



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Cle Elum-Roslyn School District No. 404

Kittitas County

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

Published May 26, 2015

Report No. 1014343





Washington State Auditor

May 26, 2015

Board of Directors
Cle Elum-Roslyn School District No. 404
Cle Elum, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Cle Elum-Roslyn School District No. 404'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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Cle Elum-Roslyn School District No. 404
Kittitas County
September 1, 2013 through August 31, 2014

The results of our audit of Cle Elum-Roslyn School District No. 404 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 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 its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program 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

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

Cle Elum-Roslyn School District No. 404 Kittitas County September 1, 2013 through August 31, 2014

2014-001 Cle Elum-Roslyn School District did not have adequate internal controls to ensure compliance with time and effort requirements with federal Title I requirements.

CFDA Number and Title:	84.010 – Title I Grants to Local Education 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:	201356 and 224388
Questioned Cost Amount:	\$17,690

Description of Condition

The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families. In fiscal year 2014, the District received \$236,096 in federal funding through its Title I program. Of this amount, \$210,813 was spent on salaries and benefits.

We reviewed payroll transactions to determine whether salaries and benefits charged to federal grants were supported by adequate time and effort documentation as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet. The District is also required to review actual costs to budgeted distributions based on monthly activity reports at least quarterly and adjust costs when there are differences of more than ten percent.

Our audit found the District did not design an effective process to monitor and review employees whose positions were funded, in whole or in part, with federal grant funds to ensure semi-annual certifications or monthly personnel activity reports were completed and were reconciled to the budgeted distributions timely.

The District charged salaries and benefits to the Title I program monthly based on each employee's budgeted allocation. Although employees prepared time and effort monthly, the District compared actual costs to budgeted distributions at the end of the grant year rather than quarterly, as required. Year-end adjustments of approximately \$66,000 were posted to adjust the budgeted allocation to the actual distribution reports. These adjustments were not reviewed by an independent person and did not have adequate support justifying the validity of the transactions. In addition, as this reconciliation was performed at year-end, the District did not identify that employees charged to the grant did not have the appropriate time and effort.

In addition, the District did not have a process in place to ensure year-end reimbursement requests were supported by valid expenditures.

We consider these internal control deficiencies to be material weaknesses over internal controls.

Cause of Condition

The District did not fully understand program requirements over reconciling budgeted costs to actual time and effort on a quarterly basis and recording the appropriate adjustments when differences exceeded ten percent. Also, the District did not dedicate the necessary resources to review year-end transactions and reimbursement requests to ensure they were properly supported and posted.

Effect of Condition and Questioned Costs

Without proper support for transactions, federal grantors cannot be assured expenditures charged to the programs are accurate and valid. The District's noncompliance with grant requirements can jeopardize future federal funding and may require it to return federal funds to the grantor.

Our audit found the following:

- The District was unable to provide time and effort documentation for one employee, who worked on multiple cost objectives, that was paid \$7,214 out of the Title I program and two employees that worked solely on Title I, that were charged \$5,935 to the program. We verified that the two employees worked entirely on the Title I program; therefore, we are not questioning these costs for these two employees. However, we are questioning the \$7,214 costs for the one employee that worked on multiple cost objectives.

- Time and effort documentation for one multiple objective employee did not agree to the amount charged to the Title I program, resulting in questioned costs of \$6,071.
- The District submitted one reimbursement request for grant number 224388 at the end of the fiscal year in the amount of \$4,405. There were no expenditures to support the amount requested; therefore, we are questioning these costs.

In total, we are questioning \$17,690 in federal Title I expenditures.

Recommendation

We recommend the District:

- Compare actual costs from the monthly activity reports to budgeted distributions at least quarterly and adjust costs when there are differences of more than ten percent.
- Establish internal controls to ensure all employees working on federal grants submit required certifications and time and effort documentation to support time worked.
- Establish internal controls to ensure adjustments and reimbursement requests are properly supported and approved by an independent person to ensure the validity of the transactions.

