



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

East Valley School District No. 361

Spokane County

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

Published March 26, 2015

Report No. 1013833





Washington State Auditor Troy Kelley

March 26, 2015

Board of Directors
East Valley School District No. 361
Spokane Valley, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on East Valley School District No. 361's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in blue ink that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

East Valley School District No. 361 Spokane County September 1, 2013 through August 31, 2014

The results of our audit of East Valley School District No. 361 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 reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed 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

East Valley School District No. 361 Spokane County September 1, 2013 through August 31, 2014

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

CFDA Number and Title:	84.010 Title I, Part A, 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:	0201516
Questioned Cost Amount:	\$0

Background

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with a high concentration of low-income families. The District received \$618,938 in Title I grant funds, for the year ended August 31, 2014.

Description of Condition

We found the District's internal controls were not adequate to ensure compliance with the following requirement:

Schoolwide Programs

The District operates schoolwide plans at its Trent and Trentwood elementary school buildings and spent \$272,979 and \$133,426 on salaries, benefits, and supplies respectively. The Elementary and Secondary Education Act authorizes schoolwide programs as an alternative to targeted assistance as a means to better serve all children in a school building. Unlike targeted assistance programs, in which a school ranks and serves individual students, a schoolwide program combines federal and state resources to enhance a school's entire educational

program. When a District uses this alternative, it must evaluate and revise the plan annually to ensure students continue to improve.

The District did not properly apply its established internal control and ensure a current and complete schoolwide plan was in place for services provided to two school buildings. The fiscal year 2014 schoolwide plans were based on the plans from the prior year. The plans included current data for the needs assessments which helps determine the program goals, however, the plans were missing four other key requirements. We considered this internal control weakness to be a material weakness.

Cause of Condition

The District utilizes a checklist of schoolwide program requirements to develop its schoolwide plans, but the District experienced employee turnover and staff members with new responsibilities failed to properly utilize the checklist and ensure all criteria was included in the plans.

Effect of Condition and Questioned Costs

If the District does not use all the required elements to evaluate the schoolwide program annually, it will not know if expected results were achieved or if the plan should be revised to better serve students.

The results of our audit found both Trent and Trentwood elementary schools' schoolwide plans, were missing four of the ten requirements including:

- The annual evaluation of, and results achieved by, the schoolwide program and revisions to the schoolwide plan based on that evaluation.
- The transition plans for assisting preschool children in the successful transition to the schoolwide program.
- Identification of the federal grants and other State/Local resources to be used.
- Information that only allowable funding sources would be used.

Recommendation

We recommend the District follow established internal controls and ensure schoolwide plans are properly evaluated, and updated with all the required criteria, annually.

District's Response

East Valley School District concurs with the finding regarding the Title I school-wide plan checklist. Steps are underway (as of January 12, 2015) to formally return the program to a targeted assistance plan.

Auditor's Remarks

We thank the District for its cooperation during the audit and look forward to reviewing the District's corrective action during our next audit.

Applicable Laws and Regulations

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

Section 300 Auditee responsibilities.

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.

Title 34, Code of Federal Regulations, Section 200.26(c) - § 200.26 Core elements of a schoolwide program, states in part:

(c) *Evaluation.* A school operating a schoolwide program must —

(1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement;

(2) Determine whether the schoolwide program has been effective in increasing the achievement of students in meeting the State's academic standards, particularly for those students who had been furthest from achieving the standards; and

(3) Revise the plan, as necessary, based on the results of the evaluation, to ensure continuous improvement of students in the schoolwide program.

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 internal controls over compliance 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:

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.

**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**

**East Valley School District No. 361
Spokane County
September 1, 2013 through August 31, 2014**

Board of Directors
East Valley School District No. 361
Spokane Valley, 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 East Valley School District No. 361, Spokane 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 10, 2015. As discussed in Note 1, to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board 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.

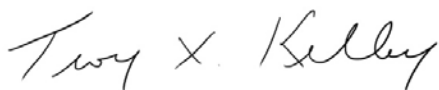
COMPLIANCE AND OTHER MATTERS

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 10, 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**

**East Valley School District No. 361
Spokane County
September 1, 2013 through August 31, 2014**

Board of Directors
East Valley School District No. 361
Spokane Valley, Washington

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

We have audited the compliance of East Valley School District No. 361, Spokane 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 also 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 noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 10, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

East Valley School District No. 361 Spokane County September 1, 2013 through August 31, 2014

Board of Directors
East Valley School District No. 361
Spokane Valley, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of East Valley School District No. 361, Spokane 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 East Valley School District No. 361, 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 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 and Transportation Vehicle 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, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

