



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit Report**

# **Yelm Community School District No. 2**

**Thurston County**

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

**Published April 20, 2015**

**Report No. 1014025**





**Washington State Auditor**  
**Troy Kelley**

April 20, 2015

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on Yelm Community School District No. 2'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

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## FEDERAL SUMMARY

### **Yelm Community School District No. 2 Thurston County September 1, 2013 through August 31, 2014**

The results of our audit of Yelm Community School District No. 2 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>
12.556	Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies

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

### Yelm Community School District No. 2 Thurston County September 1, 2013 through August 31, 2014

#### **2014-001    The District does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	12.556 Competitive Grants – Promoting K-12 Achievement at Military Connected Schools
<b>Federal Grantor Name:</b>	U.S. Department of Defense
<b>Federal Award/Contract Number:</b>	HE 1254-13-1-0025
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

#### ***Description of Condition***

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor is not suspended or debarred.

To meet this requirement, the vendor can certify in writing that it has not been suspended or debarred. Alternatively, the District can check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet these requirements prior to entering into contracts with vendors.

We found the District did not have controls in place to ensure it verified whether three vendors paid a total of \$412,784 with grant funds were suspended or debarred.

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

### ***Cause of Condition***

The District was unaware at the time of purchase that the funds being expended were federal and thus, subject to the requirement.

### ***Effect of Condition and Questioned Costs***

Without proper controls, the District increases the risk of awarding funds to vendors that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance.

We were able to verify that the vendors were not suspended or debarred; therefore, we will not question these costs.

### ***Recommendation***

We recommend the District establish internal controls to ensure vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

### ***District's Response***

*The District concurs with the finding regarding suspension and debarment requirements for the Promoting K-12 Achievement at Military Connected Schools grant. The District does have internal controls in place to confirm all federal expenditures with the Excluded Parties List issued by the U.S. General Service Administration. In this case, the purchasing department was not aware that the grant was issued by a federal funding source. The District will review and improve internal controls between the purchasing department and grant accounting office to ensure all federal grants are properly identified to comply with the suspension and debarment requirements.*

### ***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*, 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.

Title 2, Code of Federal Regulations, Section 180.220, states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000 . . .

(c) A subcontract also is a covered transaction if

(1) It is awarded by a participant in a procurement transaction under a nonprocurement transaction of a Federal agency that extends the coverage of paragraph (b)(1) of this section to additional tiers of contracts (see the diagram in the appendix to this part showing that optional lower tier coverage); and

- (2) The value of the subcontract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

**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**

**Yelm Community School District No. 2  
Thurston County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Yelm Community School District No. 2  
Yelm, 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 Yelm Community School District No. 2, Thurston 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 April 1, 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.

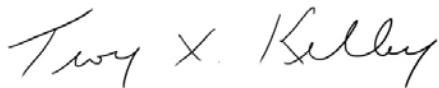
## COMPLIANCE AND OTHER MATTERS

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

April 1, 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**

**Yelm Community School District No. 2  
Thurston County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

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

We have audited the compliance of Yelm Community School District No. 2, Thurston 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 internal control over compliance 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**

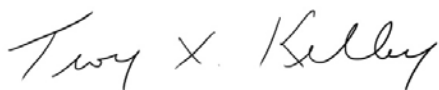
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

April 1, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Yelm Community School District No. 2 Thurston County September 1, 2013 through August 31, 2014**

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Yelm Community School District No. 2, Thurston 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 Yelm Community School District No. 2, 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, Transportation Vehicle and Permanent 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.