District's Response

The Cle Elum-Roslyn School District agrees with the Auditor's report that there were discrepancies discovered during the audit with the Time and Effort documentation compared to the grant reimbursement calculation. Time and Effort documents for 3 para-educators hired late in the school year to serve Title I students were not on file. Questioned costs include those costs of the missing documentation for one para-educator who served in multi-objective purposes.

The District has implemented changes to insure proper supporting documentation for all employees serving in the Title I program. Reconciliation of Time and Effort will be conducted based on program guidelines. In addition, the District has submitted a request to OSPI to use the Time and Effort Substitute System Certification for future years. Guidelines of the Substitute System will be adhered to.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improvements. We will review the status of this issue 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*, 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 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.

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-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 8(h), states:

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

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

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

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

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

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

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Cle Elum-Roslyn School District No. 404
Kittitas County
September 1, 2013 through August 31, 2014

2014-002 The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.

Background

It is the responsibility of District management to design, implement and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in controls over financial statement reporting that affected the District's ability to produce reliable financial statements.

Governmental Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit identified deficiencies in internal controls that, when taken together, represent a material weakness:

- One person is responsible for preparing general ledger journal entries. Journal entries are not reviewed by an independent person and adequate support is not retained.
- A material adjustment was manually recorded on the financial statements and was not posted to the general ledger. There was no review of this adjustment.
- The District lacks a review process of the financial statements to ensure the financial statements were accurate.

Cause of Condition

The District has not established a review process to ensure financial statements were reported accurately. In addition, the District has not dedicated the necessary resources to ensure journal entries were accurate and supported.

Effect of Condition

The transportation vehicle fund of \$147,507 was not properly classified as restricted. This amount was material to the fund.

In addition, we found immaterial errors on the financial statements, Schedule of Expenditures of Federal Awards and notes to the financial statements.

Recommendation

We recommend the District:

- Perform journal entries in accordance with the School's Accounting Manual, establish a review over journal entries, and maintain proper support.
- Establish a detailed secondary review process to ensure financial statements and schedules are free of errors and comply with current reporting requirements.

District's Response

The School's Accounting Manual describes the categories of assignment of Fund Balance. As requested by the State Auditor's Office the district has corrected the classification of the Fund Balance from "Assigned Fund Balance" (GL 889) to "Restricted Fund Balance (GL 819).

In the future, journal vouchers will be reviewed with and approved by the District Superintendent.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improvements. We will review the status of this issue during our 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 material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Governmental Auditing Standards Board (GASB) Statement No. 54, Restricted Fund Balance, states in part:

8. Except as provided for in paragraph 7, amounts that are restricted to specific purposes, pursuant to the definition of restricted in paragraph 34 of Statement 34, as amended by Statement No. 46, Net Assets Restricted by Enabling Legislation, should be reported as restricted fund balance. Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

Schools Accounting Manual (Chapter 4 page 26), states in part:

“Restricted” Accounts

Restricted accounts represent those amounts that, except for those items reported as Nonspendable, are restricted to specific purposes. These restrictions may either be:

- (1) Externally imposed by creditors, grantors, contributors, laws, or regulations of other governments, or
- (2) Imposed by law through constitution provisions or enabling legislation.

**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**

**Cle Elum-Roslyn School District No. 404
Kittitas County
September 1, 2013 through August 31, 2014**

Board of Directors
Cle Elum-Roslyn School District No. 404
Cle Elum, 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 Cle Elum-Roslyn School District No. 404, Kittitas 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 May 21, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-002 to be material weaknesses.

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*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's

internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke at the end.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 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**

**Cle Elum-Roslyn School District No. 404
Kittitas County
September 1, 2013 through August 31, 2014**

Board of Directors
Cle Elum-Roslyn School District No. 404
Cle Elum, Washington

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

We have audited the compliance of Cle Elum-Roslyn School District No. 404, Kittitas 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.

District's Response to Findings

The District's response to the noncompliance finding 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.

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.

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, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Cle Elum-Roslyn School District No. 404 **Kittitas County** **September 1, 2013 through August 31, 2014**

Board of Directors
Cle Elum-Roslyn School District No. 404
Cle Elum, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cle Elum-Roslyn School District No. 404, Kittitas 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 27.

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 Cle Elum-Roslyn School District No. 404, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

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

Matters of Emphasis

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 21, 2015

FINANCIAL SECTION

Cle Elum-Roslyn School District No. 404
Kittitas County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014
Statement of Fiduciary Net Position – Fiduciary Funds – 2014
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule 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	321,744.50	27,034.82	867.47	13,157.07	67,922.46	0.00	430,726.32
Minus Warrants Outstanding	-159,589.73	-409.65	0.00	0.00	0.00	0.00	-159,999.38
Taxes Receivable	1,000,965.44		0.00	930,457.48	0.00		1,931,422.92
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	102,370.73	0.00	0.00	0.00	0.00	0.00	102,370.73
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	6,248.30	0.00					6,248.30
Prepaid Items	11,884.71	0.00		0.00	0.00	0.00	11,884.71
Investments	1,918,481.26	110,865.70	394,691.23	2,481,807.86	77,584.65	0.00	4,983,430.70
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	3,202,105.21	137,490.87	395,558.70	3,425,422.41	145,507.11	0.00	7,306,084.30
LIABILITIES:							
Accounts Payable	73,038.23	91.39	0.00	861,261.92	0.00	0.00	934,391.54
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	0.00	0.00		0.00			0.00
Due To Other Governmental Units	6,126.15	0.00		0.00	0.00	0.00	6,126.15
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

E.S.D. 105 Balance Sheet

COUNTY: 19 Kittitas 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
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
TOTAL LIABILITIES	79,164.38	91.39	0.00	861,261.92	0.00	0.00	940,517.69
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	1,000,965.44		0.00	930,457.48	0.00		1,931,422.92
TOTAL DEFERRED INFLOWS OF RESOURCES	1,000,965.44	0.00	0.00	930,457.48	0.00	0.00	1,931,422.92
FUND BALANCE:							
Nonspendable Fund Balance	6,248.30	0.00	0.00	0.00	0.00	0.00	6,248.30
Restricted Fund Balance	0.00	137,399.48	395,558.70	0.00	145,507.11	0.00	678,465.29
Committed Fund Balance	0.00	0.00	0.00	927,526.96	0.00	0.00	927,526.96
Assigned Fund Balance	1,200,000.00	0.00	0.00	706,176.05	0.00	0.00	1,906,176.05
Unassigned Fund Balance	915,727.09	0.00	0.00	0.00	0.00	0.00	915,727.09
TOTAL FUND BALANCE	2,121,975.39	137,399.48	395,558.70	1,633,703.01	145,507.11	0.00	4,434,143.69
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	3,202,105.21	137,490.87	395,558.70	3,425,422.41	145,507.11	0.00	7,306,084.30

Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 19 Kittitas

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	2,345,642.18	133,001.02	11,664.65	2,028,230.89	74.02		4,518,612.76
State	5,708,159.66		0.00	0.00	67,922.46		5,776,082.12
Federal	749,374.46		0.00	0.00	0.00		749,374.46
Federal Stimulus	0.00						0.00
Other	5,242.00			0.00	0.00	0.00	5,242.00
TOTAL REVENUES	8,808,418.30	133,001.02	11,664.65	2,028,230.89	67,996.48	0.00	11,049,311.34
EXPENDITURES:							
CURRENT:							
Regular Instruction	4,803,547.18						4,803,547.18
Federal Stimulus	0.00						0.00
Special Education	707,570.41						707,570.41
Vocational Education	333,676.79						333,676.79
Skill Center	0.00						0.00
Compensatory Programs	474,587.48						474,587.48
Other Instructional Programs	15,371.35						15,371.35
Community Services	52,500.00						52,500.00
Support Services	2,149,061.97						2,149,061.97
Student Activities/Other		125,629.03				0.00	125,629.03
CAPITAL OUTLAY:							
Sites				992,598.56			992,598.56
Building				333,662.92			333,662.92
Equipment				166,836.86			166,836.86
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	18,842.49						18,842.49
DEBT SERVICE:							
Principal	0.00		0.00	0.00			0.00
Interest and Other Charges	0.00		0.00	0.00			0.00
Bond/Levy Issuance				0.00			0.00
TOTAL EXPENDITURES	8,555,157.67	125,629.03	0.00	1,493,098.34	0.00	0.00	10,173,885.04

Statement of Revenues, Expenditures, and Changes in Fund Balance

E.S.D. 105

COUNTY: 19 Kittitas

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	253,260.63	7,371.99	11,664.65	535,132.55	67,996.48	0.00	875,426.30
OTHER FINANCING SOURCES (USES):							
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	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
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
TOTAL OTHER FINANCING SOURCES (USES)	0.00		0.00	0.00	0.00	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	253,260.63	7,371.99	11,664.65	535,132.55	67,996.48	0.00	875,426.30
BEGINNING TOTAL FUND BALANCE	1,868,714.76	130,027.49	383,894.05	1,098,570.46	77,510.63	0.00	3,558,717.39
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	2,121,975.39	137,399.48	395,558.70	1,633,703.01	145,507.11	0.00	4,434,143.69

ASSETS:	Private Purpose Trust	Other Trust
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	4.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	27,180.08	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	27,184.08	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	0.00	
Assigned to Fund Purposes	27,184.08	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	27,184.08	0.00

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	405.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	405.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	29.76	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	29.76	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	434.76	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	2,358.50	
Other	0.00	0.00
TOTAL DEDUCTIONS	2,358.50	0.00
Net Increase (Decrease)	-1,923.74	0.00
Net Position--Beginning	29,512.82	0.00
Prior Year(s) Corrections or Restatements	-405.00	0.00
NET POSITION--ENDING	27,184.08	0.00

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cle Elum-Roslyn School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose 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.505.101(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

These funds account for financial resources 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 capital assets such as land and buildings.

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

Debt Service Fund

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

Special Revenue Fund

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

Permanent Funds

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

Fiduciary Funds

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

Private-Purpose Trust Fund.

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

Pension (and Other Employee Benefit) Trust Fund ⁽²⁾

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

Agency Funds

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

Measurement focus basis of accounting and fund financial statement

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 both 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 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 the 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 of the Cle Elum-Roslyn School District 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 2013-14 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 Kittitas County Treasurer is the ex officio treasurer for the District and holds all accounts of the district. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the district's investments during the year and at year end were insured or registered and held by the district or its agent in the district's name.

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

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits	0	0	0
Repurchase Agreements	0	0	0
Bankers' Acceptance	0	0	0
Obligations of the U.S. Government or Its Subsidiary Corporations	0	0	0

Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities	0	0	0
State Treasurer's Investment Pool	5	\$4,983,431	\$4,983,431
County Treasurer's Investment Pool	0	0	0
Total Investments	5	\$4,983,431	\$4,983,431

NOTE 3: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

A. General Information

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

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

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

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

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 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'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 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%
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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>	<u>FY 12-13</u>	<u>FY 11-12</u>
Plan 1 TRS	2,078	0	4,759
Plan 2 TRS	56,211	28,735	26,361
Plan 3 TRS	310,570	246,244	244,771
Plan 1 PERS	0	0	0
Plan 2 SERS	53,439	38,179	38,645
Plan 3 SERS	66,799	54,355	49,951

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 4: 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 \$43,089. 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 5: COMMITMENTS UNDER NON-CAPITALIZED (OPERATING) LEASES