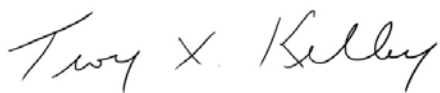
Other Matters

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 10, 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 10, 2015

FINANCIAL SECTION

**East Valley School District No. 361
Spokane 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
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

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	75,627.69	24,250.45	0.00	0.00	0.00	0.00	99,878.14
Minus Warrants Outstanding	-1,423,933.27	-1,521.70	0.00	0.00	-3,880.00	0.00	-1,429,334.97
Taxes Receivable	4,633,371.72		1,879.35	0.00	0.00		4,635,251.07
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	119,305.49	0.00	0.00	0.00	0.00	0.00	119,305.49
Accounts Receivable	155,421.25	0.00	0.00	4,000.00	0.00	0.00	159,421.25
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	65,161.29	0.00					65,161.29
Prepaid Items	201,192.33	0.00		0.00	5.00	0.00	201,197.33
Investments	2,654,472.50	138,050.06	161,093.70	36,458.52	318,035.17	0.00	3,308,109.95
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	6,480,619.00	160,778.81	162,973.05	40,458.52	314,160.17	0.00	7,158,989.55
LIABILITIES:							
Accounts Payable	123,069.59	2,010.22	0.00	0.00	0.00	0.00	125,079.81
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	2,216.45	0.00		0.00			2,216.45
Due To Other Governmental Units	279.17	0.00		0.00	0.00	0.00	279.17
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	41,000.00						41,000.00
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.

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	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	166,565.21	2,010.22	0.00	0.00	0.00	0.00	168,575.43
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	4,633,371.72		1,879.35	0.00	0.00		4,635,251.07
TOTAL DEFERRED INFLOWS OF RESOURCES	4,633,371.72	0.00	1,879.35	0.00	0.00	0.00	4,635,251.07
FUND BALANCE:							
Nonspendable Fund Balance	266,353.62	0.00	0.00	0.00	0.00	0.00	266,353.62
Restricted Fund Balance	93,530.92	158,768.59	161,093.70	34,338.84	314,160.17	0.00	761,892.22
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	40,000.00	0.00	0.00	6,119.68	0.00	0.00	46,119.68
Unassigned Fund Balance	1,280,797.53	0.00	0.00	0.00	0.00	0.00	1,280,797.53
TOTAL FUND BALANCE	1,680,682.07	158,768.59	161,093.70	40,458.52	314,160.17	0.00	2,355,163.05
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	6,480,619.00	160,778.81	162,973.05	40,458.52	314,160.17	0.00	7,158,989.55

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	10,462,562.65	329,999.77	317.74	6,119.68	1,222.00		10,800,221.84
State	33,609,897.06		0.00	0.00	179,725.62		33,789,622.68
Federal	3,066,577.34		0.00	0.00	0.00		3,066,577.34
Federal Stimulus	0.00						0.00
Other	3,105.20			0.00	0.00	0.00	3,105.20
TOTAL REVENUES	47,142,142.25	329,999.77	317.74	6,119.68	180,947.62	0.00	47,659,527.06
EXPENDITURES:							
CURRENT:							
Regular Instruction	23,446,577.63						23,446,577.63
Federal Stimulus	0.00						0.00
Special Education	5,439,862.42						5,439,862.42
Vocational Education	2,161,201.40						2,161,201.40
Skill Center	0.00						0.00
Compensatory Programs	3,092,477.43						3,092,477.43
Other Instructional Programs	328,298.17						328,298.17
Community Services	10,237.30						10,237.30
Support Services	11,255,750.32						11,255,750.32
Student Activities/Other		315,248.02				0.00	315,248.02
CAPITAL OUTLAY:							
Sites				246,732.44			246,732.44
Building				575.00			575.00
Equipment				11,050.33			11,050.33
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					44,903.00		44,903.00
Sales and Lease				0.00			0.00
Other	30,253.39						30,253.39
DEBT SERVICE:							
Principal	0.00		419,227.77	0.00	0.00		419,227.77
Interest and Other Charges	0.00		226,682.02	0.00	0.00		226,682.02
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	45,764,658.06	315,248.02	645,909.79	258,357.77	44,903.00	0.00	47,029,076.64

