



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Blaine School District No. 503

Whatcom County

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

Published May 28, 2015

Report No. 1014364





Washington State Auditor

May 28, 2015

Board of Directors
Blaine School District No. 503
Blaine, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Blaine School District No. 503's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink, reading "Jan M. Jutte".

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

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FEDERAL SUMMARY

Blaine School District No. 503
Whatcom County
September 1, 2013 through August 31, 2014

The results of our audit of Blaine School District No. 503 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>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
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 did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Blaine School District No. 503 Whatcom County September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate internal controls to ensure compliance with federal Title I graduation rate reporting requirements.

CFDA Number and Title:	84.010 Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	201338, 224367
Questioned Cost Amount:	\$0

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. During fiscal year 2014 the District spent \$378,248 in Title I program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the District's internal controls were not adequate to ensure compliance with reporting of graduation data.

Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. This is done through the submission of a Graduation Rate Report that indicates the student's enrollment status; i.e. graduated, transferred out, dropped out, migrated to another country, or deceased. A student's status must be adequately supported and updated when errors or changes are noted. To confirm that a student transferred out, the district must have official written documentation that the student enrolled in

another school or in an educational program that culminates in the award of a regular high school diploma.

We found the District did not adequately design or follow controls to ensure compliance with the Title 1 graduation reporting requirements. The District did not have official written documentation to support all students that are reported as transferred out of the District.

We consider this internal control deficiency to be material weakness.

Cause of Condition

The District was not aware of the written documentation requirements to support transfer students for graduation reporting.

Effect of Condition and Questioned Costs

Without proper supporting documentation for transferred students, the District is unable to adequately support its reported graduation rate.

Our audit found the District did not retain official written documentation to support the transfer status of six out of ten students tested. We projected the error rate to all 36 students reported as transferred, which resulted in a projected error of 22 transfer students, which results in a projected 12 percent error in graduation reporting.

Recommendation

We recommend the District:

- Provide training and guidance to staff to ensure they are knowledgeable of the grant requirements.
- Establish and follow internal controls that will ensure it meets federal requirements for documentation of student transfers for graduation reporting.

District's Response

The District has reviewed the auditor's recommendation and is implementing an adjustment to its practice for documenting the withdrawal status of students as confirmed transfers or as unconfirmed transfers. In consultation with the Office of Superintendent of Public Instruction, the District will obtain additional written documentation of confirmed transfers.

Auditor's Remarks

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

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

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

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

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

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be

prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

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

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

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

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

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and non-Profit Organizations*, Section OMB 1810-051, states in part:

Beginning with annual report cards providing assessment results for the 2010–2011 school year, an SEA and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

Title 34, Code of Federal Regulations, Section 200.19 - Other academic indicators, states in part:

(b) High schools—(1) Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a “four year adjusted cohort graduation rate,” defined as the number of students who graduate in four years with a regular high school diploma

divided by the number of students who form the adjusted cohort for that graduating class.

(B) For those high schools that start after grade nine, the cohort must be calculated based on the earliest high school grade.

(ii) The term “adjusted cohort” means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort...

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

(2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort.

(iii) The term “students who graduate in four years” means students who earn a regular high school diploma at the conclusion of their fourth year, before the conclusion of their fourth year, or during a summer session immediately following their fourth year...