Operating Leases

The District entered into a 48 month lease agreement for six copiers provided by Abadan beginning November 1, 2012. The total obligation of the lease agreement is \$45,904. General Fund expenditures under the terms of the operating lease were \$9,563 for the year ended August 31, 2014. The General Fund is committed to future minimum payments required under the operating leases at August 31, 2014, as follows:

Year Ending August 31,	Minimum Lease Payment
2015	\$11,476
2016	\$11,476
2017	\$ 1,913
Total Commitment	\$ 24,865

NOTE 6: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE

The district passed a 3-year Capital Projects Levy, effective for calendar years 2011, 2012 and 2013. The collection amount for each calendar year is \$2,000,000 (2 million dollars) for a total of \$6,000,000 available for project planning and implementation. Construction/facility improvement projects are approved by the district's board of directors. A citizens committee has been established to identify and make recommendations to the board of directors. Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2014	Additional Local Funds Committed	Additional State Funds Committed
High School Parking Lot	1,274,772	914,396	360,376	
Elem/MS Flooring	335,000	297,874	37,126	
Tennis Court Rebuild	274,903		274,903	
Technology Upgrade	200000	166,837	33,163	

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	\$ 73,038
ASB Fund	\$
Capital Projects Fund	\$ 861,262
Transportation Vehicle Fund	\$

NOTE 7: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The district's capital assets are insured in the amount of \$25,926,556 for fiscal year 2014. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

NOTE 8: ENTITY RISK MANAGEMENT ACTIVITIES

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

In September, 2013 the District became a member of the Washington State Risk Management Pool (pool).

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 Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown, and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims.

Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

NOTE 9: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the district. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The 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 taxes due on October 31 are recorded as deferred revenue.

NOTE 10: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

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 board authorized joining the association by signing the Articles of Agreement on February 18, 1963, and has remained in the joint venture ever since. The district's current equity of \$16,735.72 as of December 31, 2013 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid

administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 11: FUND BALANCE CLASSIFICATION DETAILS

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	6,248				
Restricted Fund Balance					
Carryover of Restricted Revenues					
Debt Service					
Arbitrage Rebate					
Uninsured Risks					
Other Items		\$137,399		395,559	145,507
Committed Fund Balance					
Minimum Fund Balance Policy					
Other Commitments			927,527		
Assigned Fund Balance					
Contingencies	1,200,000		706,176		
Other Capital Projects					
Other Purposes					
Fund Purposes					
Unassigned Fund Balance	915,727				

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

Restricted from Bond Proceeds	
Restricted from Levy Proceeds	
Restricted from State Proceeds	
Restricted from Federal Proceeds	
Restricted from Other Proceeds	
Restricted from Impact Fee Proceeds	
Restricted from Mitigation Fee Proceeds	
Restricted from Undistributed Proceeds	

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

457 Plan – Deferred Compensation Plan

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

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 the 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 school district employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 13: TERMINATION BENEFITS

Compensated Absences

Employees earn sick leave at a rate of twelve (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 buy out purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the termination payment method.

Vacation pay, 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 14: OTHER DISCLOSURES

The District passed a Capital Projects Levy for the years 2014, 2015, and 2016. The annual approved amount is \$2,000,000.

Superintendent Mark Flatau resigned from the district effective June 30, 2014 to assume the Superintendent position in Kalispell, Montana.

On July 1, 2014 Gary Wargo became the Superintendent of the Cle Elum-Roslyn School District. Mr. Wargo assumes the Cle Elum-Roslyn School District position following his tenure as Superintendent of LaCross, Endicott and St. John School Districts.

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	36,341.00	0.00	11,475.96	24,865.04	11,475.96
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	289,193.58	69,447.00	50,270.14	308,370.44	39,354.55
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	325,534.58	69,447.00	61,746.10	333,235.48	50,830.51

Cle Elum-Roslyn School District No. 404
 Kittitas County
 EIN: 91-1136953
 Schedule of Expenditure of Federal Awards
 For Fiscal Year Ending August 31, 2014

Federal Agency Name	Pass Thru Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	Pass Thru Amount	Total Funds Expended	Foot Note
Dept. of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		38,840	38,840	2
	WA OSPI	National School Lunch Program (A)-Cash Assistance	10.555	N/A		127,415	127,415	2
	WA OSPI	National School Lunch Program-Non Cash Assistance (commodities)	10.555	N/A		8,353	8,353	3
	Office of State Treasurer	Schools and Roads - Grants to States	10.665	N/A		57,475	57,475	
			Subtotal US Depart. of Agriculture			\$232,083	\$232,083	
US Dept of Interior (USDO)	WA OST	Distribution of Receipts to State and Local Governments (Taylor Grazing)	15.227	N/A		112	112	
			Subtotal US Department of Interior			\$112	\$112	
Dept. of Education	WA OSPI	Title I Grants to Local Education Agencies	84.010A	0201356		231,691	231,691	4
	WA OSPI	Title I Grants to Local Education Agencies	84.010	0224388		4,405	4,405	4
	WA OSPI	Special Education_ Grants to States	84.027A	0304812		159,067	159,067	4
	WA OSPI	Special Education_Preschool Grants	84.173A	0364814		10,519	10,519	4
	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	0173102		7,876	7,876	4
	WA OSPI	Rural Education	84.358B	0461375		15,813	15,813	4
	WA OSPI	Improving Teacher Quality State Grants	84.367A	0523262		38,853	38,853	4
	ESD105	Improving Teacher Quality State Grants	84.367B	9003000037		8,906	8,906	4
			Subtotal US Department of Education			477,130	477,130	
			Subtotal US Department of Education			45,000	45,000	
Health and Human Services	ESD105	Substance Abuse Block Grant	93.959	90030000026		45,000	45,000	
			Subtotal US Department of Education			45,000	45,000	
TOTAL FEDERAL AWARDS EXPENDED							\$754,325	\$754,325

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

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Cle Elum-Roslyn School District's financial statements. The Cle Elum-Roslyn 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 Cle Elum-Roslyn School District's portion, may be more than shown.

NOTE 3 - NONCASH AWARDS

The amount of commodities reported on the schedule is the value of the commodities distributed by the Cle Elum-Roslyn School District during the current year and priced as prescribed by OSPI Child Nutrition Programs

NOTE 4 - FEDERAL INDIRECT RATE

The Cle Elum-Roslyn School District used the federal restricted rate of 4.89%

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

Cle Elum-Roslyn School District No. 404 Kittitas 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 Cle Elum-Roslyn School District No. 404.

Finding ref number: 2014-001	Finding caption: Cle Elum-Roslyn School District did not have adequate internal controls to ensure compliance with time and effort requirements with federal Title I requirements.
Name, address, and telephone of auditee contact person: Becky Montgomery, Business Manager 2690 State Route 903 Cle Elum, WA 98922	
Corrective action the auditee plans to take in response to the finding: <i>The District has implemented changes to insure proper supporting documentation for all employees serving in the Title I program. Reconciliation of Time and Effort will be conducted based on program guidelines. In addition, the District has submitted a request to OSPI to use the Time and Effort Substitute System Certification for future years. Guidelines of the Substitute System will be adhered to.</i>	
Anticipated date to complete the corrective action: May 18, 2015	

Finding ref number: 2014-002	Finding caption: The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.
Name, address, and telephone of auditee contact person: Becky Montgomery, Business Manager 2690 State Route 903 Cle Elum, WA 98922	
Corrective action the auditee plans to take in response to the finding: <i>The School's Accounting Manual describes the categories of assignment of Fund Balance. As requested by the State Auditor's Office the district has corrected the classification of the Fund Balance from "Assigned Fund Balance" (GL 889) to "Restricted Fund Balance (GL 819). In the future, journal vouchers will be reviewed with and approved by the District Superintendent.</i>	
Anticipated date to complete the corrective action: May 18, 2015	

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

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

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

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

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

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