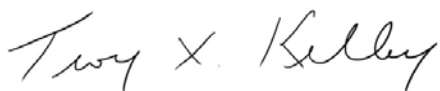
## Other Matters

### *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 April 1, 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

April 1, 2015

## **FINANCIAL SECTION**

**Yelm Community School District No. 2**  
**Thurston 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 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

Yelm School District No. 002

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	5,712,073.56	323,111.40	2,300,061.47	803,913.70	385,623.47	0.00	9,524,783.60
Minus Warrants Outstanding	-903,033.40	-20,382.57	0.00	-12,727.28	0.00	0.00	-936,143.25
Taxes Receivable	4,976,378.63		2,138,957.43	0.00	0.00		7,115,336.06
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	398,593.75	0.00	0.00	0.00	0.00	0.00	398,593.75
Accounts Receivable	29,166.92	0.00	0.00	0.00	0.00	0.00	29,166.92
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	651,369.77	19,653.28					671,023.05
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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			0.00
Self-Insurance Security Deposit	0.00			0.00			0.00
<b>TOTAL ASSETS</b>	<b>10,864,549.23</b>	<b>322,382.11</b>	<b>4,439,018.90</b>	<b>791,186.42</b>	<b>385,623.47</b>	<b>0.00</b>	<b>16,802,760.13</b>
<b>LIABILITIES:</b>							
Accounts Payable	1,141,047.44	56,705.24	0.00	15,498.19	0.00	0.00	1,213,250.87
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	173,252.74	0.00		0.00			173,252.74
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	310,353.04	0.00		0.00			310,353.04
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
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.

Yelm School District No. 002

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
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
<b>TOTAL LIABILITIES</b>	<b>1,624,653.22</b>	<b>56,705.24</b>	<b>0.00</b>	<b>15,498.19</b>	<b>0.00</b>	<b>0.00</b>	<b>1,696,856.65</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	4,976,378.63		2,138,957.43	0.00	0.00		7,115,336.06
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,976,378.63</b>	<b>0.00</b>	<b>2,138,957.43</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>7,115,336.06</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Restricted Fund Balance	0.00	256,676.87	2,300,061.47	727,756.63	0.00	0.00	3,284,494.97
Committed Fund Balance	2,651,446.00	9,000.00	0.00	0.00	0.00	0.00	2,660,446.00
Assigned Fund Balance	0.00	0.00	0.00	47,931.60	385,623.47	0.00	433,555.07
Unassigned Fund Balance	1,612,071.38	0.00	0.00	0.00	0.00	0.00	1,612,071.38
<b>TOTAL FUND BALANCE</b>	<b>4,263,517.38</b>	<b>265,676.87</b>	<b>2,300,061.47</b>	<b>775,688.23</b>	<b>385,623.47</b>	<b>0.00</b>	<b>7,990,567.42</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>10,864,549.23</b>	<b>322,382.11</b>	<b>4,439,018.90</b>	<b>791,186.42</b>	<b>385,623.47</b>	<b>0.00</b>	<b>16,802,760.13</b>

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

**Yelm School District No. 002**

**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
<b>REVENUES:</b>							
Local	10,751,895.02	737,232.43	4,198,772.85	405,072.81	1,187.65		16,094,160.76
State	38,568,656.61		0.00	180,493.13	374,339.66		39,123,489.40
Federal	4,211,652.26		0.00	0.00	0.00		4,211,652.26
Federal Stimulus	0.00						0.00
Other	27,431.62			0.00	0.00	51.62	27,483.24
<b>TOTAL REVENUES</b>	<b>53,559,635.51</b>	<b>737,232.43</b>	<b>4,198,772.85</b>	<b>585,565.94</b>	<b>375,527.31</b>	<b>51.62</b>	<b>59,456,785.66</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	27,523,240.37						27,523,240.37
Federal Stimulus	0.00						0.00
Special Education	6,050,241.77						6,050,241.77
Vocational Education	2,302,483.89						2,302,483.89
Skill Center	0.00						0.00
Compensatory Programs	2,147,593.28						2,147,593.28
Other Instructional Programs	598,107.71						598,107.71
Community Services	0.00						0.00
Support Services	12,412,655.25						12,412,655.25
Student Activities/Other		736,661.91				823.27	737,485.18
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				230,028.47			230,028.47
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				197,755.61			197,755.61
Transportation Equipment					243,025.18		243,025.18
Sales and Lease				0.00			0.00
Other	1,098,090.90						1,098,090.90
<b>DEBT SERVICE:</b>							
Principal	0.00		3,060,158.52	0.00	0.00		3,060,158.52
Interest and Other Charges	0.00		1,460,674.24	0.00	0.00		1,460,674.24
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>52,132,413.17</b>	<b>736,661.91</b>	<b>4,520,832.76</b>	<b>427,784.08</b>	<b>243,025.18</b>	<b>823.27</b>	<b>58,061,540.37</b>

