



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### Port Angeles School District No. 121

Clallam County

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

Published May 28, 2015

Report No. 1014427





## Washington State Auditor

May 28, 2015

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

Please find attached our report on Port Angeles School District No. 121'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

## TABLE OF CONTENTS

Federal Summary .....	4
Schedule Of Federal Audit Findings And Questioned Costs.....	6
Status Of Prior Federal Audit Findings .....	13
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 .....	14
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	16
Independent Auditor’s Report On Financial Statements .....	19
Financial Section.....	22
Corrective Action Plan For Findings Reported Under OMB Circular A-133 .....	67
About The State Auditor’s Office.....	68

## FEDERAL SUMMARY

**Port Angeles School District No. 121  
Clallam County  
September 1, 2013 through August 31, 2014**

The results of our audit of Port Angeles School District No. 121 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements.

#### Internal Control Over Financial Reporting:

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

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

### Federal Awards

#### Internal Control Over Major Programs:

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

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

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

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### Port Angeles School District No. 121 Clallam 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 requirements.**

<b>CFDA Number and Title:</b>	84.010 Title I
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

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

The objective of this program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in schools with high concentrations of low-income families. During fiscal year 2014, the District spent \$861,091 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 the eligibility and the schoolwide program compliance requirements.

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

#### **Eligibility**

The District is required to allocate grant funds to each attendance area or school in rank order based on the total number of children from low-income families residing in the area or attending the school. The District may not allocate a higher

amount per low-income child to areas or schools with lower percentages of poverty than to areas with higher percentages.

For the period under audit, the District did not adequately monitor the allocation of grant funds to schools to ensure compliance with these regulations. Title I funding was allocated to five elementary schools, the middle school and the alternative high school during fiscal year 2014. The District did not properly allocate funds to these schools based on the higher percentage of poverty.

### **Schoolwide Program**

The Elementary and Secondary Education Act authorizes schoolwide programs as an alternative to targeted assistance as a means to better serve all children in a school building. Unlike targeted assistance programs, in which a school ranks and serves individual students, a schoolwide program combines federal and state resources to enhance a school's entire educational program. When a District uses this alternative, it must evaluate and revise the plan annually to ensure students continue to improve.

Under the US Department of Education's guidance on the 1994 "Improving America's Schools Act", which provides for the use of schoolwide programs, the Title 1 Part A policy guidance states, "Program decisions are to be made at the school level: schools, in consultation with their districts, determine how to use their funds in ways that best meet the needs of their students. Bringing these decisions to the school level helps discourage a district-directed 'one-size-fits-all' program and, instead, affords a significant resource for schools to use to meet the needs of their students. However, consultation with the LEA (Local Educational Agency) regarding these decisions is extremely important because the LEA has the ultimate responsibility for the education of its students and proper administration of Federal education programs. In addition, the required components of a schoolwide plan state some information should be presented per school, such as the needs assessment and funding to be used at each location.

The District operates a schoolwide program for all five elementary schools. The District did not have a schoolwide plan for each school in the District, rather they had one Districtwide plan which covered all the schools. Under the US Department of Education's guidance, the District should have a schoolwide plan for each school in the District.

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

#### **Eligibility**

The District had processes in place to prepare the rank order allocation during their application process; however, the District did not have adequate internal

controls or appropriate supervision of staff work to ensure the actual allocation of funds were based off of the percentage of poverty at each location rather than on program needs.

### **Schoolwide Program**

The District was not fully aware of the requirements for operating a schoolwide program. As a result, the District did not properly implement the schoolwide program.

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

### **Eligibility**

The District did not spend Title I money in accordance with federal requirements, resulting in all five elementary schools receiving the incorrect amount of funding. If a school does not receive its full allotment of Title I funds, the type and nature of services delivered to students at that school may be unfairly limited.

### **Schoolwide Program**

The District did not develop a comprehensive schoolwide plan for each school operating under a schoolwide program. As a result, each school operating under a schoolwide program could not adequately evaluate the outcomes and the plan's implementation to determine whether the academic achievement of all students, and particularly of low-achieving students, improved, whether the goals and objectives contained in the plan were achieved, and if the plan is still appropriate as written.

## ***Recommendation***

### **Eligibility**

We recommend the District establish and follow adequate internal controls and monitoring to ensure Title I funds are properly allocated to school attendance areas in accordance with federal requirements.

### **Schoolwide Program**

We recommend the District develop a comprehensive schoolwide plan for each school operating under a schoolwide program to ensure each school can adequately evaluate the plan's outcomes and implementation.

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

*We concur with the auditor's findings and will implement strategies immediately to address the concerns.*



### ***Auditor's Remarks***

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

### ***Applicable Laws and Regulations***

Title 34, Code of Federal Regulations, Section 200.78 – Allocation of funds to school attendance areas and schools, states in part:

(a)(1) An LEA must allocate funds under subpart A of this part to school attendance areas and schools, identified as eligible and selected to participate under section 1113(a) or (b) of the ESEA, in rank order on the basis of the total number of children from low-income families in each area or school.

(3) If an LEA ranks its school attendance areas and schools by grade span groupings, the LEA may determine the percentage of children from low-income families in the LEA as a whole or for each grade span grouping.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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

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

grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

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

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

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.  
...

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

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

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

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

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

Title 20 United States Code Section 6313 - Eligible school attendance areas, states in part:

(c) Allocations

(1) In general

A local educational agency shall allocate funds received under this part to eligible school attendance areas or eligible schools, identified under subsections (a) and (b) of this section, in rank order, on the basis of the total number of children from low-income families in each area or school.

Title 34, Code of Federal Regulations, Section 200.26 –Core elements of a schoolwide program, states in part:

(a) *Comprehensive needs assessment.*

(1) A school operating a schoolwide program must conduct a comprehensive needs assessment of the entire school that—

(i) Is based on academic achievement information about all students in the school, including all groups under § 200.13(b)(7) and migratory children as defined in section 1309(2) of the ESEA, relative to the State's academic standards under § 200.1 to—

(A) Help the school understand the subjects and skills for which teaching and learning need to be improved; and

(B) Identify the specific academic needs of students and groups of students who are not yet achieving the State's academic standards; and

(ii) Assesses the needs of the school relative to each of the components of the schoolwide program under § 200.28.

(2) The comprehensive needs assessment must be developed with the participation of individuals who will carry out the schoolwide program plan.

(3) The school must document how it conducted the needs assessment, the results it obtained, and the conclusions it drew from those results.

(b)*Comprehensive plan.* Using data from the comprehensive needs assessment under paragraph (a) of this section, a school that wishes to operate a schoolwide program must develop a comprehensive plan, in accordance with § 200.27, that describes how the school will improve academic achievement throughout the school, but particularly for those students furthest away from demonstrating proficiency, so that all students demonstrate at least proficiency on the State's academic standards.

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

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

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

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

## 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 Port Angeles School District No. 121. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> FY 2013	<b>Report Ref. No.:</b> 1011942	<b>Finding Ref. No.:</b> 1	<b>CFDA Number(s):</b> 84.027 and 84.173
<b>Federal Program Name and Granting Agency:</b> Special Education Cluster – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The District did not have adequate internal controls to ensure compliance with federal activities allowed requirements.			
<b>Background:</b> <p>In fiscal year 2013, the District spent \$359,726 in federal funding through its Special Education program. The objective of the program is to provide special education and related services to children with disabilities.</p> <p>We audited the District's internal controls over payroll to determine whether salaries and benefits charged to federal grants were supported by adequate time and effort documentation as required by federal regulations.</p> <p>The District did not provide required time and effort documentation for six employees whose salaries totaling \$311,204 were fully funded through the program.</p>			
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between; padding: 5px;"> <span><input checked="" type="checkbox"/> Fully Corrected</span> <span><input type="checkbox"/> Partially Corrected</span> <span><input type="checkbox"/> No Corrective Action Taken</span> <span><input type="checkbox"/> Finding is considered no longer valid</span> </div>			
<b>Corrective Action Taken:</b> <p><i>Meets with Federal program manager at beginning of year, with 1-2 follow-up meetings to ensure that staff charged to Federal programs are known, and managers know which type of Time and Effort documentation should be collected.</i></p> <p><i>Midyear Time and Effort forms are sent to central district office for review. At year end, central office gathers all Time and Effort forms and compare to actual charged, adjusts as necessary salaries charged to Federal programs.</i></p>			

**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**

**Port Angeles School District No. 121  
Clallam County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, 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 Port Angeles School District No. 121, Clallam 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**

**Port Angeles School District No. 121  
Clallam County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

We have audited the compliance of Port Angeles School District No. 121, Clallam 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.

*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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 21, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port Angeles School District No. 121 Clallam County September 1, 2013 through August 31, 2014**

Board of Directors  
Port Angeles School District No. 121  
Port Angeles, Washington

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

We have audited the accompanying financial statements of Port Angeles School District No. 121, Clallam 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 Port Angeles School District No. 121, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions on the Governmental Funds Based on U.S. GAAP**

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

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, 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**

**Port Angeles School District No. 121  
Clallam County  
September 1, 2013 through August 31, 2014**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2014  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014  
Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedules of Long-Term Liabilities – 2014  
Schedule of Expenditures of Federal Awards – 2014  
Notes to the Schedule of Expenditures of Federal Awards – 2014

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	1,206,171.50	10,004.82	0.00	0.00	0.00	0.00	1,216,176.32
Minus Warrants Outstanding	-1,196,171.50	-629.82	0.00	0.00	0.00	0.00	-1,196,801.32
Taxes Receivable	3,909,929.22		556,750.63	0.00	0.00	0.00	4,466,679.85
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	836,402.31	0.00	0.00	0.00	0.00	0.00	836,402.31
Accounts Receivable	25,880.63	0.00	0.00	0.00	0.00	0.00	25,880.63
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	152,445.59	0.00					152,445.59
Prepaid Items	74,819.79	0.00		0.00	0.00	0.00	74,819.79
Investments	4,140,869.04	398,670.12	1,782,594.27	511,950.88	376,577.43	0.00	7,210,661.74
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
<b>TOTAL ASSETS</b>	<b>9,150,346.58</b>	<b>408,045.12</b>	<b>2,339,344.90</b>	<b>511,950.88</b>	<b>376,577.43</b>	<b>0.00</b>	<b>12,786,264.91</b>
<b>LIABILITIES:</b>							
Accounts Payable	468,124.39	2,506.41	0.00	4,000.00	0.00	0.00	474,630.80
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	0.00	0.00		0.00			0.00
Due To Other Governmental Units	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.

Port Angeles School District No. 121

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>468,124.39</b>	<b>2,506.41</b>	<b>0.00</b>	<b>4,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>474,630.80</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	7,199.69	0.00	0.00	0.00	0.00	0.00	7,199.69
Unavailable Revenue - Taxes Receivable	3,909,929.22		556,750.63	0.00	0.00		4,466,679.85
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>3,917,128.91</b>	<b>0.00</b>	<b>556,750.63</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4,473,879.54</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	151,445.59	0.00	0.00	0.00	0.00	0.00	151,445.59
Restricted Fund Balance	1,645.20	405,538.71	1,782,594.27	0.00	376,577.43	0.00	2,566,355.61
Committed Fund Balance	1,902,124.86	0.00	0.00	0.00	0.00	0.00	1,902,124.86
Assigned Fund Balance	250,000.00	0.00	0.00	507,950.88	0.00	0.00	757,950.88
Unassigned Fund Balance	2,459,877.63	0.00	0.00	0.00	0.00	0.00	2,459,877.63
<b>TOTAL FUND BALANCE</b>	<b>4,765,093.28</b>	<b>405,538.71</b>	<b>1,782,594.27</b>	<b>507,950.88</b>	<b>376,577.43</b>	<b>0.00</b>	<b>7,837,754.57</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>9,150,346.58</b>	<b>408,045.12</b>	<b>2,339,344.90</b>	<b>511,950.88</b>	<b>376,577.43</b>	<b>0.00</b>	<b>12,786,264.91</b>

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



Port Angeles School District No. 121  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	9,101,594.09	308,640.31	1,202,399.03	579.46	6,297.52		10,619,510.41
State	26,806,966.26		7,442.49	0.00	152,383.16		26,966,791.91
Federal	3,891,073.71		0.00	0.00	0.00		3,891,073.71
Federal Stimulus	0.00						0.00
Other	292,151.69			0.00	0.00	0.00	292,151.69
<b>TOTAL REVENUES</b>	<b>40,091,785.75</b>	<b>308,640.31</b>	<b>1,209,841.52</b>	<b>579.46</b>	<b>158,680.68</b>	<b>0.00</b>	<b>41,769,527.72</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	20,166,360.48						20,166,360.48
Federal Stimulus	0.00						0.00
Special Education	5,617,755.31						5,617,755.31
Vocational Education	1,085,462.47						1,085,462.47
Skill Center	1,350,121.26						1,350,121.26
Compensatory Programs	2,330,727.79						2,330,727.79
Other Instructional Programs	326,879.26						326,879.26
Community Services	0.00						0.00
Support Services	8,677,058.25						8,677,058.25
Student Activities/Other		308,417.04				0.00	308,417.04
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				45,595.00			45,595.00
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	247,248.57						247,248.57
<b>DEBT SERVICE:</b>							
Principal	0.00		1,225,000.00	0.00	0.00		1,225,000.00
Interest and Other Charges	0.00		95,901.75	0.00	0.00		95,901.75
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>39,801,613.39</b>	<b>308,417.04</b>	<b>1,320,901.75</b>	<b>45,595.00</b>	<b>0.00</b>	<b>0.00</b>	<b>41,476,527.18</b>

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

Port Angeles School District No. 121  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	290,172.36	223.27	-111,060.23	-45,015.54	158,680.68	0.00	293,000.54
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	290,172.36	223.27	-111,060.23	-45,015.54	158,680.68	0.00	293,000.54
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>4,474,920.92</b>	<b>405,315.44</b>	<b>1,893,654.50</b>	<b>552,966.42</b>	<b>217,896.75</b>	<b>0.00</b>	<b>7,544,754.03</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>4,765,093.28</b>	<b>405,538.71</b>	<b>1,782,594.27</b>	<b>507,950.88</b>	<b>376,577.43</b>	<b>0.00</b>	<b>7,837,754.57</b>

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

**Port Angeles School District**  
**Notes to the Financial Statements**  
**September 1, 2013 through August 31, 2014**

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

The Port Angeles 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.

### **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 Board of Directors are the only persons who have the authority to create Assignments of fund balance.

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

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

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

## Cash and Cash Equivalents

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

## Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

## 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 Clallam 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:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Bankers' Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
State Treasurer's Investment Pool			
County Treasurer's Investment Pool	5	7,210,662	7,210,662
Total Investments			

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

### **Litigation**

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

## **NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

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

## **NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS**

### **A. General Information**

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

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

<u>Plan</u>	<u>FY 13-14</u>	<u>FY 12-13</u>	<u>FY 11-12</u>
Plan 1 TRS	\$ 52,680	\$ 44,604	\$ 55,530
Plan 2 TRS	\$ 267,764	\$ 150,301	\$ 147,614
Plan 3 TRS	\$ 1,344,587	\$ 1,078,341	\$ 1,073,587
Plan 1 PERS	\$ 15,742	\$ 13,339	\$ 12,711
Plan 2 SERS	\$ 169,184	\$ 119,413	\$ 105,040
Plan 3 SERS	\$ 373,709	\$ 288,968	\$ 306,268

Auditor Note: Amounts are not material, we will pass on further review.

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2014, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington  
Office of Financial Management  
300 Insurance Building  
PO BOX 43113  
Olympia, WA 98504-3113

## **NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance).

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$327,816.51. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

## **NOTE 7: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES**

### **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. There were no re-encumbrances on September 1, 2014.

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

The District's capital assets are insured in the amount of \$500,000,000 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 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds – 2009 Unlimited TGO&R Total General Obligation Bonds	9,062,477	1,339,850 – 1,394,650	12/01/2015	2.75%-4.00%	2,645,000

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

Long-Term Debt Payable at 9/1/2013	3,870,000
New Issues	-0-
Debt Retired	1,225,000
Long-Term Debt Payable at 8/31/2014	2,645,000

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

Years Ending August 31	Principal	Interest	Total
2015	1,290,000	76,350	1,366,350
2016	1,355,000	39,650	1,394,650
Total	2,645,000	116,000	2,761,000

At August 31, 2014, the District had \$1,752,594.27 available in the Debt Service Fund to service the general obligation bonds.

### **Refunded Debt**

On April 23, 2001, the District issued \$2,235,000 in general obligation bonds with an average interest rate of 4.49 percent to advance refund \$2,115,000 of outstanding 1994 series bonds with an average interest rate of 5.62 percent. The net proceeds of \$94,029 after payment of \$25,971 in underwriting fees, insurance, and other issuance costs plus an additional \$9,500,000 of 2001 series sinking fund moneys were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 series bonds. As a result, the 1994 series bonds are considered defeased.

The District advance refunded the 1994 series bonds to reduce its total debt service payments over the next four years by \$57,558 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$67,607.

On September 9, 2009, the District issued \$6,270,000 in general obligation bonds with interest rates of 0.60 to 2.45 percent, to advance refund \$5,990,000 of outstanding 2001 series bonds with interest rates of 4.80 percent to 5.00 percent. The net proceeds of \$6,553,032.50 after payment of \$64,750 in underwriting fees, insurance, and other issuance costs plus a deposit to the debt service fund in the amount of \$1,053.58 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 series bonds. As a result, the refunded 2001 series bonds are considered defeased. The District advance refunded the 2001 series bonds to reduce its total debt service payments over the next 6 years by \$243,623.89 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$230,080.88.

## **NOTE 10: 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 district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

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

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

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

## **NOTE 11: PROPERTY TAXES**

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

## **NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

### **Skill Center**

The District operates a Skill Center in cooperation with four neighboring districts and the local college for the purpose of training students of all five districts and the college in certain vocational skills. The proportionally larger financial operations of this facility are included in these financial statements. For the fiscal year 2013-14, revenues totaled \$1,160,546 while expenditures totaled \$1,356,071.

In May 2004, the District (as host of the North Olympic Peninsula Skills Center), Peninsula College, and the Clallam Business Incubator (a not-for-profit), formed a not-for-profit corporation called the North Olympic Peninsula Skills Center/Peninsula College Training Center/Clallam Business Incubator Association, under the Washington Condominium Act (RCW 64.34). The corporation was organized as a condominium form of ownership and its purpose was to acquire funding to build and operate the Lincoln Center Complex to support the cooperative programs of the three entities. The Clallam Business Incubator was formally dissolved with the State of Washington in the spring of 2013.

### **KCDA**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing a resolution prior to 1973 and has remained in the joint venture ever since. The District's current equity of \$57,677.11 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 13: 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	\$151,446				
Restricted Fund Balance					
Carryover of Restricted Revenues					
Debt Service	\$1,645				
Other Items		\$405,539		\$1,782,594	
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,902,125				
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects	\$250,000				
Other Purposes					
Fund Purposes			\$507,951		\$376,577
Unassigned Fund Balance	\$2,459,878				

The Board of Directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall end each year with the unreserved portion of the general fund balance at least equal to 4.0 percent (4%) of that year's general fund operating 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 14: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

### **457 Plan – Deferred Compensation Plan**

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

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

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

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by Employer Admin Services, Inc. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. For the year ended August 31, 2014, the District made \$7,062 in discretionary employer contributions to the plan.

## **NOTE 15: 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 termination payment method.

No unrecorded liability exists for other employee benefits.

## **NOTE 16: OTHER DISCLOSURES**

### **Skills Center Core Campus Note**

The District is the host district for the North Olympic Peninsula Skills Center, a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a Skills Center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The North Olympic Peninsula Skills Center was created through an agreement of the four member districts and the local college. The Skills Center is governed by an Administrative Council, comprised of the superintendents, or their appointed representatives, of all member districts. The Skills Center administration is handled through a director, employed by the District.

As host district, the District has the following responsibilities:

1. Employ staff of the Skills Center.
2. Act as fiscal agent for the Skills Center and maintain separate accounts and fund balances for each fund.
3. Review and adopt the Skills Center budget as a part of the District's overall budget.
4. Provide such services as may be mutually agreed upon by the District and the Skills Center.

### ***Sources of Funding***

The Skills Center is primarily funded by state apportionment, based on the number of students who attend the Skills Center. Other sources of income include federal grants from the Carl D. Perkins program, tuition and fees, and payments from member districts.

### ***Unspent Funds***

Any funds remaining at the end of the year from Skills Center operations are recorded as a restriction of the District's General Fund balance, and are to be used for financing future operations of the Skills Center. Member districts do not have claim to any unspent funds of the Skills Center.

The following districts are member districts of the Skills Center: Cape Flattery School District, Crescent School District, Quillayute Valley School District, Sequim School District, and Peninsula College.

The Quillayute and Sequim School Districts operate satellite campuses of the North Olympic Peninsula Skills Center. A satellite campus is not eligible to claim those students who attend for purposes of receiving direct funding from the state. The Port Angeles School District is required to provide the staffing for the satellite campus programs. As the fiscal agent for the Skills Center, the Port Angeles School District reimburses the satellite district for their costs through interlocal agreements.



Port Angeles School District No. 121  
Schedule of Long-Term Liabilities: GENERAL FUND  
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,181,588.65	35,176.11	0.00	1,216,764.76	162,500.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,181,588.65	35,176.11	0.00	1,216,764.76	162,500.00

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

Port Angeles School District No. 121  
Schedule of Long-Term Liabilities: DEBT SERVICE FUND  
For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	3,870,000.00	0.00	1,225,000.00	2,645,000.00	1,290,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	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	3,870,000.00	0.00	1,225,000.00	2,645,000.00	1,290,000.00

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

**Port Angeles School District #121**  
**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
U. S. Dept. of Defense	Dept. of Defense	NJROTC	12.357	0000 62	71,589.04	-	71,589.04	1
<b>Total Dept. of Defense</b>					<b>71,589.04</b>		<b>71,589.04</b>	
US Dept of Agriculture	WA OSPI	School Lunch - Regular Rate	10.555	9800 61		1,108,871.00	1,108,871.00	1
US Dept of Agriculture	WA OSPI	USDA Commodities	10.555	9800 69		98,075.49	98,075.49	1
US Dept of Agriculture	WA OSPI	School Breakfast	10.553	9801 41		35,346.62	35,346.62	1
US Dept of Agriculture	Office of St. Treasurer	Schools and Roads - Grants to States	10.665	0000 55		192,561.04	192,561.04	1
<b>Total Dept. of Agriculture</b>						<b>1,434,854.15</b>	<b>1,434,854.15</b>	
US Dept of Education	WA OSPI	Title I	84.010	5100 61		861,090.57	861,090.57	1,2,3,4
US Dept of Education	WA OSPI	Focus Schools	84.010	5106 61		19,646.00	19,646.00	1,2,3,4
US Dept of Education	WA OSPI	Special Education - Grants to States	84.027	2400 61		758,045.24	758,045.24	1,3,4
US Dept of Education	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	3800 61		20,209.00	20,209.00	1,3,4
US Dept of Education	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	4800 61		18,219.00	18,219.00	1,3,4
US Dept of Education	WA OSPI	Indian Education	84.060	6800 62		82,731.55	82,731.55	1
US Dept of Education	WA OSPI	Special Education - Preschool Grants	84.173	2401 61		95,587.41	95,587.41	1,3,4
US Dept of Education	WA OSPI	Improving Teacher Quality - State Grants	84.367	5200 61		245,529.28	245,529.28	1,3,4
US Dept of Education	WA OSPI	Impact Aid	84.041	0000 53	25,949.46		25,949.46	
US Dept of Education	WA OSPI	Impact Aid	84.041	2900 53	74,458.77		74,458.77	
<b>Total Dept. of Education</b>					<b>183,139.78</b>	<b>2,018,326.50</b>	<b>2,201,466.28</b>	
Dept. of Health & Human Services	WA OSPI	Special Education - Medical Assistance Program	93.778	2100 63		218,510.86	218,510.86	
<b>Total Dept. of Health &amp; Human Services</b>						<b>218,510.86</b>	<b>218,510.86</b>	
		<b>TOTAL AWARDS</b>			<b>254,728.82</b>	<b>3,671,691.51</b>	<b>3,926,420.33</b>	

## 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 Port Angeles School District's (*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—PROGRAM COSTS/MATCHING CONTRIBUTIONS**

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

### **NOTE 3—SCHOOLWIDE PROGRAMS**

The *District* operates a "schoolwide program" in five elementary buildings, one middle school, two high schools, and a Skills Center. 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 program.

Title I (84.010) \$880,736.57

### **NOTE 4—FEDERAL INDIRECT RATE**

The *District* used the federal *restricted* rate of 3.40 percent for these programs.

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

### Port Angeles School District No. 121 Clallam 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 Port Angeles School District No. 121.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with federal Title I requirements.
<b>Name, address, and telephone of auditee contact person:</b> Kelly Pearson, Director of Finance and Operations 216 E. Fourth Street Port Angeles WA, 98362 360-565-3755	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The District will coordinate between program manager and accounting to ensure budgets are set and monies are expended in accordance with the grant. The program manager will work with schools individually to ensure the schoolwide programs are being run in accordance with the grant. Additionally, we will do a better job documenting enrollment and poverty data in support of the grant allocations and maintain that documentation with the grant files.</i>	
<b>Anticipated date to complete the corrective action:</b> Immediate	

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