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	1,377,484.19	14,751.75	-645,592.05	-252,238.09	136,044.62	0.00	630,450.42
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00	0.00	0.00
Long-Term Financing	0.00			0.00	0.00	0.00	0.00
Transfers In	0.00		688,320.00	0.00	0.00		688,320.00
Transfers Out (GL 536)	-667,433.00		0.00	0.00	-20,887.00	0.00	-688,320.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00	0.00	0.00
Other	0.00		0.00	0.00	0.00	0.00	0.00
TOTAL OTHER FINANCING SOURCES (USES)	-667,433.00		688,320.00	0.00	-20,887.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	710,051.19	14,751.75	42,727.95	-252,238.09	115,157.62	0.00	630,450.42
BEGINNING TOTAL FUND BALANCE	942,214.09	144,016.84	118,365.76	292,696.61	199,002.55	0.00	1,696,295.85
Prior Year(s) Corrections or Restatements	28,416.79	0.00	-0.01	0.00	0.00	0.00	28,416.78
ENDING TOTAL FUND BALANCE	1,680,682.07	158,768.59	161,093.70	40,458.52	314,160.17	0.00	2,355,163.05

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

EAST VALLEY SCHOOL DISTRICT

Notes To Financial Statements

September 1, 2013 through August 31, 2014

Note 1: Summary of significant accounting policies (SSAP)

The East Valley School 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) District wide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplemental 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 Fund

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.

Measurement focus, basis of accounting and fund financial statement presentation.

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.

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 Assistant Superintendent of 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.

Note 2: Cash deposits with financial institutions

The Spokane 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 (except for investments of deferred compensation plans) 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:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	GF 2,654,472.50	GF 2,668,541.20
	CPF 36,458.52	CPF 36,651.75
	DSF 161,093.70	DSF 161,947.50
	ASB 138,050.06	ASB 138,781.73
	TVF 318,035.17	TVF 319,720.76
Total Investments	3,308,109.95	3,325,642.94

Note 3: Significant contingent liabilities

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

Litigation

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

Note 4: Significant effects of subsequent events

The District received notice of a basic education finding on October 6, 2014. The finding is in regards to the St. Charles/Keys cooperative. School Year 2012-13 apportionment for the program, amounting to \$1,165,096, is questioned due to the inability to separately identify direct instruction and on-line coursework. The matter has been referred to the Office of the Superintendent of Public Instruction under the Audit Resolution Process, chapter 392-115 WAC. There were no other 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

General Information

Substantially all District full-time and qualifying part-time employees participate in one or the following statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

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

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, respectively. Members are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

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 members, 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 advice from the Office of the State Actuary. 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's contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

Contributions

Employee contribution rates as of August 31, 2013:

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: Member-selected rate between five percent and fifteen percent, depending on plan options.

Employer contribution rates as of August 31, 2013:

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>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Plan 1 TRS	\$ 114,186.79	\$ 84,672.52	\$ 68,395.92
Plan 2 TRS	\$ 193,131.59	\$ 220,375.74	\$ 335,993.36
Plan 3 TRS	\$1,240,900.01	\$1,239,040.63	\$1,570,065.13
Plan 1 PERS	\$ 5,083.20	\$ 5,215.59	\$ 7,011.44
Plan 2 SERS	\$ 184,710.42	\$ 190,175.12	\$ 260,525.69
Plan 3 SERS	\$ 319,895.08	\$ 313,700.05	\$ 383,364.36

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, 2013, 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

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 \$66.64 per month per full-time equivalent employee to support the program, for a total payment of \$395,467.87. 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 has not incurred additional long-term debt.

Note 8: Construction and other significant commitments, including encumbrances, if appropriate

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/14 (Final)	Additional Local Funds Committed	Additional State Funds Committed
Modular Project	\$6,200,000	\$ 6,094,339	\$1,679,155	\$0
Total	\$6,200,000	\$ 6,094,339	\$1,679,155	\$0

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2014:

Fund	Amount
General	\$14,228.00

Note 9: Required disclosures about capital assets

The District's capital assets are insured in the amount of \$180,077,439 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 10: Required disclosures about long-term liabilities

Long-Term Debt

Bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2004 LGO	\$ 210,000	\$12,000-\$21,000	12/01/17	4.43%	\$ 78,000
2006 LGO	\$ 1,000,000	\$13,911-\$89,800	12/01/21	4.82%	\$ 593,904
2009 LGO	\$ 116,925	\$0	03/01/15	3.00%	\$ 116,924
2011 LGO	\$ 87,000	\$0	12/01/16	3.00%	\$ 87,000
2012 LGO	\$ 6,200,000	\$247,092-\$526,349	12/01/27	3.25%	\$ 5,544,710
Total General Obligation Bonds	\$ 7,613,925				\$ 6,420,538

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

Long-Term Debt Payable at 9/1/2013	\$ 6,839,766.01
New Issues	\$ 0
Debt Retired	\$ 419,227.77
Long-Term Debt Payable at 8/31/2014	\$ 6,420,538.24

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

Years Ending August 31	Principal	Interest	Total
2015	\$ 551,362	\$ 228,462	\$ 779,824
2016	\$ 450,162	\$ 195,373	\$ 645,535
2017	\$ 553,422	\$ 177,927	\$ 731,349
2018	\$ 483,237	\$ 159,886	\$ 643,123
2019	\$ 478,629	\$ 143,021	\$ 621,650
2020	\$ 495,618	\$ 126,032	\$ 621,650
2021	\$ 513,228	\$ 108,422	\$ 621,650
2022	\$ 483,831	\$ 90,168	\$ 573,999
2023	\$ 451,630	\$ 74,719	\$ 526,349
2024	\$ 466,427	\$ 59,922	\$ 526,349
2025	\$ 481,709	\$ 44,640	\$ 526,349
2026	\$ 497,492	\$ 28,857	\$ 526,349
2027	\$ 513,791	\$ 12,558	\$ 526,349
Total	\$6,420,538	\$1,449,987	\$7,870,525

At August 31, 2014, the District had \$161,093.70 available in the Debt Service Fund to service the general obligation bonds.

Note 11: Interfund balances and transfers

The following table depicts interfund transfer activity:

Transfer From	Transfer To	Transfer Amount
General Fund	Debt Service Fund	\$667,433
Transportation Vehicle Fund	Debt Service Fund	\$ 20,887
Total		\$688,320

Note 12: Entity Risk Management Activities

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

WORKERS COMPENSATION COOPERATIVE

The District made payments totaling \$356,071 to the industrial insurance pool, which is administered by Educational Service District No. 101 on behalf of several local school districts for fiscal year 2014. These funds are operated for the District's benefit in lieu of the District having to make monthly premium payments to the State of Washington for industrial insurance beneficiaries as they occur and minimizes the District's cost for the programs.

UNEMPLOYMENT COOPERATIVE

The District is a self-insurer of unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington Department of Employment Security and then reimbursed by the District. This self-insurance program costs the District less than full participation in the state unemployment compensation program. The District made unemployment compensation payments totaling \$20,515 in fiscal year 2014, and has set aside \$41,000 in payables for fiscal year 2014 to ensure payment of these claims.

VISION SELF-INSURANCE PROGRAM

The District is a self-insurer providing vision benefits to all its eligible employees. Pre-established premiums were deducted from each employee's paycheck and remitted to Northwest Administrators, Inc, which provided administrative services and paid claims for the District. Northwest Administrators, Inc. reported plan income of \$119,431 and claims expenses of \$121,219. The cash balance is composed of premiums paid for their personal benefit and is not considered an asset of the District. Reserve balance held by Northwest Administrators, Inc as of August 31, 2014 is \$52,578.

CASUALTY INSURANCE

The East Valley School District is a member of Schools Insurance Association of Washington (SIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995 when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW program has 37 member districts.

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

The program acquires Liability insurance through their Administrator, Canfield, that is subject to a per-occurrence of \$100,000. Members are responsible for a \$2,500 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,400,000, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence self-insured retention of \$250,000. Members are responsible for a \$10,000 deductible amount for each claim. The program is responsible for the remaining \$250,000 self-insured retention. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000.00. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for a minimum of one year, and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014, were \$2,956,785.70.

A Board of Directors of eight members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Note 13: 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 14: Joint ventures and jointly governed organizations

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association on October 14, 1987, and has remained in the joint venture ever since. The District's current equity of \$3,058.79 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 15: 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	\$266,354				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$93,531				
Debt Service				\$161,094	
Other Items		\$158,769	\$34,339		\$314,160
Committed Fund Balance					
Assigned Fund Balance					
Other Purposes	\$40,000		\$6,120		
Fund Purposes					
Unassigned Fund Balance	\$1,280,798				

Note 16: 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.

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 CPI Qualified Plan Consultants, Inc. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

Note 17: 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 vesting method.

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

No unrecorded liability exists for other employee benefits.

Note 18: Other Items

Superintendent severance agreement

In February 2014, the School Board and the Superintendent reached a severance agreement totaling \$324,500. The Superintendent received normal salary and benefits through June 30, 2014, then received payments of \$153,000 on July 31, 2014 and \$171,500 on August 30, 2014.

Prior period Adjustment

In September and October 2013, \$28,416.79 was received for P-3 grant reimbursements for 2012-2013 fiscal year expenditures. Initially recorded as a 2013-2014 fiscal year revenue, a prior year adjustment was made to record the revenue to the 2012-2013 fiscal year. This adjustment increased the beginning fund balance for the 2013-2014 fiscal year and reduced the revenue received in the 2013-2014 fiscal year.