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

Yelm School District No. 002

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
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	1,427,222.34	570.52	-322,059.91	157,781.86	132,502.13	-771.65	1,395,245.29
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	9,332.33		477,484.00	0.00	0.00		486,816.33
Transfers Out (GL 536)	-296,141.00		0.00	0.00	-181,343.00	-9,332.33	-486,816.33
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-286,808.67</b>		<b>477,484.00</b>	<b>0.00</b>	<b>-181,343.00</b>	<b>-9,332.33</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	1,140,413.67	570.52	155,424.09	157,781.86	-48,840.87	-771.65	1,404,577.62
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>3,123,103.71</b>	<b>265,106.35</b>	<b>2,144,637.38</b>	<b>617,906.37</b>	<b>434,464.34</b>	<b>10,103.98</b>	<b>6,595,322.13</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>4,263,517.38</b>	<b>265,676.87</b>	<b>2,300,061.47</b>	<b>775,688.23</b>	<b>385,623.47</b>	<b>0.00</b>	<b>7,990,567.42</b>

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

	Private Purpose Trust	Other Trust
<b>ADDITIONS:</b>		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>0.00</b>	<b>0.00</b>
<b>Investment Income:</b>		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	4.05	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	4.05	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>4.05</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	0.00	
Other	795.89	0.00
<b>TOTAL DEDUCTIONS</b>	<b>795.89</b>	<b>0.00</b>
Net Increase (Decrease)	-791.84	0.00
Net Position--Beginning	791.84	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>0.00</b>	<b>0.00</b>

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



**Yelm Community Schools**  
**Notes to the Financial Statements**  
**September 1, 2013 through August 31, 2014**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Yelm Community 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 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.

### **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 is the only person who has 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 Thurston 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	\$9,426,249	\$9,426,249

### **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

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

#### **ESD 113 Insurance Cooperative**

In September 1996, the District joined the CR ESD 113 Insurance Cooperative, 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 is 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 COOP's 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.

### **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, 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

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>FY 13-14</u>
Plan 1 TRS	\$ 48,372.59
Plan 2 TRS	\$ 483,164.89
Plan 3 TRS	\$1,666,493.60
Plan 1 PERS	\$ 16,027.12
Plan 2 SERS	\$ 294,875.92
Plan 3 SERS	\$ 467,226.33

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 \$429,725. 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: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE**

### **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	\$370,363
Capital Projects Fund	\$539,211



## **NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$150,000,000 for fiscal year 2013-14. 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**

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
2010 UTGO REF.	37,595,000	680,000-4,855,000	12/1/22	2.00%-5.00%	33,425,000
2004A	1,013,309	98,833	06/1/17	3.86%	277,453
2004B	842,861	84,202-87,439	12/1/17	3.99%	272,932
2009A	2,000,000	70,000-145,000	12/1/22	2.00%-4.55%	1,705,000
2009B	2,000,000	105,000-145,000	6/16/22	1.95%	1,560,000
Total General Obligation Bonds					37,240,385

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 9/1/13	40,300,543
New Issues	-
Debt Retired	3,060,158
Long-Term Debt Payable at 8/31/2014	37,240,385

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

Years Ending August 31	Principal	Interest	Total
2015	3,316,074	1,340,702	4,656,776
2016	3,557,541	1,211,726	4,769,267
2017	3,834,396	1,084,745	4,919,141
2018	3,967,374	953,645	4,921,019
2019	4,115,000	802,496	4,917,496
2020-2024	17,380,000	1,530,900	18,910,900
2025-2029	925,000	114,610	1,039,610
2030	145,000	-	145,000
Total	37,240,385	7,038,824	44,279,209

At August 31, 2014, the District had \$2,300,061 available in the Debt Service Fund to service the general obligation bonds.