(2)(ii)(C) A dropout may not be counted as a transfer.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Blaine School District No. 503. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/1/2012 – 8/31/2013	Report Ref. No.: 1011710	Finding Ref. No.: 1	CFDA Number(s): 84.010
Federal Program Name and Granting Agency: Title I Part A, U.S. Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: The District does not have adequate internal controls to ensure compliance with the federal Title I grant requirement for Highly Qualified Teachers.			
Background: Our audit found the District employed one paraeducator who did not meet highly qualified status, and four paraeducators whose qualifications for highly qualified status could not be confirmed due to a lack of adequate documentation. Also, the District failed to include information regarding paraeducators in the notification to the parents. Questioned costs were \$90,743.			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input checked="" type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> No Corrective Action Taken</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
Corrective Action Taken: <i>Each year the Human Resources Supervisor now runs a report of paraeducators in Title I, then checks their personnel file to ensure they all meet the requirements and that the required documentation is in their file. This check will also be performed if a new staff member is added to Title I mid-year. In addition, the Director of Federal and Special Programs reviews with Title I building principals a Principal Checklist. One item on the checklist is to review highly qualified status. Principals sign an attestation that paraprofessionals in the program meet the minimum requirements. The Director of Federal and Special Programs also is now using the template Parent Right to Know Letter available on the OSPI website to ensure parents are notified.</i>			

**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**

**Blaine School District No. 503
Whatcom County
September 1, 2013 through August 31, 2014**

Board of Directors
Blaine School District No. 503
Blaine, 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 Blaine School District No. 503, Whatcom 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 11, 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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 11, 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**

**Blaine School District No. 503
Whatcom County
September 1, 2013 through August 31, 2014**

Board of Directors
Blaine School District No. 503
Blaine, Washington

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

We have audited the compliance of Blaine School District No. 503, Whatcom 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 noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

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 the first name "Jan" and last name "Jutte" clearly legible.

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

May 11, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Blaine School District No. 503 Whatcom County September 1, 2013 through August 31, 2014

Board of Directors
Blaine School District No. 503
Blaine, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Blaine School District No. 503, Whatcom 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 21.

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 Blaine School District No. 503, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

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

Matters of Emphasis

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 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 11, 2015

FINANCIAL SECTION

Blaine School District No. 503
Whatcom 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
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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

Blaine School District No. 503

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	691,485.34	52,643.10	5,834.52	9.02	2.17	0.00	749,974.15
Minus Warrants Outstanding	-595,821.51	-1,021.29	0.00	0.00	0.00	0.00	-596,842.80
Taxes Receivable	2,926,564.14		1,790,671.32	0.00	0.00		4,717,235.46
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	152,039.74	0.00	0.00	0.00	0.00	0.00	152,039.74
Accounts Receivable	7,264.23	0.00	0.00	0.00	0.00	0.00	7,264.23
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	11,422.84	0.00					11,422.84
Prepaid Items	12,464.90	0.00		0.00	0.00	0.00	12,464.90
Investments	2,303,927.73	121,021.69	2,265,295.41	259,243.41	161,425.73	0.00	5,110,913.97
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	5,509,347.41	172,643.50	4,061,801.25	259,252.43	161,427.90	0.00	10,164,472.49
LIABILITIES:							
Accounts Payable	190,957.03	6,521.63	0.00	2,459.70	0.00	0.00	199,938.36
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	31,236.48	0.00		0.00			31,236.48
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	12,880.67	0.00		0.00			12,880.67
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.

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	235,074.18	6,521.63	0.00	2,459.70	0.00	0.00	244,055.51
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	44,991.78	45,641.75	0.00	0.00	0.00	0.00	90,633.53
Unavailable Revenue - Taxes Receivable	2,926,564.14		1,790,671.32	0.00	0.00		4,717,235.46
TOTAL DEFERRED INFLOWS OF RESOURCES	2,971,555.92	45,641.75	1,790,671.32	0.00	0.00	0.00	4,807,868.99
FUND BALANCE:							
Nonspendable Fund Balance	23,887.74	0.00	0.00	0.00	0.00	0.00	23,887.74
Restricted Fund Balance	27,673.81	120,480.12	2,271,129.93	0.00	161,427.90	0.00	2,580,711.76
Committed Fund Balance	1,489,141.69	0.00	0.00	0.00	0.00	0.00	1,489,141.69
Assigned Fund Balance	0.00	0.00	0.00	256,792.73	0.00	0.00	256,792.73
Unassigned Fund Balance	762,014.07	0.00	0.00	0.00	0.00	0.00	762,014.07
TOTAL FUND BALANCE	2,302,717.31	120,480.12	2,271,129.93	256,792.73	161,427.90	0.00	5,112,547.99
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	5,509,347.41	172,643.50	4,061,801.25	259,252.43	161,427.90	0.00	10,164,472.49