East Valley School District (Spokane) No. 361
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	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,398,977.70	38,775.38	0.00	1,437,753.08	265,000.00
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	1,398,977.70	38,775.38	0.00	1,437,753.08	265,000.00

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	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	6,839,766.01	0.00	419,227.77	6,420,538.24	551,361.83
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	6,839,766.01	0.00	419,227.77	6,420,538.24	551,361.83

EAST VALLEY SCHOOL DISTRICT #361
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Department of Agriculture								
	OSPI	School Breakfast Program	10.553	32-361		\$ 252,172.51	\$ 252,172.51	
	OSPI	National School Lunch Program - Cash Assistance	10.555	32-361		\$ 875,723.04	\$ 875,723.04	
	OSPI	National School Lunch Program - Non-Cash (Commodities)	10.555	32-361		\$ 82,325.97	\$ 82,325.97	3
		Subtotal National School Lunch Program				\$ 958,049.01	\$ 958,049.01	
	OSPI	Child and Adult Care Food Program	10.558	32-361		\$ 12,543.60	\$ 12,543.60	
	OSPI	Summer Food Service Program for Children	10.559	32-361		\$ 42,388.29	\$ 42,388.29	
	OSPI	Fresh Fruit and Vegetable Grant	10.582	32-361		\$ 27,769.08	\$ 27,769.08	
		Subtotal Other Food and Nutrition Program				\$ 82,700.97	\$ 82,700.97	
		USDA Subtotal				\$ 1,292,922.49	\$ 1,292,922.49	
U.S. Department of Interior								
		Payment in Lieu of Taxes	15.226	N/A	\$ 15.26		\$ 15.26	
		Department of Interior Subtotal			\$ 15.26		\$ 15.26	
U.S. Department of Education								
	OSPI	Title I Grants to Local Educational Agencies	84.010	0201516		\$ 608,798.77	\$ 608,798.77	4,5
	OSPI	Title I Grants to Local Educational Agencies - Reallocation	84.010	0224554		\$ 12,139.00	\$ 12,139.00	4,5
	OSPI	Special Education - Grants to State Agencies (IDEA, Part B)	84.027A	0304688		\$ 803,466.00	\$ 803,466.00	2,4,5
	OSPI	Career and Technical Education - Basic Grants to State Agencies	84.048	0173054		\$ 31,740.59	\$ 31,740.59	2,5
	OSPI	Special Education - Preschool Grants (IDEA Preschool)	84.173A	0364686		\$ 24,629.00	\$ 24,629.00	2,5
	OSPI	English Language Acquisition State Grants	84.365	0401875		\$ 10,801.81	\$ 10,801.81	5
	OSPI	Improving Teacher Quality State Grants	84.367	0523406		\$ 178,566.51	\$ 178,566.51	5
		Department of Education Subtotal				\$ 1,668,141.68	\$ 1,668,141.68	
U.S. Department of Health and Human Services								
	DSHS	Medical Assistance Program	93.778	N/A		\$ 91,824.33	\$ 91,824.33	
		Department of Health and Human Services				\$ 91,824.33	\$ 91,824.33	
Total					\$ 15.26	\$ 3,052,888.50	\$ 3,052,903.76	

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

EAST VALLEY SCHOOL DISTRICT NO. 361

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District's financial statements. The East Valley 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 portion, may be more than shown.

NOTE 3 - NONCASH AWARDS

The amount of food commodities reported on the schedule is the market value of commodities distributed by the East Valley School District during the current year. The USDA determines the value.

NOTE 4 - SCHOOLWIDE PROGRAMS

The District operates a "schoolwide program" in two K-8 buildings (Trent and Trentwood K-8 Schools). 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 amount was expended by the District in its schoolwide programs: Title I (84.010) \$406,405.34.

NOTE 5 - FEDERAL INDIRECT RATE

The East Valley School District used the federal restricted rate of 3.91 percent for this program.

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

East Valley School District No. 361 Spokane 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 East Valley School District No. 361.

Finding ref number: 2014 -001	Finding caption: The District did not have adequate internal controls to ensure compliance with federal requirements for its Title I grant.
Name, address, and telephone of auditee contact person: Brian Aiken - Assistant Superintendent of Operations 3830 North Sullivan Spokane Valley, WA 99216 (509) 924-1830	
Corrective action the auditee plans to take in response to the finding: <i>East Valley School District concurs with the finding regarding the Title 1 school-wide plan checklist. Steps are underway (as of January 12, 2015) to formally return the program to a targeted assistance plan.</i>	
Anticipated date to complete the corrective action: April 27, 2015	

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