



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Lake Chelan School District No. 129

Chelan County

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

Published May 28, 2015

Report No. 1014400





Washington State Auditor

May 28, 2015

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Lake Chelan School District No. 129'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

Lake Chelan School District No. 129 Chelan County September 1, 2013 through August 31, 2014

The results of our audit of Lake Chelan School District No. 129 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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified 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>
10.555	Child Nutrition Cluster - National School Lunch Program
10.553	Child Nutrition Cluster - School Breakfast 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

Lake Chelan School District No. 129 Chelan County September 1, 2013 through August 31, 2014

2014-001 Lake Chelan School District does not have adequate controls in place to ensure compliance with federal verification and suspension and debarment requirements for its Child Nutrition grant.

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The District participates in the School Breakfast and National School Lunch programs and received \$126,341 for the breakfast program and \$400,130 for the lunch program in the 2013-2014 school year. These programs provide funding for free and reduced-priced meals for students from low-income families.

Description of Condition

Verification

Each year, districts must select a sample of applications and verify that family income information reported to the district is correct. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility. Our audit found that while the District did have a process in place to perform the verification process, internal controls were not effective to ensure that the District performed the verification steps accurately.

OSPI requires the District to review selected applicants' income documentation to ensure they are properly classified. During its selection process, the District

selected a family which was classified as a direct certification. Applications that are deemed direct certifications should be excluded from the pool of applications to be sampled from for verification purposes. The District did not exclude this application.

The District is required to provide the results of their verification to OSPI. We found the following errors in what the District reported to OSPI for the six applications selected for verification:

	District Reported:	Audit Found:
No Change	3	2
Change to Reduced Price	2	0
Change to Paid Price	0	1
Did Not Respond	1	3

The District failed to appropriately follow verification requirements and also did not report accurate results to OSPI. We consider this deficiency in internal controls to be a material weakness.

Suspension and Debarment

Federal requirements prohibit recipients from contracting with vendors suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more, the District must ensure the vendor is not suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract in which the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet these requirements prior to entering into contracts with vendors paid with federal funds.

The District did not have internal controls in place to ensure vendors were not suspended or debarred from participating in federal programs before entering into the contracts. We reviewed one vendor contract and found the District paid \$47,752 of federal Nutrition grant funds for goods without verifying the federal suspension and debarment status of this vendor.

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

Cause of Condition

Verification

District personnel were not fully aware of the verification requirements. The District did not have an effective review in place to ensure verification was performed accurately.

Suspension and Debarment

The District experienced turnover in key staff and did not retain documentation demonstrating that suspension and debarment requirements were satisfied.

Effect of Condition and Questioned Costs

Verification

Lack of proper internal controls over the verification process increases the risk that free or reduced-priced meals could be provided to children who are not eligible to receive them. The District may have received funding for households that did not qualify for free and reduced-priced meals.

Suspension and debarment

Without proper controls, the District increases the risk of awarding funds to vendors that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance. We were able to verify that the vendor was not suspended or debarred; therefore, we are not questioning these costs.

Recommendation

We recommend the District:

- Provide training and establish internal controls to ensure the District accurately performs the verification process, including accurately reporting the results to OSPI.
- Establish internal controls to ensure that evidence of having verified suspension and debarment status of all vendors paid with federal funds is maintained in District records.

District's Response

We thank the State Auditor for a chance to respond to the finding. The District, prior to the end of the previous year and prior to this audit, identified the weaknesses in its Food Service Program and took action to fix the problems by removing the previous food service director. The change over did result in some inability to find documentation that was on hand prior to the change. To address this for the future, the District is working on centralizing all Food Service Program records. We believe the steps taken will address the concerns noted.

Auditor's Remarks

We appreciate the District's commitment to resolving the matters noted and we will review this issue during our next audit of the District.

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 the 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.

Office of Superintendent of Public Instruction, Bulletin No 043–13 Child Nutrition Services, states in part:

For the 2013–14 school year, LEAs must complete the verification of free and reduced-price meal applications in accordance with United States Department of Agriculture (USDA) regulation 7

CFR 245.6(a). The verification process must be completed by November 15, 2013 . . .

Documentation of Income

It is important to clarify that income and supporting documentation the household submits may be for any point-in-time between the month prior to the time the application was received and the time the household is required to provide income documentation. For example, the household submitted the application in August and this household is selected for verification in October; the household may submit proof of income for any of the following months: July, August, September, or October.

If a household is selected for verification and the application indicates zero income, LEAs must request an explanation of how living expenses are met and may request additional written information or collateral contacts.

Record Keeping Requirements

All verified applications must be readily available for review by state or Federal officials. Keep an organized file that includes:

- All copies of documents submitted by the household to confirm eligibility.
- Any documentation made by the determining official.

Office of Superintendent of Public Instruction, Bulletin No 043–13, Attachment 3, Child Nutrition Services, states in part:

From the approved applications with income information, select the required number of applications to verify from those applications within \$1,200 yearly; \$100 monthly; \$50 twice a month; \$46 every two weeks and \$23 weekly, defined as error prone applications, of the free and reduced-price eligibility levels.

Title 7 Code of Federal Regulations, Section §245.6a - Verification requirements, states in part:

(a) Definitions . . . (7) Sources of information. For the purposes of this section, sources of information for verification may include written evidence, collateral contacts, and systems of records as follows:

(i) Written evidence shall be used as the primary source of information for verification. Written evidence includes written confirmation of a household's circumstances, such as wage stubs, award letters, and letters from employers. Whenever written evidence is insufficient to confirm income information on the application or current eligibility, the local educational agency may require collateral contacts . . .

(f) Verification procedures and assistance for households . . . (2) Documentation timeframe. Households selected and notified of their selection for verification must provide documentation of income. The documentation must indicate the source, amount and frequency of all income and can be for any point in time between the month prior to application for school meal benefits and the time the household is requested to provide income documentation.

(3) *SNAP FDPIR or TANF recipients.* On applications where households have furnished SNAP or TANF case numbers or FDPIR case numbers or other FDPIR identifiers, verification shall be accomplished by confirming with the SNAP, FDPIR, or TANF office that at least one child who is eligible because a case number was furnished, is a member of a household participating in one of the eligible programs in paragraph (a)(1) of this section. The household may also provide a copy of “Notice of Eligibility” for the SNAP, FDPIR or the TANF Program or equivalent official documentation issued by the SNAP, FDPIR or TANF office which confirms that at least one child who is eligible because a case number was provided is a member of a household receiving assistance under the SNAP, FDPIR or the TANF program. An identification card for these programs is not acceptable as verification unless it contains an expiration date. If it is not established that at least one child is a member of a household receiving assistance under the SNAP, FDPIR or the TANF program (in accordance with the timeframe in paragraph (f)(2) of this section), the procedures for adverse action specified in paragraph (j) of this section must be followed.

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Lake Chelan School District No. 129
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
Lake Chelan School District No. 129
Chelan, 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 Lake Chelan School District No. 129, Chelan 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.

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 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**

**Lake Chelan School District No. 129
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

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

We have audited the compliance of Lake Chelan School District No. 129, Chelan 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.

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 and significant deficiencies.

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. 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.

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 significant deficiency.

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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Chelan School District No. 129 Chelan County September 1, 2013 through August 31, 2014

Board of Directors
Lake Chelan School District No. 129
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Lake Chelan School District No. 129, Chelan 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 22.

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 Lake Chelan School District No. 129, 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 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

Lake Chelan School District No. 129
Chelan 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
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Notes to Financial Statements – 2014

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Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Lake Chelan School District No. 129

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	885,139.69	13,116.33	24.03	531,763.93	0.00	0.00	1,430,043.98
Minus Warrants Outstanding	-574,376.62	-6,688.11	0.00	-390,225.58	0.00	0.00	-971,290.31
Taxes Receivable	1,320,468.97		25,341.95	546,489.68	0.00		1,892,300.60
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	148,363.15	0.00	0.00	0.00	0.00	0.00	148,363.15
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	3,606.38	0.00					3,606.38
Prepaid Items	138,466.94	0.00		0.00	0.00	0.00	138,466.94
Investments	922,353.50	92,634.30	172,063.38	2,171,158.04	264,678.49	0.00	3,622,887.71
Investments/Cash With Trustee	60,227.05		0.00	0.00	0.00	0.00	60,227.05
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	2,904,249.06	99,062.52	197,429.36	2,859,186.07	264,678.49	0.00	6,324,605.50
LIABILITIES:							
Accounts Payable	158,794.93	67.23	0.00	415,914.28	0.00	0.00	574,776.44
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	137,670.82	0.00		0.00			137,670.82
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	1,252.14	0.00		0.00			1,252.14
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.

Lake Chelan School District No. 129

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	297,717.89	67.23	0.00	415,914.28	0.00	0.00	713,699.40
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	1,320,468.97		25,341.95	546,489.68	0.00		1,892,300.60
TOTAL DEFERRED INFLOWS OF RESOURCES	1,320,468.97	0.00	25,341.95	546,489.68	0.00	0.00	1,892,300.60
FUND BALANCE:							
Nonspendable Fund Balance	7,500.00	0.00	0.00	0.00	0.00	0.00	7,500.00
Restricted Fund Balance	19,213.35	98,995.29	172,087.41	0.00	264,678.59	0.00	554,974.64
Committed Fund Balance	1,200,844.84	0.00	0.00	0.00	0.00	0.00	1,200,844.84
Assigned Fund Balance	0.00	0.00	0.00	1,896,782.11	-0.10	0.00	1,896,782.01
Unassigned Fund Balance	58,504.01	0.00	0.00	0.00	0.00	0.00	58,504.01
TOTAL FUND BALANCE	1,286,062.20	98,995.29	172,087.41	1,896,782.11	264,678.49	0.00	3,718,605.50
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	2,904,249.06	99,062.52	197,429.36	2,859,186.07	264,678.49	0.00	6,324,605.50

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

Lake Chelan School District No. 129
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	3,133,956.11	152,234.43	628,847.72	877,221.20	169.24		4,792,428.70
State	10,697,675.25		0.00	0.00	138,667.71		10,836,342.96
Federal	1,669,337.93		0.00	0.00	0.00		1,669,337.93
Federal Stimulus	0.00						0.00
Other	311,147.05			0.00	0.00	0.00	311,147.05
TOTAL REVENUES	15,812,116.34	152,234.43	628,847.72	877,221.20	138,836.95	0.00	17,609,256.64
EXPENDITURES:							
CURRENT:							
Regular Instruction	8,037,384.11						8,037,384.11
Federal Stimulus	0.00						0.00
Special Education	1,279,751.29						1,279,751.29
Vocational Education	787,043.74						787,043.74
Skill Center	0.00						0.00
Compensatory Programs	1,575,798.51						1,575,798.51
Other Instructional Programs	218,651.23						218,651.23
Community Services	7,300.20						7,300.20
Support Services	3,891,798.59						3,891,798.59
Student Activities/Other		169,498.18				0.00	169,498.18
CAPITAL OUTLAY:							
Sites				1,258,474.34			1,258,474.34
Building				61,093.26			61,093.26
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					83,159.31		83,159.31
Sales and Lease				0.00			0.00
Other	42,480.74						42,480.74
DEBT SERVICE:							
Principal	0.00		1,285,000.00	0.00	0.00		1,285,000.00
Interest and Other Charges	0.00		22,487.50	0.00	0.00		22,487.50
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	15,840,208.41	169,498.18	1,307,487.50	1,319,567.60	83,159.31	0.00	18,719,921.00

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

Lake Chelan School District No. 129
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	-28,092.07	-17,263.75	-678,639.78	-442,346.40	55,677.64	0.00	-1,110,664.36
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	2,100,000.00	0.00		2,100,000.00
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)	-3,596.68		0.00	0.00	0.00		-3,596.68
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	-3,596.68		0.00	2,100,000.00	0.00	0.00	2,096,403.32
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-31,688.75	-17,263.75	-678,639.78	1,657,653.60	55,677.64	0.00	985,738.96
BEGINNING TOTAL FUND BALANCE	1,286,624.51	116,259.07	850,727.09	239,128.60	209,000.95	0.00	2,701,740.22
Prior Year(s) Corrections or Restatements	31,126.44	-0.03	0.10	-0.09	-0.10	0.00	31,126.32
ENDING TOTAL FUND BALANCE	1,286,062.20	98,995.29	172,087.41	1,896,782.11	264,678.49	0.00	3,718,605.50

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

Lake Chelan School District No. 129
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	0.00	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	27,108.36	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	27,108.36	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	27,108.36	
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	27,108.36	0.00

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

Lake Chelan School District No. 129

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	0.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	2.34	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	2.34	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	2.34	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	0.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	0.00	0.00
Net Increase (Decrease)	2.34	0.00
Net Position--Beginning	27,106.02	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	27,108.36	0.00

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

Lake Chelan School District No. 129
Notes to Financial Statements
September 1, 2013 Through August 31, 2014

Note 1 SUMMARY OF SIGIFICANT ACCOUNTING POLCIIES

Description of the government-wide financial statements.

The Lake Chelan 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 Office of 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 practices (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 funds 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 principal and interest.

Special Revenue Funds

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

Permanent Funds

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

FIDUCIARY FUNDS

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

Private-Purpose Trust Fund.

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

PROPRIETARY FUND

School districts in the State of Washington are not allowed to utilize proprietary fund types, which is a departure from GAAP.

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 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 good/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 an established policy of the board. Commitments may only be changed when the resources are used for their 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 board, superintendent and business manager are the only persons who have the authority to create Assignments of fund balance.

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

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

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

Cash and Cash Equivalents

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

Receivable and Payables

All of the receivable and payables are expected to be collected or paid within one year in all the funds.

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. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase this inventory. 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 2013-14

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 Chelan 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
County Treasurer's Investment Pool			
General Fund		\$922,353.48	
ASB Fund		92,634.30	
Capital Projects Fund		2,171,158.04	
Transportation Vehicle Fund		264,678.49	
Deb Service Fund		172,071.81	
Trust Fund		2,042.13	
Certificate of Deposit – Wells Fargo Bank	1	25,066.23	\$25,066.23
Total Investments		\$3,650,004.48	\$25,066.23

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

There were not any significant contingent liabilities at the balance sheet date.

NOTE 4: SIGIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

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

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

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

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

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

The district 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 as of August 31, 2014:

Plan 1 TRS	6.0%	Plan 1 PERS	6.0%
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:

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

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>2012</u>	<u>2013</u>	<u>2014</u>
Plan 1 TRS	\$ 45,073.79	\$ 27,045.08	\$ 21,857.72
Plan 2 TRS	41,627.79	33,302.36	63,041.20
Plan 3 TRS	407,471.93	398,219.50	546,674.93
Plan 2 SERS	66,813.70	65,976.65	91,774.43
Plan 3 SERS	81,571.57	86,386.40	124,169.97
Plan 1 PERS	<u>4,704.58</u>	<u>5,069.56</u>	<u>6,281.26</u>
Total Contributions	\$ 647,263.36	\$ 615,999.55	\$ 853,799.51

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 and 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 203-14, 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 \$120,448.19. 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 had no control over the benefits offered to retirees, the rates charge to retirees, or 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 NON-CAPITALIZED (OPERATING) LEASES:

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

The District had eight 60 month leases with IKON (RICOH). The total payments to RICOH for 2013-14 were \$50,555.88. The total future estimated lease payments under the lease agreements are \$126,389.70.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS INCLUDING ENCUMBRANCES, IF APPROPRIATE

The District did have one significant commitment at August 31, 2014. The District was in the middle of constructing an addition to the Middle/High School Building. The total remaining commitment for this construction was \$1,957,130.62.

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount \$65,765.573 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

Bonds and notes 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
2014 Non-Voted Bonds	\$2,100,000	\$700,000	June 2017	1.35	\$2,100,000
Total General Obligation Bonds	\$2,100,000				\$2,100,000

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	\$1,285,000
New Issues	\$2,100,000
Debt Retired	\$1,285,000
Long-Term Debt Payable at 8/31/2014	\$2,100,000

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

Years Ending August 31,	Principal	Interest	Total
2015	\$ 350,000	\$ 21,498.75	\$ 371,498.75
2016	\$ 700,000	\$ 21,262.50	\$ 721,262.50
2017	\$ 700,000	\$ 11,812.50	\$ 711,812.50
2018	\$ 350,000	\$ 2,362.50	\$ 352,362.50
Total	\$2,100,000	\$ 56,936.25	\$2,156,936.25

As of August 31, 2014, the District had \$172,087 available in the Debt Service Fund to service the general obligation bonds.

Note 11: INTERFUND BALANCES AND TRANSFERS

The District did not have any interfund balances or transfers in 2013-14.

Note 12: ENTITY RISK MANAGEMENT ACTIVITIES

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

The Lake Chelan School District is a member of the United Schools Insurance Program. 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-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985 when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 full member school districts.

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

Liability Insurance is subject to a self-insured retention of \$100,000. Members are responsible for \$1,000 deductible amount for each claim (member deductibles may vary), while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a stop loss policy with an attachment point of \$995,000 as an additional layer of protection of its members.

Property insurance is subject to a per-occurrence deductible of \$100,000. Members are responsible for \$1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the \$100,000 SIR.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Each new member now pays the program an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014, were \$1,514,980.35.

A Board of Directors of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

Risk Pools – Workers Compensation 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 organizations for the joint self-insuring to the same extent that they may individually self-insure. Separate agreements to form a worker's compensation pool were made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The North Central Washington Worker's Compensation Pool was formed on April 1, 1984, when school districts and North Central Educational Service District in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses. Twenty-nine school districts and North Central ESD have joined the worker's compensation pool.

The pool is operated for the Lake Chelan School District's benefit in lieu of the district having to make monthly premium payments to the State of Washington for industrial insurance. Membership automatically renews each year. Even after termination, members are still responsible for contributions for unresolved claims occurring during a period when the district was a member of the pool.

The pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive committee is elected for conducting the business affairs of the pool.

Each member's contributions to the pool is determined by a rate-making formula based on claims cost and other expenses paid. In fiscal year ending August 31, 2014, Lake Chelan School District made payments totaling \$116,746.43 to the industrial insurance pool.

NOTE 13: PROPERTY TAXES

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

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperation designed to pool the member districts' purchasing power. The board authorized joining the association by passing a resolution and has remained in the joint venture ever since. The District's current equity of \$4,841.84 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

	GENERAL FUND	ASB FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TRANSPORATION VEHICLE FUND
Nonspendable FB					
Inventory	\$ 7,500.00				
Restricted FB		\$98,995.32		\$172,087.41	\$264,678.59
Carryover of Revenues	\$ 19,213.35				
Committed FB					
Debt Service					
Other Items					
Minimum FB Per Policy	\$1,200,844.84				
Assigned FB					
Other Purposes					
Fund Purposes			\$1,896,782.11		\$ -0.10
Unassigned Fund Balance	\$ 58,504.01				

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that that District shall maintain a balance of 5% of the District's annual expenditures. Portions of fund balance that are set aside for the purposes of meeting this policy are recorded on the financial statements as a part of the committed fund balance.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS- BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYERS STATEMENTS

457 Plan – Deferred Compensation Plan

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

403(b) Plan – Tax Sheltered Annuity (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by 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 17: TERMINATION BENEFITS

Compensated Absences

Employees earn sick leave at a rate of ten 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 or 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 number of years of service. Vested sick leave was computed using the termination pay method.

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

No unrecorded liability exists for other employee benefits.

NOTE 18: CONDITION AND EVENTS GIVING RISE TO SUBSTANTIAL DOUBT ABOUT THE GOVERNMENT'S ABILITY TO CONTINUE AS A GOING CONCERN

There are no conditions or events that give rise to any doubt as to the District's ability to continue as a going concern

NOTE 19: OTHER DISCLOSURES

The District is a member of the North Central Compensated Absences Liability Pool and the North Central Unemployment Cooperative with the North Central ESD. Lake Chelan School District just joined the Compensated Absences Pool in September of 2014 and has reported the funds held at the ESD on its Balance Sheet. In addition, the funds held by the ESD for the North Central Unemployment Cooperative are also included as assets on the District's Financial Statements. The change resulted in a prior year audit adjustment which is not material to the financial statements as a whole.

Lake Chelan School District No. 129
Schedule of Long-Term Liabilities: GENERAL FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	789,538.78	175,000.00	375,000.00	589,538.78	134,423.99
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	789,538.78	175,000.00	375,000.00	589,538.78	134,423.99

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

Lake Chelan School District No. 129
Schedule of Long-Term Liabilities: DEBT SERVICE FUND
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	1,285,000.00	0.00	1,285,000.00	0.00	0.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	2,100,000.00	0.00	2,100,000.00	350,000.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,285,000.00	2,100,000.00	1,285,000.00	2,100,000.00	350,000.00

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

LAKE CHELAN SCHOOL DISTRICT No. 129
Schedule of Expenditures of Federal Awards
For The Year Ending August 31, 2014

Federal CFDA No.	Federal Agency Name	Federal Program Title	Other Identification Number	Pass Through Agency	Expenditures			Footnote Reference
					Pass Through Awards	Direct Awards	Total	
U.S. Department of Agriculture								
10.555		National School Lunch Program - Non Cash Contributions		WA OSPI	19,640		19,640	4
10.553		School Breakfast Program		WA OSPI	126,341		126,341	4
10.555		National School Lunch Program		WA OSPI	400,130		400,130	4
10.665		School and Roads - Grants to States		WA OSPI	79,345		79,345	
		Department of Agriculture Subtotal			625,457	0	625,457	
U.S. Department of Education								
84.010		Title I Grants to Local Education Agencies	Grant No. 0201346	WA OSPI	348,736		348,736	3, 4
84.010		Title I Grants to Local Education Agencies	Grant No. 0224427	WA OSPI	311		311	3,4
84.010		Title I Grants to Local Education Agencies	Grant No. 0228624	WA OSPI	12,572		12,572	3,4
84.011		Migrant Education - State Grant Program	Grant No. 0282019	WA OSPI	53,501		53,501	
84.027		Special Education - Grants to States	Grant No. 0304686	WA OSPI	270,178		270,178	
84.048		Career and Technical Education - Basic Grants to States	Grant No. 0173113	WA OSPI	12,612		12,612	
84.173		Special Education - Preschool Grants	Grant No. 0364684	WA OSPI	11,938		11,938	
84.287		Twenty-first Century Community Learning Centers	Grant No. 0992708	WA OSPI	203,990		203,990	
84.334		Gaining Early Awareness and Readiness for Undergraduate Program	N/A	CWU	23,500		23,500	
84.365		English Language Acquisition State Grants	Grant No. 0401926	WA OSPI	43,271		43,271	
84.367		Improving Teacher Quality State Grants	Grant No. 0523407	WA OSPI	62,281		62,281	3
		Department of Education Subtotal			1,042,890	0	1,042,890	
U.S. Department of Health and Human Services								
93.778		Medical Assistance Program		WA HCA	991		991	
TOTAL FEDERAL AWARDS EXPENDED								
					1,669,338	0	1,669,338	

The accompanying Notes to the Schedule are an integral part of this schedule.

**Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2014**

Notes to the Schedule

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District's financial statements. The 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 – NON CASH AWARDS – FOOD COMMODITIES

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

NOTE 3 – SCHOOLWIDE PROGRAMS

The district operates a "schoolwide program" in one elementary building, one middle school, and two high school buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide programs: Title I, A Improving Basic Programs (84.010) – \$361,618; and Title II A, School Improvement (84.367) – \$62,281.

NOTE 4 – MAJOR PROGRAMS

Designates major programs for the District in 2013-14; Title I and Nutrition Cluster.

NOTE 5 – FEDERAL INDIRECT RATE

The district's indirect rate was 5.3%.

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

Lake Chelan School District No. 129 Chelan 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 Lake Chelan School District No. 129.

Finding ref number: 2014-001	Finding caption: Lake Chelan School District does not have adequate controls in place to ensure compliance with federal verification and suspension and debarment requirements for its Nutrition grant.
Name, address, and telephone of auditee contact person: Scott Renick, Business Manager P.O. Box 369 Chelan, WA 98816 (509) 682-3515	
Corrective action the auditee plans to take in response to the finding: <i>Lake Chelan School District had already identified the issues in the Food Service Program when it removed the previous Food Service Director. The District is also centralizing its Program records and has implemented oversight of the compliance with federal requirements. It was how the District was able to identify issues in the program and take action. The District feels confident the changes made will result in better compliance and record keeping.</i>	
Anticipated date to complete the corrective action: Immediately	

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