Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Seattle School District No. 1

For the period September 1, 2024 through August 31, 2025

Published (Inserted by OS)

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Office of the Washington State Auditor
Pat McCarthy

Issue Date – (Inserted by OS)

Superintendent and Board of Directors
Seattle School District No. 1
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Seattle School District No. 1'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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Seattle School District No. 1
September 1, 2024 through August 31, 2025

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Seattle School District No. 1 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

ALN	Program or Cluster Title
84.010	Title I Grants to Local Educational Agencies
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.600	Head Start Cluster - Head Start

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $1,742,822.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Findings 2025-001 and 2025-002.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Seattle School District No. 1
September 1, 2024 through August 31, 2025

2025-001 The District did not have adequate internal controls for ensuring compliance with federal procurement requirements.

Assistance Listing Number and Title:	93.243, Substance Abuse and Mental Health Services Projects of Regional and National Significance
Federal Grantor Name:	Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services
Federal Award/Contract Number:	1H79SM087482-01 5H79SM087482-02
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Known Questioned Cost Amount:	$0
Prior Year Audit Finding:	N/A

Background

During the 2024-25 school year, the District spent $2,446,864 in Substance Abuse and Mental Health Services Projects of Regional and National Significance program funds. Program funds may be for:

- Knowledge and development and application projects for prevention, treatment and rehabilitation and the conduct or support of evaluations of such projects;
- Training, education, and technical assistance;
- Targeted capacity response programs
- Systems change grants including statewide family network grants and client-oriented and consumer run self-help activities;
- Programs to foster health and development of children; and
- Coordination and integration of primary care services into publicly-funded community mental health centers and other community-based behavioral health settings

The District used this program funding for school-based mental health programs and services.

Federal regulations require recipients to establish, document and maintain effective internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

When using federal funds to purchase goods or services, governments must apply the more restrictive requirements of federal, state, or local laws by obtaining quotes or following a competitive procurement process, depending on the estimated purchase cost of the procurement activity. The District must maintain documentation showing the procurement process it performed. The District's procurement policy conforms to the most restrictive laws and requires the District to obtain price or rate quotations for purchases of goods between $10,000 and $250,000.

Governments may use noncompetitive procurement procedures when certain circumstances apply, such as if an item or service is only available from a single source, a public emergency, when the awarding agency expressly authorizes a noncompetitive procurement in response to a written request, or, if after performing solicitation, they determine competition is inadequate. In those circumstances, the government must evaluate each procurement action individually and document their rationale for waiving competition.

Description of Condition

Our audit found the District did not have adequate controls to ensure it complied with procurement requirements. Specifically, the District did not follow its policy when procuring curriculum software. It did not obtain price or rate quotations for one purchase and determined two other purchases to be sole source but did not have documentation showing its rationale and justification for the noncompetitive procurement. The District paid the vendors a total of $244,425 in federal program funds.

We consider this deficiency in internal controls to be a significant deficiency.

Cause of Condition

District staff responsible for procuring curriculum software did not fully understand federal procurement requirements and the District's procurement policy. District staff did not know they were required to research and document how they determined a vendor to be sole source at the time of procurement. District staff said they received previous guidance that documentation identifying a vendor as sole source could be used for up to five years but did not have written documentation of this guidance. Lastly, District staff also said for one of the three purchases, they were unaware that the purchase was made with federal funds.

Effect of Condition

We found the District did not comply with procurement requirements for three of 10 contracts we tested that were subject to procurement. The District paid these vendors a total of $244,425 in federal program funds. Without effective internal controls, the District cannot demonstrate it complied with federal procurement standards and its own policy, allowed for full and open competition, or received the best price.

Recommendation

We recommend the District strengthen its internal controls to ensure it complies with its policy and federal regulations for procuring goods and that it maintains documentation to demonstrate it complied with federal procurement requirements.

District's Response

The District concurs with the audit finding. The District acknowledges that internal controls over procurement, specifically related to curriculum software purchases funded with federal program funds, were not sufficient to ensure full compliance with federal procurement requirements and District policy.

The District has begun implementing corrective actions to strengthen procurement controls and ensure compliance with federal regulations and District policy. These actions include:

1. Policy Clarification and Documentation Requirements

The District will reinforce procurement policy requirements, including documentation standards for all procurement methods. Staff will be required to maintain written justification and rationale for all sole source determinations at the time of procurement, including evidence supporting the noncompetitive procurement.

2. Procurement Review and Oversight

The District will seek to implement additional review procedures to ensure procurement documentation is complete and compliant prior to contract approval and payment. The District will target practices that will include verification of funding sources and confirmation that appropriate procurement methods were used.

3. Sole Source Determination Controls

The District has updated its Competitive Exemption (to include sole source) procedures. Each sole source request will be evaluated annually.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to resolve this finding. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

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

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

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

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures.

Title 2 CFR Part 200, Uniform Guidance, section 320, Methods of procurement to be followed, establishes requirements for procuring goods and services, including noncompetitive procurement.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Seattle School District No. 1
September 1, 2024 through August 31, 2025

2025-002 The District charged unallowable costs to the Title I program.

Assistance Listing Number and Title:	84.010, Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of the Superintendent of Public Instruction
Pass-through Award/Contract Number:	GT-03162 | DA
Known Questioned Cost Amount:	$1,517
Prior Year Audit Finding:	N/A

Background

The objective of Title I is to improve the teaching and learning of children, who are at risk of not meeting academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2025, the District spent $17,990,023 in federal funds from Title I.

Federal regulations establish principles and standards for determining allowable direct and indirect costs for federal awards. All costs that recipients charge to the program must comply with program requirements and recipients must support this compliance with proper documentation that demonstrates costs are allowable.

Description of Condition

Although the District's internal controls were adequate for ensuring it materially complied with the program's allowable activities and costs requirements, the District miscoded an invoice to the grant. As a result, the District claimed reimbursement for an unallowable activity.

Cause of Condition

District staff said an employee changed the cost center in the District's system, which resulted in the invoice being charged to the grant. However, the expense was also marked as "no grants approval" necessary in the system and therefore it was not routed to the designated supervisor knowledgeable of Title I allowable activities for review.

Effect of Condition and Questioned Costs

Using a statistical sample, we found one out of 29 invoices we tested totaling $1,517 was not allowable to charge to the program. Based on the projection of our sample, we identified an additional $110,241 in estimated unallowable costs.

Federal regulations require the State Auditor's Office to report known and likely questioned costs that are more than $25,000 for each type of compliance requirement. We question costs when we find the District has not complied with grant regulations and/or when it does not have adequate documentation to support expenditures

Recommendation

We recommend the District ensure all costs it charges to federal programs are allowable. The District should review any costs that were moved into Title I from a nonfederal program cost center to ensure they are allowable.

District's Response

The District concurs with the audit finding. The District acknowledges that one of the invoices reviewed during the audit did not include the required approval steps. The District would like to note, however, that this issue was identified through internal review and self-reported to the auditor upon discovery.

The District has several internal controls in place to mitigate the risk of unallowable purchases; however, no control process is entirely preventative. The District will reinforce existing requirements by reminding all District users that after-the-fact changes are not permitted. Any instances identified in the future will be addressed individually as they are discovered.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to resolve this finding. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

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

Title 2 CFR Part 200, Uniform Guidance, Subpart E, Cost Principles, establishes requirements for determining allowable costs and supporting costs allocated to federal programs.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Seattle School District No. 1
September 1, 2024 through August 31, 2025

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

<table>
<tr><td>Audit Period:
September 1, 2023 through August 31, 2024</td><td>Report Reference No.:
1037358</td><td>Finding Ref. No.:
2024-001</td><td>ALN(s):
10.553, 10.555</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Child Nutrition Cluster - U.S. Department of Agriculture (USDA)</td><td colspan="2">Pass-Through Agency Name:
N/A</td></tr>
<tr><td colspan="4">Finding Caption:
The District did not have adequate internal controls to ensure compliance with Paid Lunch Equity requirements.</td></tr>
<tr><td colspan="4">Background:
The District participates in the School Breakfast Program and the National School Lunch Program. For the 2023-2024 school year, the District received $11,717,706 for these programs. These programs provide funding for free and reduced-price meals for students of low-income families.
The District did not complete all required fields of the USDA PLE tool workbook to determine what amount was needed to increase lunch prices, or to determine the amount of non-federal funding needed to demonstrate compliance.
District staff were not aware that specific fields needed to be completed per the workbook’s instructions and that OSPI had specific guidance on how to complete the tool for school year 2023-2024. The District believed no action was required due to the workbook not being fully completed.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☒ Fully Corrected   ☐ Partially Corrected   ☐ Not Corrected   ☐ Finding is considered no longer valid</td></tr>
</table>

Corrective Action Taken:

In response to this finding, the Culinary Services department under the guidance of the Operations team in SPS has made the following adjustments and changes to business practices:

1. *The PLE tool has been formally integrated into the annual budgeting process to ensure routine compliance with this guidance and accurate financial planning.*
2. *If a price increase is deemed necessary, it will undergo a thorough review and approval through the SPS board governance process. This will include a landscape review of meal prices in other districts in the Puget Sound region as well as similarly scaled districts nationally. This structured approach guarantees alignment with strategic objectives while maintaining transparency and accountability.*
3. *As of May 2025, the Culinary Services department under the direction of the Operations department will be taking action on a price increase for school lunches beginning for the 2025-26 school year with annual reviews scheduled for subsequent years.*

Seattle Public Schools completed the Paid Lunch Equity (PLE) tool review and determined that an increase in paid meal prices was required to remain in compliance with Board Policy 3520.

To meet these requirements, the district implemented a $0.55 increase to paid lunch prices for all grade levels.

The Seattle School Board approved the price change on July 2, 2025, for implementation in the 2025–2026 school year.

Updated lunch prices are as follows:

- *Elementary: increased from $3.25 to $3.80*
- *Secondary: increased from $3.50 to $4.05*

This action ensures continued compliance with federal PLE requirements and district policy.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Seattle School District No. 1
September 1, 2024 through August 31, 2025

Superintendent and Board of Directors
Seattle School District No. 1
Seattle, 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 Seattle School District No. 1, as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 18, 2026.

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.

REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Pat McCarthy, State Auditor

Olympia, WA

May 18, 2026

INDEPENDENT AUDITOR'S REPORT

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

Seattle School District No. 1
September 1, 2024 through August 31, 2025

Superintendent and Board of Directors
Seattle School District No. 1
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Seattle School District No. 1, with the types of compliance requirements identified as subject to audit 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, 2025. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2025-002. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

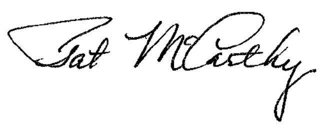
Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2025-001, that we consider to be a significant deficiency.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the other 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.



Pat McCarthy, State Auditor

Olympia, WA

May 18, 2026

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Seattle School District No. 1
September 1, 2024 through August 31, 2025

Superintendent and Board of Directors
Seattle School District No. 1
Seattle, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of Seattle School District No. 1, as of and for the year ended August 31, 2025, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1 the District has prepared these financial statements to meet the financial reporting requirements of state law and the accounting practices prescribed by the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual). Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of Seattle School District No. 1, as of the year ended August 31, 2025, and the regulatory basis of changes in financial position thereof for the year then ended, on the basis of accounting as described in Note 1.

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 Seattle School District No. 1, as of August 31, 2025, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Governmental Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and adverse audit opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the government-wide financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the Accounting Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory 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 and pervasive.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2025, the District adopted new accounting guidance for compensated absences, as required by the Accounting Manual. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of state law and the 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2026 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 effectiveness of 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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

May 18, 2026

FINANCIAL SECTION

Seattle School District No. 1
September 1, 2024 through August 31, 2025

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Seattle School District No. 1
September 1, 2024 through August 31, 2025

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).

<table>
<tr><td>Finding ref number:
2025-001</td><td>Finding caption:
The District did not have adequate internal controls for ensuring compliance with federal procurement requirements.</td></tr>
<tr><td colspan="2">Name, address, and telephone of District contact person:
Kristy Magyar,
PO Box 34165 Seattle, WA 98124-1165
206-252-0274</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
District Response to Audit Finding
The District concurs with the audit finding. The District acknowledges that internal controls over procurement, specifically related to curriculum software purchases funded with federal program funds, were not sufficient to ensure full compliance with federal procurement requirements and District policy.
The District has begun implementing corrective actions to strengthen procurement controls and ensure compliance with federal regulations and District policy. These actions include:
1. Policy Clarification and Documentation Requirements The District will reinforce procurement policy requirements, including documentation standards for all procurement methods. Staff will be required to maintain written justification and rationale for all sole source determinations at the time of procurement, including evidence supporting the noncompetitive procurement.
2. Procurement Review and Oversight The District will seek to implement additional review procedures to ensure procurement documentation is complete and compliant prior to contract approval and payment. The District will target practices that will include verification of funding sources and confirmation that appropriate procurement methods were used.
3. Sole Source Determination ControlsThe District has updated its Competitive Exemption (to include sole source) procedures. Each sole source request will be evaluated annually.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action: 08/31/2026</td></tr>
</table>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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