## Refunded Debt

On October 7, 2010, the District issued \$37,595,000 million in general obligation bonds with an average interest rate of 2.59 percent to advance refund \$36,015,000 million of outstanding 2003 series bonds with an average interest rate of 5.007 percent. The net proceeds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 series bonds. As a result, the 2003 series bonds are considered defeased.

## **NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES**

Yelm Community Schools is a member of Schools Insurance Association of Washington (SIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire 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, General Liability, Automotive Liability, Equipment Breakdown, Crime, and Wrongful Acts Liability.

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

Property insurance is subject to a per-occurrence SIR of \$250,000. Members are responsible for a \$10,000 deductible for each claim (some member deductibles vary), while the program is responsible for the \$250,000 SIR. Insurance carriers cover insured losses over \$260,000 to the limits of each policy. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000.00. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for one year and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member

is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with 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 ending 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 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: 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
Restricted Fund Balance		\$256,677		\$2,300,061	
Other Items			\$727,757		
Committed Fund Balance					
Minimum Fund Balance Policy	\$2,643,446				
Other Commitments	\$ 8,000	\$ 9,000			
Assigned Fund Balance					
Fund Purposes			\$ 47,932		\$385,623
Unassigned Fund Balance	\$1,612,071				

In addition, the Capital Projects Fund has the following amounts in Restricted and Committed Fund Balance, based on the source of the revenues:

Restricted from Impact Fee Proceeds	\$244,454
Restricted from Mitigation Fee Proceeds	\$483,303

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain 5% of the General Fund annual operating appropriations. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of Committed fund balance.

**NOTE 13: 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 a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

**NOTE 14: 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 15: OTHER DISCLOSURES**

### **King County Director's Association**

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity of \$44,140.03 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.

### **Workers Compensation**

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

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

The Trust provides industrial injury accident insurance coverage for its 45 member districts. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked and the members' experience rated contribution factor. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts that the Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$400,000 and the annual aggregate retention is \$11,145,540 minimum for a two year period FY 2013-15. Since the Trust is a cooperative program, there is joint liability among participating members.

For fiscal year 2014, there are 45 members in the pool including 44 participating school districts. A Board comprised of one designated representative from each participating member and a six member Executive Board governs the Trust. The Executive Board has five members elected by the Board and the ESD Superintendent.

The CR ESD 113 is responsible for conducting the business affairs of the Trust. As of August 31, 2014, the amount of claim liabilities totaled \$7,240,000. This liability is the CR ESDs best estimate based on available information including actuarial reports. Changes in the reported liability since August 31, 2014, resulted in the following:

	<b>Beginning Balance 9/1/2013</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Ending Balance 8/31/2014</b>
Incurred but not Reported	\$6,011,000	\$(262,000)	\$5,749,000
Future L&I Assessments	1,294,000	(188,000)	1,106,000
Estimated Unallocated Loss Adjustment	403,000	(18,000)	385,000

## **Unemployment Insurance**

In July 1983, the District joined together the Unemployment Compensation Pool (Pool). The Pool is organized pursuant to Title 50.44 RCW for the purpose of managing unemployment compensation payroll taxes and employee claims. Membership is established by execution of an agreement between the CR ESD 113 and each local school district.

The Pool provides unemployment compensation coverage for members of the Pool arising from former employees. The Pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pays for unemployment claims and for the administration of the Pool. There is provision that members can be additionally assessed if the Pool needs additional funding.

Effective September 1, 2012, the Pool began "pooling" the unemployment risks among members. This was a change from the historical "banking model" program whereby each member was essentially responsible for its own claims. This change to a pooling system required that the Pool had to develop an overall base rate, make individual adjustments to the base rate based upon member experience, and transition the prior bank balances to the capital position in the pooled system.

For fiscal year 2014, there are 38 school district members in the Pool in addition to the CR ESD. The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a six member Executive Board. Five members elected by the Cooperative Board and the CR ESD 113 Superintendent comprise the Executive Board.

As of August 31, 2014, the amount of claim reserves totaled \$566,626. This liability is the CR ESDs best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	<b>Beginning Balance 9/1/2013</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Ending Balance 8/31/2014</b>
Claims Reserves	\$972,706	\$(406,080)	\$566,626

Yelm School District No. 002  
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
<b>Non-Voted Debt and Liabilities</b>					
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	1,038,863.12	181,969.18	195,457.90	1,025,374.40	0.00
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
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
<b>Total Long-Term Liabilities</b>	<b>1,038,863.12</b>	<b>181,969.18</b>	<b>195,457.90</b>	<b>1,025,374.40</b>	<b>0.00</b>

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

Yelm School District No. 002  
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
<b>Voted Debt</b>					
Voted Bonds	36,140,000.00	0.00	2,715,000.00	33,425,000.00	2,960,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	4,160,543.05	0.00	345,158.52	3,815,384.53	356,074.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	40,300,543.05	0.00	3,060,158.52	37,240,384.53	3,316,074.00

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



Yelm Community Schools #2  
Thurston County  
Schedule of Expenditure of Federal Awards  
For Fiscal Year Ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	Expenditures		Footnote
					From Direct Awards	From Pass Through Awards	
U.S. Department of Agriculture	OSPI	National School Lunch Program	10.555		-	941,166	
	OSPI	Cash Assistance		34-002	-	140,220	
	OSPI	Non-Cash Assistance (Commodities)		34-002	-	237,534	2
	OSPI	School Breakfast Program	10.553	34-002	-	78	
	Office of State Treasurer	Schools and Roads - Grants to States	10.665		-		3
<b>Department of Agriculture Subtotal</b>					-	<b>1,318,998</b>	<b>1,318,998</b>
U.S. Department of Defense		Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools	12.556	HE 1254-10-1-0034	5,758	-	5,758
		Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools	12.556	HE 1254-13-1-0025	477,901	-	477,901
	<b>Department of Defense Subtotal</b>				<b>483,659</b>	-	<b>483,659</b>
U.S. Department of Education	OSPI	Title I Grants to Local Educational Agencies	84.010	0201480	-	805,571	4
	OSPI	Special Education—Grants to States	84.027	0304640	-	997,351	4
	OSPI	Special Education—Preschool Grants	84.173	0364640	-	32,325	4
		Impact Aid	84.041	S041B-2014-5556	91,710	-	91,710
	OSPI	Career and Technical Education - Basic Grants to States	84.048	0173120	-	56,781	
		Indian Education - Grants to Local Educational Agencies	84.060	S060A131120	33,604	-	33,604
	OSPI	Improving Teacher Quality State Grants	84.367	0523208	-	192,999	
	<b>Department of Education Subtotal</b>				<b>125,314</b>	<b>2,085,027</b>	<b>2,210,341</b>
	U.S. Department of Health and Human Services	Health Care Authority (HCA) Medical Assistance Program	93.778	0765-25021	-	198,655	
<b>Department of Health &amp; Human Services Subtotal</b>					-	<b>198,655</b>	<b>198,655</b>
<b>Totals</b>					<b>608,973</b>	<b>3,602,680</b>	<b>4,211,653</b>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

## 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 Yelm Community Schools financial statements. Yelm Community Schools uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

### NOTE 2—NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities received by the school district during the current year and priced as prescribed by the USDA.

### NOTE 3 - NOT AVAILABLE (N/A)

Yelm Community Schools was unable to obtain other identification number

### NOTE 4 - FEDERAL INDIRECT RATE

Yelm Community Schools used the federal restricted rate of 4.47 percent for this program.

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

### **Yelm Community School District No. 2** **Thurston 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 Yelm Community School District No. 2.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The District does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Jeff Role, Deputy Superintendent for Business and Operations P.O. Box 476 Yelm, WA 98597 (360)-458-6104	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District concurs with the finding regarding suspension and debarment requirements for the Promoting K-12 Achievement at Military Connected Schools grant. The District does have internal controls in place to confirm all federal expenditures with the Excluded Parties List issued by the U.S. General Service Administration. In this case, the purchasing department was not aware that the grant was issued by a federal funding source. The District will review and improve internal controls between the purchasing department and grant accounting office to ensure all federal grants are properly identified to comply with the suspension and debarment requirements.</i>	
<b>Anticipated date to complete the corrective action:</b> Immediately	

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Contact information for the State Auditor's Office	
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