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	6,697,362.89	289,016.99	3,727,711.21	1,185.97	757.81		10,716,034.87
State	14,419,378.04		0.00	402,649.67	132,185.73		14,954,213.44
Federal	1,679,525.27		0.00	0.00	0.00		1,679,525.27
Federal Stimulus	0.00						0.00
Other	68,667.45			0.00	0.00	0.00	68,667.45
TOTAL REVENUES	22,864,933.65	289,016.99	3,727,711.21	403,835.64	132,943.54	0.00	27,418,441.03
EXPENDITURES:							
CURRENT:							
Regular Instruction	11,996,308.31						11,996,308.31
Federal Stimulus	0.00						0.00
Special Education	2,756,132.90						2,756,132.90
Vocational Education	635,330.66						635,330.66
Skill Center	0.00						0.00
Compensatory Programs	1,233,160.67						1,233,160.67
Other Instructional Programs	274,328.49						274,328.49
Community Services	86,104.83						86,104.83
Support Services	5,130,122.07						5,130,122.07
Student Activities/Other		305,490.26				0.00	305,490.26
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				255,311.04			255,311.04
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					281,724.90		281,724.90
Sales and Lease				0.00			0.00
Other	207,540.22						207,540.22
DEBT SERVICE:							
Principal	0.00		3,290,000.00	0.00	0.00		3,290,000.00
Interest and Other Charges	0.00		332,616.00	0.00	0.00		332,616.00
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	22,319,028.15	305,490.26	3,622,616.00	255,311.04	281,724.90	0.00	26,784,170.35

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	545,905.50	-16,473.27	105,095.21	148,524.60	-148,781.36	0.00	634,270.68
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00	0.00	0.00
Long-Term Financing	0.00			0.00	0.00	0.00	0.00
Transfers In	0.00		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	0.00
Other	0.00		0.00	0.00	0.00	0.00	0.00
TOTAL OTHER FINANCING SOURCES (USES)	0.00		0.00	0.00	137,459.36	0.00	137,459.36
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	545,905.50	-16,473.27	105,095.21	148,524.60	-11,322.00	0.00	771,730.04
BEGINNING TOTAL FUND BALANCE	1,756,811.81	136,953.39	2,166,034.72	108,268.13	172,749.90	0.00	4,340,817.95
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	2,302,717.31	120,480.12	2,271,129.93	256,792.73	161,427.90	0.00	5,112,547.99

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

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	508.24	0.00
Minus Warrants Outstanding	-472.79	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	25,466.70	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	25,502.15	0.00
LIABILITIES:		
Accounts Payable	92.23	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	92.23	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	25,409.92	
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits		0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	25,409.92	0.00

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

ADDITIONS:			
Contributions:			
Private Donations	Private Purpose Trust	Other Trust	
Employer	9,061.15		0.00
Members			0.00
Other	0.00		0.00
TOTAL CONTRIBUTIONS	9,061.15		0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value	0.00		0.00
Interest and Dividends	101.61		0.00
Less Investment Expenses	0.00		0.00
Net Investment Income	101.61		0.00
Other Additions:			
Rent or Lease Revenue	0.00		0.00
Total Other Additions	0.00		0.00
TOTAL ADDITIONS	9,162.76		0.00
DEDUCTIONS:			
Benefits			0.00
Refund of Contributions	0.00		0.00
Administrative Expenses	0.00		0.00
Scholarships	0.00		
Other	4,558.88		0.00
TOTAL DEDUCTIONS	4,558.88		0.00
Net Increase (Decrease)	4,603.88		0.00
Net Position--Beginning	20,806.04		0.00
Prior Year(s) Corrections or Restatements	0.00		0.00
NET POSITION--ENDING	25,409.92		0.00

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

Blaine School District
Notes to the Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Blaine School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

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

Debt Service Fund

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

Special Revenue Fund

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

Fiduciary Funds

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

Private-Purpose Trust Fund

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

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgets

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures.

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Superintendent 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 Whatcom 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:

	Market Value
County Treasurer's Investment Pool	5,136,380.67
Total Investments	5,136,380.67

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

The Washington State Auditor's Office issued a management letter dated December 7, 2012 concerning high school credit in Alternative Learning Experience courses, and questioning \$149,538 in related apportionment revenues received from the Office of Superintendent of Public Instruction (OSPI). The district does not agree with the State's interpretation and is currently in the administrative appeals process to protest any recovery of revenue.

Litigation

Litigation involving the District arises from a student who alleges she was injured during a weight training class. In a tort claim and in related discovery, the student claims to have suffered \$5,000,000 in general damages and over \$166,000 in special medical damages as a result of the incident. The parents are each alleging to have suffered over \$500,000 in general damages, over \$55,000 in special damages and approximately \$30,000-\$40,000 in lost wages as a result of the alleged injury. The District is vigorously defending the Plaintiffs' claims and is unable to offer any opinions as to liability or damages, pending further discovery. The litigation currently pending against the district is covered by insurance coverage through the Washington Schools Risk Management Pool, and in management's estimation, would not pose a financial loss to the district for this reason.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The district learned in January 2014 that taxable property within its boundaries, valued at \$975 million in 2013, is undergoing a review of its assessed valuation with the Washington State Board of Tax Appeals. The property's assessed value was scheduled to increase to \$1,084 million in 2014, and the appeal is questioning \$384 million. During the appeal process, taxes are being assessed on \$700 million. Depending on the outcome of the appeal, the district could experience a fluctuation in property tax revenues during the subsequent fiscal year, or a future fiscal year. The magnitude of such a fluctuation depends upon a number of variables and cannot currently be determined. Property tax refund amounts can be added to the subsequent year's levy.

In the February 2015 Special Election, general obligation bonds of \$45,000,000 were authorized for issuance by the qualified electors of the district. The proceeds will be used for modernization and expansion of Blaine High School, expansion of Blaine Primary School, and remodeling and maintenance throughout the district.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

A. General Information

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

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

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

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

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

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

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

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

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

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

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

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

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

B. Contributions

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

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

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

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

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

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

Plan	2012	2013	2014
Plan 1 TRS	\$11,244	\$11,734	
Plan 2 TRS	\$74,351	\$81,154	\$113,792
Plan 3 TRS	\$600,717	\$636,903	\$847,442
Plan 1 PERS	\$7,271	\$7,227	\$6,682
Plan 2 SERS	\$73,879	\$84,178	\$122,058
Plan 3 SERS	\$177,813	\$181,172	\$225,395

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.

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 \$176,214.50. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

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

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Operating Lease Commitments					
Copiers, Phones, Postage Machine	427,358	85,472	08/2019		159,836
<i>Total Lease Commitments</i>					159,836
Other Long-Term Commitments					
1993 Property Purchase	40,000	3,354	08/2015	7%	3,354
<i>Total Other Long-Term Commitments</i>					3,354

NOTE 8: 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	\$5,710

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$58,026,190 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Ref 2010	10,915,000	3,290,000	12/1/2016	2 to 4	7,625,000
2012 GO	3,000,000		12/1/2016	2 to 2.5	3,000,000
Total General Obligation Bonds	13,915,000	3,290,000			10,625,000

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

Long-Term Debt Payable at 9/1/2013	13,915,000
New Issues	
Debt Retired	3,290,000
Long-Term Debt Payable at 8/31/2014	10,625,000

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

Years Ending August 31	Principal	Interest	Total
2015	3,440,000	242,769	3,682,769
2016	3,610,000	143,069	3,753,069
2017	3,575,000	45,250	3,620,250
Total	10,625,000	431,088	11,056,088

At August 31, 2014, the District had \$2,271,129.93 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Unissued

At August 31, 2014 the district had no bonds unissued that had been authorized. Please see Note 4 Subsequent Events for more information.

NOTE 11: 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.

Washington Schools Risk Management Pool

The district is a member of the Washington Schools Risk Management 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.

Whatcom Educational Insurance Consortium (WEIC)

The Blaine School District is a member of the Whatcom Educational Insurance Consortium (WEIC). 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 1999 when Blaine School District and the six other public school districts in Whatcom County 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.

The Pool allows members to purchase or arrange for delivery of certain welfare benefits for their employees and eligible dependents. The Pool provides the following forms of group purchased insurance coverage for its members: Vision coverage.

Members make a total monthly contribution of \$0.50 per subscriber per month to pay administrative costs related to vision coverage. Members remit monthly premium amounts to plan providers in accordance with the health benefit plans of their respective subscribers. During the 2013-14 fiscal year (September 1, 2013 through August 31, 2014) members paid a total of \$17,856 for administrative costs

related to vision coverage. Since the Pool is a cooperative program, there is a joint liability among the participating members for vision coverage only.

Members contract to remain in the Pool for a minimum of 1 year, and must give notice by December 31 of the preceding year before terminating participation effective September 30 of the following year. The Interlocal Governmental Agreement is renewed automatically each year after the initial 1 year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process vision claims for the period they were a signatory to the interlocal governmental agreement. As of August 31, 2014, there was \$140,404 in reserves to pay vision claims.

The Pool is fully funded by its member participants for vision coverage. Claims are filed by members with Northwest Administrator, Inc. which has been contracted to perform claims administration services for the Pool. Fees paid to Northwest Administrator, Inc., the third party administrator under this arrangement for the year ended August 31, 2014 were \$53,870, which included fees for claims administration services. For 2014-2015, the Pool has contracted with the third party administrator to perform claims adjustment and loss prevention services for \$55,471. This fee is based on a rate of \$1.55 per subscriber per month and the total fluctuates each month based on the number of subscribers.

The Pool is governed by a governing council of which is comprised of one superintendent from each participating member district. A Board of Trustees is selected each year from the member districts, and is responsible for conducting the business affairs of the Pool.

Unemployment Insurance

The district is a member of the Northwest Educational Service District 189 Unemployment Pool Cooperative, a public entity risk pool currently operating as a common risk management and insurance program for unemployment insurance. Participation in the program costs the district less than full participation in the state unemployment compensation program. The Pool contracts with a third party to process claims. The District made pool contribution payments totaling \$15,916 for fiscal year 2014. The district's favorable net experience as of August 31, 2014 was \$94,809.

NOTE 12: 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 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's current equity of \$21,192 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 14: 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	\$23,888				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$27,674				
Debt Service				\$2,271,130	
Fund Purposes		\$120,480			\$161,428
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,339,142				
Other Commitments	\$150,000				
Assigned Fund Balance					
Fund Purposes			\$256,793		
Unassigned Fund Balance	\$762,014				

On July 28, 2014, the board of directors took an action to commit a portion of the District's ending balance towards curriculum and technology acquisitions. The amount of fund balance that has been set aside may only be used for that purpose. It cannot be used for any other purpose of the District.

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 directs the District to maintain at year end, a balance equal to 6% of general fund expenditures. 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 15: 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 elective deferrals.

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 16: 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.

Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	6,594.56	0.00	3,241.05	3,353.51	3,353.51
Non-Cancellable Operating Leases	183,935.33	67,846.20	91,945.62	159,835.91	85,471.68
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	886,023.20	149,316.18	0.00	1,035,339.38	69,772.12
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,076,553.09	217,162.38	95,186.67	1,198,528.80	158,597.31

Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Redeemed / Increased		Amount Outstanding Debt August 31, 2014	Amount Due Within One Year
		Increased	Decreased		
Voted Debt					
Voted Bonds	13,915,000.00	0.00	3,290,000.00	10,625,000.00	3,440,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	13,915,000.00	0.00	3,290,000.00	10,625,000.00	3,440,000.00

BLAINE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
Department of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		\$ 98,299.43	\$ 98,299.43	
	WA OSPI	National School Lunch Program	10.555	N/A		\$ 389,330.82	\$ 389,330.82	
	WA OSPI	National School Lunch Program - Noncash Assistance - Commodities	10.555	N/A		\$ 39,077.99	\$ 39,077.99	2
		CFDA Subtotal	10.555			\$ 428,408.81	\$ 428,408.81	
	State Treasurer	Schools and Roads - Grants to States	10.665	N/A		\$ 38,159.20	\$ 38,159.20	
		Department of Agriculture Subtotal				\$ 564,867.44	\$ 564,867.44	
						\$ -	\$ -	
Department of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010	201338		\$ 374,904.70	\$ 374,904.70	3
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	224367		\$ 3,342.99	\$ 3,342.99	3
		CFDA Subtotal	84.010			\$ 378,247.69	\$ 378,247.69	
	WA OSPI	Special Education_Grants to States	84.027	304708		\$ 357,549.00	\$ 357,549.00	3
	WA OSPI	Special Education_Grants to States	84.027	337609		\$ 34,788.94	\$ 34,788.94	
		CFDA Subtotal	84.027			\$ 392,337.94	\$ 392,337.94	
	WA OSPI	Career and Technical Education -- Basic Grants to States	84.048	173046		\$ 15,981.98	\$ 15,981.98	3
	WA OSPI	Special Education_Preschool Grants	84.173	364708		\$ 10,548.00	\$ 10,548.00	3
	Ferdale School District	Education for Homeless Children and Youth	84.196	1551300096		\$ 3,661.00	\$ 3,661.00	
	WA OSPI	Twenty-First Century Community Learning Centers	84.287	992701		\$ 110,197.00	\$ 110,197.00	3
	Student Achievement Council	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	15-IA002		\$ 117,399.76	\$ 117,399.76	4
	WA OSPI	English Language Acquisition State Grants	84.365	401918		\$ 14,048.00	\$ 14,048.00	3
	WA OSPI	Improving Teacher Quality State Grants	84.367	523233		\$ 75,522.66	\$ 75,522.66	3
		Department of Education Subtotal				\$ 1,117,944.03	\$ 1,117,944.03	
TOTAL FEDERAL AWARDS EXPENDED						\$ 1,682,811.47	\$ 1,682,811.47	

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

BLAINE SCHOOL DISTRICT NO 503
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District financial statements. The 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—NONCASH AWARDS

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

NOTE 3—FEDERAL INDIRECT RATE

The District claimed indirect costs under this grant not to exceed its federal restricted rate of 3.61% (2.00% for English Language Acquisition Grants).

NOTE 4—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, may be more than shown.

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

Blaine School District No. 503 Whatcom 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 Blaine School District No. 503.

Finding ref number: 2014-001	Finding caption: The District did not have adequate internal controls to ensure compliance with federal Title I graduation rate reporting requirements.
Name, address, and telephone of auditee contact person: Amber Porter 765 H Street Blaine, WA 98230 (360) 332-0713	
Corrective action the auditee plans to take in response to the finding: <i>The District will ensure compliance with graduation reporting requirements as follows: The high school registrar will code withdrawing students with an unconfirmed transfer status until documentation supporting a confirmed transfer status has been received. The District will obtain OSPI guidance regarding acceptable forms of documentation.</i>	
Anticipated date to complete the corrective action: September 2015	

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