$50,114.23	\$50,114.23		7
	WA OSPI	Immigrant Competitive	84.365A	410535		\$13,641.59	\$13,641.59		
	WA OSPI	Improving Teacher Quality State Gra	84.367	524132		\$174,970.00	\$174,970.00		
	WA OSPI	Student and Schools Success-Everg	84.010	261106		\$30,000.00	\$30,000.00		
	WA OSPI	Special Education Grants to States	84.027	305832		\$653,623.62	\$653,623.62		
	WA OSPI	Special Education Preschool Grants	84.173	363829		\$30,848.54	\$30,848.54		
		Subtotal Special Education Cluster					\$684,472.16		
		Total US Department of Education			\$79,240.00	\$1,952,878.71	\$2,716,590.87		
U.S. Department of Health/Human Services									
	WA OSPI	Project Aware	93.243	590009		\$345,737.87	\$345,737.87		7
	HCA	Medical Assistance Program	93.778			\$97,310.60	\$97,310.60		2,7
		Total US Department of Health and Human Services				\$443,048.47	\$443,048.47		
TOTAL FEDERAL AWARDS EXPENDED						\$79,240.00	\$3,993,411.44	\$4,757,123.60	

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances.

The following notes are considered examples only:

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Shelton School District's financial statements. The Shelton School District uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

NOTE 3—NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities distributed by the Shelton School District during the current year and priced as prescribed by commodities for the 2016-2017 school year.

NOTE 4—SCHOOLWIDE PROGRAMS

The Shelton School District operates a "schoolwide program" in three elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students.

NOTE 7—FEDERAL INDIRECT RATE

The Shelton School District used the federal restricted rate of 3.8 %. The Shelton School district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

**Shelton School District No. 309
Mason County
September 1, 2016 through August 31, 2017**

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).

<p>Finding ref number: 2017-001</p>	<p>Finding caption: The District lacked adequate internal controls to ensure compliance with requirements regarding suspension and debarment and graduation rate reporting for the Title I grant program.</p>
<p>Name, address, and telephone of District contact person: Brenda Trogstad 700 South 1st Street Shelton, WA 98584 (360) 426-1687</p>	
<p>Corrective action the auditee plans to take in response to the finding: <u>Suspension and Debarment:</u> <i>The Executive Director of Finance has contacted all staff in the district that receives Federal Funds to remind them of the Suspension and Debarment rules. The rules are listed in the district's board policy no. 6220 procedures. This board policy will also be updated this year in the district's board policy review.</i> <i>The e-mail below was sent to district staff with federal funds on April 12, 2018.</i></p>	

Below you will find the regulations in Board Policy no. 6220 for purchasing with federal funds. I have included everyone in this e-mail that receives federal funds.

Please make sure you follow these guidelines for all purchases if you are using federal funds. If you have questions or need clarification please don't hesitate to contact me.

II. Procurement Using Federal Funds

A. Goods

*When federal funds are used for procurement of **goods** (furniture, supplies, equipment, and textbooks):*

- Purchases of \$3,500 or less do not require quotes. However, the district must consider price to be reasonable, and, to the extent practical, distribute purchases equitably among suppliers.*
- Purchases between \$3,500 and \$75,000 must be procured using price or rate quotations from three or more qualified sources.*
- Purchases of \$75,000 or more must be publicly solicited using sealed bids.*

B. Services

*When federal funds are used for procurement of **services**:*

- Purchases of \$3,500 or less do not require quotes. However, the district must consider price to be reasonable, and, to the extent practical, distribute purchases equitably among suppliers.*
- Purchases between \$3,500 and \$150,000 must be procured using price or rate quotations from a reasonable number of qualified sources.*
- Purchases of \$150,000 or more must be publicly solicited using sealed bids.*

C. Noncompetitive Proposals

*Procurement by **noncompetitive** proposals may only be used when one of the following four circumstances applies:*

- The item is only available from a single source;*
- The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;*
- The awarding agency (e.g., OSPI) authorizes a noncompetitive proposal in response to a written request from the district; or*
- After solicitation of a number of sources, competition is determined inadequate.*

The district must maintain documentation supporting the applicable circumstance for noncompetitive proposals.

D. Suspension and Debarment

Before entering into federally funded vendor contracts for goods and services that equal or exceed \$25,000 and any subcontract award, the district will ensure the vendor is not suspended or debarred from participating in federal assistance programs.

E. Conflict of Interest

No employee, officer or agent may participate in the selection, award or administration of a contract supported by federal funds if he or she has a real or apparent conflict of interest. Such a conflict would arise when the employee, officer or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

No employee, officer or agent of the district may solicit or accept gratuities, favors or anything of monetary value from contractors or parties to subcontracts. Violation of these standards may result in disciplinary action including, but not limited to, suspension, dismissal or removal.

Graduation Rate Reporting:

The CHOICE High School principal has instructed the school registrar on proper procedures as far as only indicating that a student transferred if we received written confirmation from the sending school, or could verify in CEDARS (and then printed the verification for the file). In addition, the CHOICE registrar printed all students with a withdraw code for the 2017-2018 school year to review all transfers and make sure we have the necessary written documentation.

The Executive Director of Finance also sent the following guidance to all district registrars.

Districts must have written confirmation that a student is enrolled at another district before removing them from the cohort as a transfer out:

Transfers within Washington State

Districts can use CEDARS to identify whether students are enrolled in other districts. Districts can document this in the notes section in CEDARS or take a screen shot of their search.

Transfers Out of State

The District must obtain written notification from another district to prove enrollment. This is usually when the other district requests the student's profile.

Exchange Students

The exchange student application with the district should state the agreed upon enrollment dates. The exchange application can serve as written support.

Anticipated date to complete the corrective action:

We have implemented the corrective action as stated above.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov