



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Chehalis School District No. 302

Lewis County

For the period September 1, 2013 through August 31, 2014

Published March 9, 2015

Report No. 1013747





Washington State Auditor
Troy Kelley

March 9, 2015

Board of Directors
Chehalis School District No. 302
Chehalis, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Chehalis School District No. 302'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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Federal Summary	4
Schedule Of Federal Audit Findings And Questioned Costs.....	6
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	11
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	13
Independent Auditor’s Report On Financial Statements	16
Financial Section.....	19
Corrective Action Plan For Findings Reported Under OMB Circular A-133	65
About The State Auditor’s Office.....	66

FEDERAL SUMMARY

Chehalis School District No. 302
Lewis County
September 1, 2013 through August 31, 2014

The results of our audit of Chehalis School District No. 302 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We identified 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 under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA, Preschool)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Chehalis School District No. 302

Lewis County

September 1, 2013 through August 31, 2014

2014-001 Chehalis School District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant program.

CFDA Number and Title:	84.010 Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	201541, 222631
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2014, the District spent \$454,117 in Title I program funds. 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 children from low-income families.

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 federal regulations. Depending upon the number and type of activities employees work, time and effort documentation can be on a semi-annual certification or monthly personnel activity report, such as a timesheet.

Our audit found that the District did not maintain the semi-annual time and effort certification documentation for one of the two certificated employees whose positions were paid from the grant.

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

Cause of Condition

The District has a process in place to obtain the required monthly time and effort documentation. However, the District experienced turnover in the District Accountant position and the documentation for this individual could not be located.

Effect of Condition and Questioned Costs

Without proper time and effort records, the District is not in compliance with federal time and effort requirements. One employee who charged \$27,173 to the grant did not have a semi-annual certification to support the time charged. However, because the District provided adequate alternative forms of documentation, we did not question these costs.

Recommendation

We recommend the District establish and follow time and effort internal controls to ensure it meets federal requirements for documentation of all payroll costs charged to grants.

District's Response

The District agrees with the information presented in the finding. We believe that adequate documentation was obtained properly; however, with the turnover in the District Accountant position, remaining District employees were unable to locate two semi-annual certifications during the audit. The applicable building Principal remembers signing the semi-annual certifications for the employee. However, we were unable to locate the documents during the audit. As the finding indicates, we were able to provide alternate documentation to support the validity of the grant claims.

The District has taken steps to improve its internal controls over federal grant funding, including training for the new District Accountant. Additionally, timesheets and semi-annual certifications will be maintained at both the building and district office level, to ensure documents can be located during audits. Quarterly reconciliations will continue to take place as required and timesheets and semi-annual certifications will also be maintained electronically. The reviewer will continue to be diligent with monthly grant claim reviews. Key district personnel are now involved in all personnel actions and the District Accountant now receives copies of all personnel changes.

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.

We also wish to thank District management for their cooperation and assistance during our audit. We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

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

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. ...

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 – Auditee Responsibilities, states, in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Attachment B, Section 8(h), states, in part:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the

governmental unit and approved by a responsible official(s) of the governmental unit.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes[.]

**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**

**Chehalis School District No. 302
Lewis County
September 1, 2013 through August 31, 2014**

Board of Directors
Chehalis School District No. 302
Chehalis, 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 Chehalis School District No. 302, Lewis County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 27, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

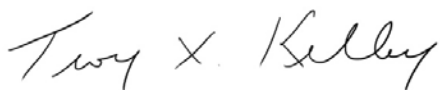
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 27, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Chehalis School District No. 302
Lewis County
September 1, 2013 through August 31, 2014**

Board of Directors
Chehalis School District No. 302
Chehalis, Washington

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

We have audited the compliance of Chehalis School District No. 302, Lewis County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001. 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 findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal

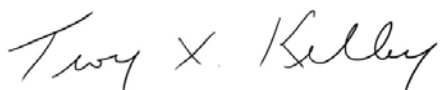
control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We 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, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

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 OMB Circular A-133. 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 27, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Chehalis School District No. 302 Lewis County September 1, 2013 through August 31, 2014

Board of Directors
Chehalis School District No. 302
Chehalis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Chehalis School District No. 302, Lewis County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 19.

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 an opinion 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 Chehalis School District No. 302, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental and Fiduciary Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

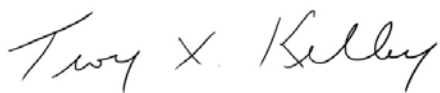
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 27, 2015

FINANCIAL SECTION

Chehalis School District No. 302
Lewis County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014
Statement of Fiduciary Net Position – Fiduciary Funds – 2014
Statement of Changes in Fiduciary Net Position– Fiduciary Funds – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Chehalis School District No. 302

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	1,330,129.35	29,702.35	0.00	5,604.02	0.00	0.00	1,365,435.72
Minus Warrants Outstanding	-1,307,419.25	-12,317.43	0.00	-5,604.02	0.00	0.00	-1,325,340.70
Taxes Receivable	2,106,034.29		55.43	0.00	0.00		2,106,089.72
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	626,793.31	0.00	0.00	0.00	0.00	0.00	626,793.31
Accounts Receivable	1,093.22	0.00	0.00	0.00	0.00	0.00	1,093.22
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	63,738.94	0.00					63,738.94
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	3,548,833.38	201,019.69	380,038.58	4,577.95	156,052.43	0.00	4,290,522.03
Investments/Cash With Trustee	298,282.02		0.00	0.00	0.00	0.00	298,282.02
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	6,667,485.26	218,404.61	380,094.01	4,577.95	156,052.43	0.00	7,426,614.26
LIABILITIES:							
Accounts Payable	363,517.42	291.58	0.00	0.00	0.00	0.00	363,809.00
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	-1,771.37	0.00		0.00			-1,771.37
Due To Other Governmental Units	54,980.95	0.00		0.00	0.00	0.00	54,980.95
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Chehalis School District No. 302

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	-828.00	0.00		0.00			-828.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	415,899.00	291.58	0.00	0.00	0.00	0.00	416,190.58
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	11,584.00		0.00	0.00	0.00		68,502.27
Unavailable Revenue - Taxes Receivable	2,106,034.29		55.43	0.00	0.00		2,106,089.72
TOTAL DEFERRED INFLOWS OF RESOURCES	2,117,618.29	56,918.27	55.43	0.00	0.00	0.00	2,174,591.99
FUND BALANCE:							
Nonspendable Fund Balance	63,738.94	0.00	0.00	0.00	0.00	0.00	63,738.94
Restricted Fund Balance	567,963.77	161,194.76	0.00	0.00	156,052.43	0.00	885,210.96
Committed Fund Balance	1,700,000.00	0.00	0.00	0.00	0.00	0.00	1,700,000.00
Assigned Fund Balance	938,956.28	0.00	380,038.58	4,577.95	0.00	0.00	1,323,572.81
Unassigned Fund Balance	863,308.98	0.00	0.00	0.00	0.00	0.00	863,308.98
TOTAL FUND BALANCE	4,133,967.97	161,194.76	380,038.58	4,577.95	156,052.43	0.00	4,835,831.69
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	6,667,485.26	218,404.61	380,094.01	4,577.95	156,052.43	0.00	7,426,614.26

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

Chehalis School District No. 302
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	4,693,494.37	408,759.79	647.06	16.59	60.33		5,102,978.14
State	22,127,298.91		0.00	0.00	114,582.28		22,241,881.19
Federal	2,386,986.05		0.00	0.00	0.00		2,386,986.05
Federal Stimulus	0.00						0.00
Other	2,022,353.88			0.00	0.00	0.00	2,022,353.88
TOTAL REVENUES	31,230,133.21	408,759.79	647.06	16.59	114,642.61	0.00	31,754,199.26
EXPENDITURES:							
CURRENT:							
Regular Instruction	14,116,677.93						14,116,677.93
Federal Stimulus	0.00						0.00
Special Education	4,789,314.15						4,789,314.15
Vocational Education	1,005,208.19						1,005,208.19
Skill Center	0.00						0.00
Compensatory Programs	4,119,030.46						4,119,030.46
Other Instructional Programs	95,611.45						95,611.45
Community Services	1,657.05						1,657.05
Support Services	6,692,349.73						6,692,349.73
Student Activities/Other		448,240.60				0.00	448,240.60
CAPITAL OUTLAY:							
Sites				11,764.02			11,764.02
Building				0.00			0.00
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					349,942.23		349,942.23
Sales and Lease				0.00			0.00
Other	423,818.38						423,818.38
DEBT SERVICE:							
Principal	55,763.35		61,307.06	0.00	0.00		117,070.41
Interest and Other Charges	8,662.93		9,654.88	0.00	0.00		18,317.81
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	31,308,093.62	448,240.60	70,961.94	11,764.02	349,942.23	0.00	32,189,002.41

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

Chehalis School District No. 302
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-77,960.41	-39,480.81	-70,314.88	-11,747.43	-235,299.62	0.00	-434,803.15
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	172,635.94			0.00	0.00		172,635.94
Transfers In	0.00		70,961.94	0.00	0.00		70,961.94
Transfers Out (GL 536)	0.00		0.00	0.00	-70,961.94	0.00	-70,961.94
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	3,550.00		3,550.00
TOTAL OTHER FINANCING SOURCES (USES)	172,635.94		70,961.94	0.00	-67,411.94	0.00	176,185.94
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	94,675.53	-39,480.81	647.06	-11,747.43	-302,711.56	0.00	-258,617.21
BEGINNING TOTAL FUND BALANCE	3,821,649.57	200,675.57	379,391.52	16,325.38	458,763.99	0.00	4,876,806.03
Prior Year(s) Corrections or Restatements	217,642.87	0.00	0.00	0.00	0.00	0.00	217,642.87
ENDING TOTAL FUND BALANCE	4,133,967.97	161,194.76	380,038.58	4,577.95	156,052.43	0.00	4,835,831.69

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

Chehalis School District No. 302
Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	7,950.00	0.00
Cash On Deposit with Cty Treas	12,100.00	0.00
Minus Warrants Outstanding	-12,100.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	842,593.65	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	850,543.65	0.00
LIABILITIES:		
Accounts Payable	244.10	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	244.10	0.00
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	553,963.78	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	296,335.77	
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	850,299.55	0.00

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

Chehalis School District No. 302

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	25,249.44	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	25,249.44	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	898.68	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	898.68	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	26,148.12	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	27,869.05	
Other	0.00	0.00
TOTAL DEDUCTIONS	27,869.05	0.00
Net Increase (Decrease)	-1,720.93	0.00
Net Position--Beginning	852,020.48	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	850,299.55	0.00

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

CHEHALIS SCHOOL DISTRICT
Notes to the Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chehalis 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.

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 principle 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.

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. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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 Director of Business and Operations are the only persons who have the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Inventory

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

Accounting and Reporting Changes for 2013–2014

Effective for the 2013-2014 school year, the district implemented provisions of *GASB Statement No. 65 Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Lewis 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.

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.

The District's investments as of August 31, 2014, are as follows:

**The County Treasurer's Investment Pool figure includes Trust and Agency Fund Investments totaling: \$842,593.65.

	Number of Securities	Carrying Amount	Market Value
County Treasurer's Investment Pool		\$5,133,115.68	\$5,133,115.68
Total Investments		\$5,133,115.68	\$5,133,115.68

Cash With Fiscal Agent

The district is 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 therefore monies held by the CR ESD 113 under this arrangement are considered to be cash with fiscal agent.

As of August 31, 2014 the CR ESD 113 Pool holds \$298,282.02 on behalf of the district. This is classified as investments/cash with trustee on the district's balance sheet.

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

The District has no known legal obligations that would materially impact the financial position of the District.

CR ESD 113 Insurance Cooperative

In September 1995 the District joined the CR ESD 113 Insurance Cooperative (COOP), a public entity risk pool for property and casualty insurance.

This COOP was created to allow its members to combine their purchasing power to obtain favorable and consistent insurance rates. Under terms of the COOP, the individual districts were liable for the first \$1,000 of the deductible; the COOP paid the remaining \$24,000 of the deductible. Losses above \$25,000 were covered by traditional insurance policies in which the individual districts were the named insured. Effective September 1, 2003, the COOP closed down and member districts established other insurance services for future liabilities. By agreement, the COOP assets remained available for the deductible on any claims as of August 31, 2003, and arising during the time of the cooperative.

COOP Dissolution

On October 22, 2014, the member districts elected to close the COOP operations and distribute remaining COOP assets to the member districts in accordance with the agreement. Liability for any future claims arising after this termination date are the responsibility of each member district.

Unpaid Claims Liabilities

At August 31, 2014, the COOP was aware of three covered claims asserted against a member district. The COOPs deductible obligation under these claims would be \$72,000. The COOP's obligation for these claims will be resolved before final distribution of remaining assets to member districts.

Of the \$72,000, Chehalis School District's estimated claim settlement liability is \$3,824 and estimated member share upon final distribution is \$21,016.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

There were no events after the balance sheet date that would have a material impact on the next or future fiscal years.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

A. General Information

Substantially all 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 the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2012:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

Membership by retirement system program as of June 30, 2013:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Data is as of last actuarial valuation date of June 30, 2013.

Certificated public employees are members of TRS. Noncertificated public 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. Plan 1 members are eligible to retire with full benefits

after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

The district contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

B. Contributions

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

<u>Plan</u>	<u>2013-14</u>
Plan 1 TRS	\$ 47,417.41
Plan 2 TRS	\$ 221,944.85
Plan 3 TRS	\$1,053,612.38
Plan 1 PERS	\$ 20,778.21
Plan 2 SERS	\$ 177,227.65
Plan 3 SERS	\$ 214,376.34

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2014, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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

NOTE 6: 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)

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 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 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$237,056.40. 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. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

For the fiscal year ended August 31, 2014, the District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Lease-Purchase Commitments					
Apple	\$78,363.46	\$26,121.15	August 2016		\$52,242.31
Dell	\$94,272.49	\$33,240.48	August 2016		\$61,032.01
Total Lease-Purchase Commitments					\$113,274.32

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$102,881,161 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt - VOTED

The District retired its outstanding voted Unlimited General Obligation Bond liability in December 2010.

Long-Term Debt - NON-VOTED (Bus Purchase)

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year ended August 31, 2014:

Long-Term Debt Payable at 9/1/2013	\$326,226.70
New Issues	
Debt Retired	\$ 61,307.06
Long-Term Debt Payable at 8/31/2014	\$264,919.64

The following is a schedule of annual requirements to amortize debt at August 31, 2014:

Years Ending August 31	Principal	Interest	Total
2015	\$ 62,863.08	\$10,022.26	\$72,885.34
2016	\$ 64,777.69	\$8,136.36	\$72,914.05
2017	\$ 67,091.18	\$6,193.04	\$73,284.22
2018	\$ 70,187.69	\$3,509.38	\$73,697.07
Total	\$264,919.64	\$27,861.04	\$292,780.68

At August 31, 2014, the District had \$380,038.58 available in the Debt Service Fund to service the general obligation bonds.

NOTE 10: 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.

In September, 2003, the District joined together with other school districts in the state to form School Insurance Association of Washington, a public entity risk pool currently operating as a common risk management and insurance program for (unemployment insurance, unemployment compensation). The District pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the (name of risk pool) provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250,000.00 for each insured event.

NOTE 11: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District provides educational services to residents of **Green Hill Academic School** and also to Lewis County Juvenile Detention. The financial operations for these services are included in the Chehalis School District's General Fund.

Additionally, Chehalis School District is the lead agency in the **Centralia Chehalis Student Support Cooperative**. Centralia is an adjacent district of similar size. The districts share certain administrative and support costs and Centralia pays a monthly allotment, based on projected totals, which is reconciled at year end by the Special Services Director and the Fiscal Directors for both districts. The vast majority of the "other" revenue listed within the face of Chehalis's financial statements in the General Fund is from Centralia School District in relation to the Student Support cooperative. For the 2013-14 school year, Centralia paid \$1,121,026.39 for its share of cooperative costs. Centralia underpaid its cooperative costs for 2013-14 by \$205,643.94 to be paid in 2014-15. Expenditures for the cooperative are split between districts based upon the special education certificated staffing full-time equivalency or other mutually agreed upon method. The percentages for the 2013-14 school year were:

Centralia		60%
Chehalis		40%

Pursuant to direction of the Office of Superintendent's instructions, revenues and expenditures for the special education cooperative are reflected in the financial statements as gross amounts, rather than

net. Chehalis records the full expenditures for the cooperative. Centralia records their expenditure portion as a payment to other school district and Chehalis records the receipt of that payment as special education revenue from another school district.

The total special education cooperative expenditures for the fiscal 2013-14 year were \$2,328,950. Those expenditures are reduced by revenues brought in by other special education cooperative agreements with other school districts in the area. Those revenues totaled \$195,592.54. Additionally, the cooperative received \$17,429 in outreach revenue from Cosmopolis School District. The net cooperative expenditures to split between the Centralia and Chehalis School Districts were \$2,115,928. Additionally, Centralia School District paid Chehalis School District \$25,000 in indirects pursuant to the cooperative agreement.

Chehalis School District is also involved in the **Centralia-Chehalis Pupil Transportation Cooperative** with Centralia acting as the lead district. The districts share certain administrative and support costs and Chehalis reimburses Centralia monthly for its portion of the shared costs. For fiscal year 2013-14 cooperative expenditures totaled \$1,089,014.28, including indirects and utilities. Expenditures for the cooperative are split between districts based upon the STARS funding program which is driven mainly by miles driven by each district. The percentages for the fiscal year 2013-14 school year were:

Centralia	58.84%
Chehalis	41.16%

Pursuant to direction of the Office of Superintendent's instructions, revenues and expenditures for the transportation cooperative are reflected in the financial statements as gross amounts, rather than net. Centralia records the full expenditures for the cooperative. Chehalis records their expenditure portion as a payment to other school district and Centralia records the receipt of that payment as revenue from another school district.

As identified above, the total transportation cooperative expenditures for the fiscal 2013-14 year were \$1,089,014.28. Those expenditures are reduced by revenue brought in by outside work, revenue generated from vehicle repairs and maintenance of other school district's vehicles and other municipality's vehicles as well as costs for repairs of Chehalis motor pool vehicles. This revenue totaled \$389,813.07 and Chehalis' motor pool repairs totaled \$32,888.24. Centralia School District carries an accounts receivable balance for work performed by cooperative mechanics for outside agency billable work; Chehalis School District's monthly billing is credited with the cooperative defined percentage of this revenue. The net cooperative expenditures to split between the Centralia and Chehalis School Districts were \$786,213.44.

The District is a member of the **King County Director's Association (KCDA)**. KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association on November 25, 1970 and has remained in the joint venture ever since. The District's current equity of \$ 26,074.91 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments).

NOTE 13: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$63,738				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$268,303				
Other Items	\$299,660	\$161,194			\$156,052
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,700,000				
Assigned Fund Balance					
Contingencies	\$525,000				
Other Purposes	\$413,956				
Fund Purposes			\$4,577	\$380,038	
Unassigned Fund Balance	\$863,308				
TOTAL	\$4,133,967	\$161,194	\$4,577	\$380,038	\$156,052

*On July 6, 2010, the Chehalis School Board passed Resolution number 09-10-018, establishing a minimum fund balance policy. The resolution includes the following language, "It shall be the goal of the district to maintain a minimum undesignated unreserved operating fund balance for nonrecurring expenses in the amount of 5% of anticipated total available resources during each budget year." These funds are classified as Committed Fund Balance, Minimum Fund Balance Policy within the district's balance sheet.

NOTE 14: 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 two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements.

The plan is administered by Security Benefit. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. For the year ended August 31, 2014, the District made \$24,250 in discretionary and employer contributions to the plan.

NOTE 15: TERMINATION BENEFITS

Compensated Absences

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

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual 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.

Vacation pay and sick leave pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

Chehalis School District No. 302
Schedule of Long-Term Liabilities: GENERAL FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	172,635.95	59,361.63	113,274.32	55,763.35
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	1,066,370.76	278,252.83	310,184.63	1,034,438.96	280,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,066,370.76	450,888.78	369,546.26	1,147,713.28	335,763.35

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

Chehalis School District No. 302
Schedule of Long-Term Liabilities: DEBT SERVICE FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	326,226.70	0.00	61,307.06	264,919.64	62,863.08
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	326,226.70	0.00	61,307.06	264,919.64	62,863.08

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

CHEHALIS SCHOOL DISTRICT # 302
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending August 31, 2014

Federal Grantor	Pass Through Agency	Program Title	CFDA No.	Other I.D. No.	Expenditures			Foot-note Ref.
					Direct Awards	Pass Through Awards	Total	
U.S. Dept. of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		156,773.00	156,773.00	1, 2
	WA OSPI	National School Lunch Program	10.555	N/A		554,668.00	554,668.00	1, 2, 3
	WA OSPI	Summer Food Service Program for Children	10.559	N/A		4,513.00	4,513.00	1, 2
	WA OST	Schools and Roads - Grants to States	10.665	N/A		255,970.00	255,970.00	1, 2
		Total Dept of Agriculture				971,924.00	971,924.00	
U.S. Dept. of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010	201541		388,606.00	388,606.00	1, 2, 4
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	222631		65,511.00	65,511.00	1, 2
		Subtotal CFDA No. 84.010				454,117.00	454,117.00	
	WA OSPI	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	222454		52,576.00	52,576.00	1, 2
	WA OSPI	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	223020		223,020.00	223,020.00	1, 2
		Subtotal CFDA No. 84.013				275,596.00	275,596.00	
	WA OSPI	Special Education_ Grants to States	84.027	304776		594,428.00	594,428.00	1, 2
	WA OSPI	Career and Technical Education -- Basic Grants to States	84.048	173121		17,627.00	17,627.00	1, 2
	WA OSPI	Career and Technical Education -- Basic Grants to States	84.048	189603		52,615.00	52,615.00	1, 2
		Subtotal CFDA No. 84.048				70,242.00	70,242.00	
U.S. Dept of Health and Human Svcs	WA OSPI	Special Education_Preschool Grants	84.173	364786		18,362.00	18,362.00	1, 2
	WA OSPI	English Language Acquisition State Grants	84.365	401915		5,068.00	5,068.00	1, 2
	WA OSPI	Improving Teacher Quality State Grants	84.367	523216		105,416.00	105,416.00	1, 2
		Total Dept of Education				1,523,229.00	1,523,229.00	
	WA HCA	Medical Assistance Program	93.778	N/A		33,711.00	33,711.00	1, 2
		Total Dept of Health and Human Svcs				33,711.00	33,711.00	
TOTAL FEDERAL AWARDS EXPENDED							\$ 2,528,864.00	\$ 2,528,864.00

CHEHALIS SCHOOL DISTRICT # 302
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2014

Note 1 – Basis of Accounting

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

Note 2 – 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 District's local matching share or portion, may be more than shown.

Note 3 – Non Cash Awards - Food Commodities

The amount of food commodities reported on the Schedule is the market value of commodities distributed by the District during the year. The value is determined by the USDA.

Note 4 - Schoolwide Programs

The District operates a "schoolwide program" in three elementary school 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. The following federal program amounts were expended by the District in its schoolwide programs:

- Title I (84.010) \$388,606.00.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Chehalis School District No. 302

Lewis County

September 1, 2013 through August 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Chehalis School District No. 302.

Finding ref number: 2014-001	Finding caption: Chehalis School District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant program.
Name, address, and telephone of auditee contact person: Heather C. Pinkerton 310 S.W. 16th Street Chehalis, WA 98532 (360) 807-7200	
Corrective action the auditee plans to take in response to the finding: <i>The District has already improved its internal controls over federal grant funding, including training for the new District Accountant. Additionally, timesheets and semi-annual certifications will be maintained at both the building and district office level, to ensure documents can be located during audits. Quarterly reconciliations will continue to take place as required and timesheets and semi-annual certifications will also be maintained electronically. The reviewer will continue to be diligent with monthly grant claim reviews. Key district personnel are now involved in all personnel actions and the District Accountant now receives copies of all personnel changes.</i>	
Anticipated date to complete the corrective action: Completed	

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	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov