



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Lake Chelan School District No. 129

Chelan County

For the period September 1, 2014 through August 31, 2015

Published May 26, 2016

Report No. 1016816





Washington State Auditor's Office

May 26, 2016

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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Lake Chelan School District No. 129
Chelan County
September 1, 2014 through August 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an unmodified opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP).

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 Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with OMB Circular A-133.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.555	Child Nutrition Cluster – National School Lunch Program
10.553	Child Nutrition Cluster – School Breakfast Program
84.027	Special Education Cluster – Special Education Grants to States
84.173	Special Education Cluster – Special Education Preschool Grants

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.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2015-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Lake Chelan School District No. 129 Chelan County September 1, 2014 through August 31, 2015

2015-001 **The District does not have adequate controls in place to ensure compliance with federal child nutrition reporting, verification and suspension and debarment requirements.**

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

Background

The District participates in the School Breakfast and National School Lunch Programs and received \$107,721 for the breakfast program and \$398,693 for the lunch program in the 2014-2015 school year. These programs provide funding for free and reduced-priced meals for students from low-income families.

Description of Condition

Reporting

School districts must submit monthly claims for reimbursement to the Office of Superintendent of Public Instruction (OSPI) to receive reimbursement payments for meals served to eligible students.

We found that the District did not submit accurate monthly claims to OSPI. The District reported it served 220,531 meals to eligible free, reduced-price and paid students during the school year. However, we identified a discrepancy of 16,213 meals when comparing actual meals served to those reported.

We consider this control deficiency to be a significant deficiency.

Verification

Each year, districts must select a sample of applicants and verify that family income information reported to the district is correct. 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, 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. The District was required to verify six applications, and while it verified three of the six via the direct verification process, the District did not properly verify household income by eligible income records as required for the remaining three applications.

In addition, the District is required to provide the results of their verification to OSPI. We found that the District did not accurately report the verification 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 inset 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 that the District paid \$42,818 of federal Nutrition grant funds for goods without verifying the federal suspension and debarment status of this vendor.

We consider this control deficiency to be significant deficiency.

Cause of Condition

The District experienced turnover in key staff at the beginning of the 2014-2015 school year. As a result, new District personnel did not have a clear understanding of reporting and verification requirements. In addition, the District

did not retain documentation demonstrating that suspension and debarment requirements were satisfied.

Effect of Condition and Questioned Costs

Reporting

Lack of proper internal controls over reporting increases the risk that the District is not properly reimbursed for actual meals served. The District may receive under or over funding.

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 receive funding for households that did not qualify for free and reduced-priced meals. Further, the District did not accurately report its non-response rate to OSPI, which could affect the number of applications it was required to verify for fiscal year 2016.

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 to staff and establish internal controls to ensure the District; (1) submits accurate reimbursement claims to OSPI and (2) accurately performs the verification process, including reporting 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 audit, identified the weaknesses in its Food Service Program and took action to fix the problems by removing the previous food service director. Unfortunately, we, as a smaller Rural District, are not able to hire someone for the position that comes with all the experience needed to meet all the substantial requirement of the Nutrition Program and so some things are learned over time. The current director has made immediate changes to the District's reporting process once it was understood what the issue was. In addition, as provided to the auditor, the Director made a change to the verification process after going through the previous audit and realizing what needed to be done to be in compliance. Lastly, the District did, again as we showed the auditor, we retained the necessary documentation for suspended and debarred verification after the previous audit.

We believe the steps taken will address the concerns noted.

Auditor's Remarks

We appreciate the steps the District is taking to address the issues identified. We will follow up on the condition during our next audit.

Applicable Laws and Regulations

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

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and 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.

Title 7 Code of Federal Regulations, Section §210.7 – Reimbursement limitations for school food authorities, states in part:

(c) Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meal supplements that are served to children eligible for free, reduced price and paid lunches and meal supplements, respectively, for each day of operation.

(1) To ensure that the Claim for Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum:

(iv) Correctly record, consolidate and report those lunch and supplement counts on the Claim for Reimbursement; and

(v) Ensure that Claims for Reimbursement do not request payment for any excess lunches produced, as prohibited in 210.10(a)(2), or non-program lunches or for more than one meal supplement per child per day.

Title 7 Code of Federal Regulations, Section §220.9 – Reimbursement payments, states in part:

(a) In no event shall the School Food Authority claim reimbursement for free and reduced price breakfasts in excess of the number of children approved for free and reduced price meals.

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 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. (1) *Notification of selection.* Other than households verified through the direct **verification** process in paragraph (g) of this section, households selected for **verification** must be notified in writing that their applications were selected for **verification**. (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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Lake Chelan School District No. 129 Chelan County September 1, 2014 through August 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Lake Chelan School District No. 129. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 2014	Report Ref. No: 1014400	Finding Ref. No: 2014-001	CFDA Number(s): 10.553/555
Federal Program Name and Granting Agency: School Nutrition Program (Cluster) U.S. Department of Agriculture		Pass-Through Agency Name: NA	
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 Child Nutrition grant.			
Background: <u>Verification:</u> The District failed to appropriately follow verification requirements and also did not report accurate results to OSPI. <u>Suspension and Debarment:</u> 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.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The District hired a new Food Service Director to address the issues noted with the verification process. Once we had trained and worked through the first year of verifications, we have solved the verification issue. As for the verification of vendors for suspension and debarment, we moved the retention of the records of our verification to the District Office. As we showed in our current year, we have retained that documentation.</i>			

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

**Lake Chelan School District No. 129
Chelan County
September 1, 2014 through August 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 18, 2016. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

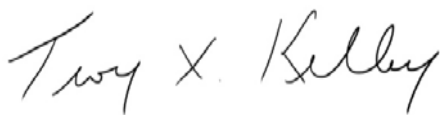
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 18, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

**Lake Chelan School District No. 129
Chelan County
September 1, 2014 through August 31, 2015**

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 the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of 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, 2015.

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 Award Findings and Questioned Costs as Finding 2015-001 to be a material weakness.

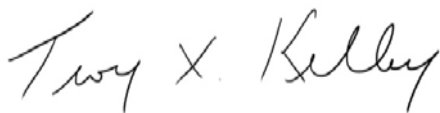
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 Award Findings and Questioned Costs as Finding 2015-001 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 Award 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Chelan School District No. 129 Chelan County September 1, 2014 through August 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 23.

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, 2015, 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 Projects, Transportation Vehicle and Fiduciary funds as of August 31, 2015, 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. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

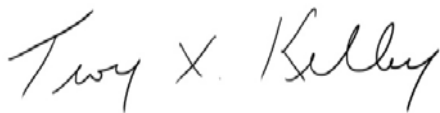
Other Matters

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 18, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 18, 2016

FINANCIAL SECTION

Lake Chelan School District No. 129
Chelan County
September 1, 2014 through August 31, 2015

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2015
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2015
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Notes to the Schedule of Expenditures of Federal Awards – 2015

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	574,758.08	6,167.00	448.63	254,762.42	0.00	0.00	836,136.13
Minus Warrants Outstanding	-680,907.57	-3,567.00	0.00	-134,868.50	0.00	0.00	-819,343.07
Taxes Receivable	1,297,896.97		7,206.26	555,816.41	0.00		1,860,919.64
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	68,829.15	0.00	0.00	0.00	0.00	0.00	68,829.15
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		0.00			3,606.38
Prepaid Items	150,030.19	0.00			0.00	0.00	150,030.19
Investments	1,412,037.45	112,572.50	9,647.29	560,589.49	190,336.35	0.00	2,285,183.08
Investments/Cash With Trustee	32,336.92		0.00	0.00	0.00	0.00	32,336.92
Investments-Deferred	0.00			0.00			0.00
Compensation							
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	2,858,587.57	115,172.50	17,302.18	1,236,299.82	190,336.35	0.00	4,417,698.42
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2,858,587.57	115,172.50	17,302.18	1,236,299.82	190,336.35	0.00	4,417,698.42
LIABILITIES:							
Accounts Payable	246,463.49	3,950.43	0.00	3,768.21	0.00	0.00	254,182.13
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	11,202.94	0.00		0.00			11,202.94
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Balance Sheet

Governmental Funds

August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	4,261.67	0.00		0.00			4,261.67
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	261,928.10	3,950.43	0.00	3,768.21	0.00	0.00	269,646.74
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	1,297,896.97		7,206.26	555,816.41	0.00		1,860,919.64
TOTAL DEFERRED INFLOWS OF RESOURCES	1,297,896.97	0.00	7,206.26	555,816.41	0.00	0.00	1,860,919.64
FUND BALANCE:							
Nonspendable Fund Balance	3,606.00	0.00	0.00	0.00	0.00	0.00	3,606.00
Restricted Fund Balance	19,110.19	111,222.07	10,095.92	0.00	190,336.45	0.00	330,764.63
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	676,715.20	-0.10	0.00	676,715.10
Unassigned Fund Balance	1,276,046.31	0.00	0.00	0.00	0.00	0.00	1,276,046.31
TOTAL FUND BALANCE	1,298,762.50	111,222.07	10,095.92	676,715.20	190,336.35	0.00	2,287,132.04
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	2,858,587.57	115,172.50	17,302.18	1,236,299.82	190,336.35	0.00	4,417,698.42

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	3,181,957.07		17,668.95	1,452,074.63	133.40		4,798,805.15
State	11,272,281.64		0.00	33,326.00	128,867.84		11,434,475.48
Federal	1,503,052.86			0.00	0.00		1,503,052.86
Federal Stimulus	0.00		0.00	0.00	0.00		0.00
Other	313,925.73	146,971.10		0.00	0.00	0.00	313,925.73
TOTAL REVENUES	16,271,217.30		17,668.95	1,485,400.63	129,001.24	0.00	18,050,259.22
EXPENDITURES:							
CURRENT:		146,971.10					
Regular Instruction	8,199,771.68						8,199,771.68
Federal Stimulus	0.00						0.00
Special Education	1,410,087.47						1,410,087.47
Vocational Education	749,687.62						749,687.62
Skill Center	0.00						0.00
Compensatory Programs	1,474,312.24						1,474,312.24
Other Instructional Programs	237,279.98						237,279.98
Community Services	8,781.87						8,781.87
Support Services	4,022,872.24						4,022,872.24
Student Activities/Other		134,744.32				0.00	134,744.32
CAPITAL OUTLAY:							
Sites				2,074,201.98			2,074,201.98
Building				512,532.45			512,532.45
Equipment				48,393.55			48,393.55
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					214,993.38		214,993.38
Sales and Lease				0.00			0.00
Other	34,225.15						34,225.15
DEBT SERVICE:							
Principal	0.00		350,000.00	0.00	0.00		350,000.00
Interest and Other Charges	0.00		21,498.75	0.00	0.00		21,498.75
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	16,137,018.25	134,744.32	371,498.75	2,635,127.98	214,993.38	0.00	19,493,382.68

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2015

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	134,199.05	12,226.78	-353,829.80	-1,149,727.35	-85,992.14	0.00	-1,443,123.46
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		375,498.75	283,660.44	0.00		659,159.19
Transfers Out (GL 536)	-121,498.75		-183,660.44	-354,000.00	0.00	0.00	-659,159.19
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	11,650.00		11,650.00
TOTAL OTHER FINANCING SOURCES (USES)	-121,498.75		191,838.31	-70,339.56	11,650.00	0.00	11,650.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	12,700.30	12,226.78	-161,991.49	-1,220,066.91	-74,342.14	0.00	-1,431,473.46
BEGINNING 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
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	1,298,762.50	111,222.07	10,095.92	676,715.20	190,336.35	0.00	2,287,132.04

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

Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2015

	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	500.00	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	25,645.02	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	26,145.02	0.00
LIABILITIES:		
Accounts Payable	1,000.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	1,000.00	0.00
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	25,145.02	
Held In Trust For Pension Or Other Post-Employment Benefits		0.00
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	25,145.02	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		Other Trust
For the Year Ended August 31, 2015		
	Private Purpose Trust	
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members	0.00	0.00
Other		0.00
TOTAL CONTRIBUTIONS	0.00	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	36.66	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	36.66	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	36.66	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	2,000.00	
Other	0.00	0.00
TOTAL DEDUCTIONS	2,000.00	0.00
Net Increase (Decrease)	-1,963.34	0.00
Net Position--Beginning	27,108.36	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	25,145.02	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, 2014 through August 31, 2015

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.

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 2014-15

Effective for the 2014-15 school year, the district implemented provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a result, the Schedule Long-Term Liabilities, now includes the district's proportionate share of the net pension liability for the cost-sharing, multiple-employer plants in which the district participates.

NOTE 2 – DEPOSITS AND INVESTMENTS

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, 2015 are as follows:

	Number of Securities	Carrying Amount	Market Value
County Treasurer's Investment Pool			
General Fund		\$1,412,037.45	
ASB Fund		112,572.50	
Capital Projects Fund		560,589.49	
Transportation Vehicle Fund		190,336.35	
Deb Service Fund		9,647.29	
Trust Fund		543.68	
Certificate of Deposit – Wells Fargo Bank	1	25,066.23	\$25,066.23
Total Investments		\$2,310,792.99	\$25,066.23

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

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

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: PENSIONS PLANS

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statements are accounted for using the accrual basis of accounting. The measurement date of the pension plans is June

30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pensions plans "fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by t contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or on-line at <http://www.drs.wa.gov/administration/annual-report>.

Membership Participation

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 DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership by retirement system program as of June 30, 2015:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
PERS	4,782	10,335	51,070
SERS	53,782	12,320	10,621
TRS	67,293	10,335	45,627

The latest actuarial valuations for all plans were June 30, 2014.

Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified 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 jointed the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes. Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefits portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of

this Plan 2/3 defined benefits plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service, credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65, TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2015 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only for those that are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time-duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from the active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional

cost-of-living adjustment (COLA) , and a one-time-duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported at two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Retirement before age 65 is considered an early retirement, SERS members, who have least 20 years of service credit are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65, SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of the two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65: or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and one-time duty-related death benefit, if found to be eligible by the Department of Labor and Industries.

Plan Contribution

The employer contribution rates for PERS, TRRS and SERC (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 methods to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll for 2015 were as follows:

Pension Rates			
	7/1/2014 Rate	7/1/2015 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	9.21%	11.18%	
Pension Rates			
	9/1/2014 Rate	9/1/2015 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	10.39%	13.13%	
TRS 2			
Member Contribution Rate	4.96%	5.95%	
Employer Contribution Rate	10.39%	13.13%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	5.00%	5.00%	**
SERS 2			
Member Contribution Rate	4.64%	5.63%	
Employer Contribution Rate	9.82%	11.58%	
SERS 3			
Member Contribution Rate	*	*	
Employer Contribution Rate	5.00%	5.00%	**
<i>Note: The DRS administrative rate of .0018 is included in the employer rate.</i>			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans districts participated in are reported in the following tables.

The Collective Net Pension Liability as of June 30, 2015:				
	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$12,789,242	\$4,473,428	\$9,237,730	\$11,220,833
Plan fiduciary net position	\$(7,558,312)	\$(4,067,277)	\$(6,069,588)	\$(10,377,031)
Participating employers' net pension liability	\$5,230,930	\$406,151	\$3,168,142	\$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

The School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2015, the school district reported a total liability of \$6,937,655 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability are based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3	Totals
District's Annual Contributions	98,183	136,944	293,038	346,237	874,402
Employer Allocation Percentage	0.021363%	0.140857%	0.130951%	0.130288%	
Proportionate Share of the Net Pension Liability	1,117,472	572,093	4,148,716	1,099,374	6,937,655

The change in the allocation percentage from the prior year is illustrated below:

Change in Proportionate shares	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.021363%	0.140857%	0.130951%	0.130288%
Prior year proportionate share of the Net Pension Liability	0.019522%	0.132926	0.130509%	0.128240%
Net difference percentage	-0.001841%	-0.007931%	-0.000442	-0.002048%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return;
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2014, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation Percentage	% Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Lake Chelan School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.5 percent) or one percentage-point higher (8.5 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.50%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS1 NPL	\$6,368,671,000	\$5,230,930,000	\$4,252,577,000
Allocation Percentage	0.021363%	0.021363%	0.021363%
Proportionate Share of Collective NPL	\$1,360,525	\$1,117,472	\$908,469
SERS2/3 NPL	\$1,282,039,000	\$406,151,000	(\$273,474,000)
Allocation Percentage	0.140857%	0.140857%	0.140857%
Proportionate Share of Collective NPL	\$1,805,845	\$572,093	(\$385,208)
TRS1 NPL	\$3,982,571,000	\$3,168,142,000	\$2,467,801,000
Allocation Percentage	0.130951%	0.130951%	0.130951%
Proportionate Share of Collective NPL	\$5,215,220	\$4,148,716	\$3,231,612
TRS2/3 NPL	\$3,570,229,000	\$843,802,000	(\$1,183,066,000)
Allocation Percentage	0.130288%	0.130288%	0.130288%
Proportionate Share of Collective NPL	\$4,651,585	\$1,099,374	(\$1,541,395)

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>2013</u>	<u>2014</u>	<u>2015</u>
Plan 1 TRS	\$ 27,045.08	\$ 21,857.72	\$ 15,311.09
Plan 2 TRS	33,302.36	63,041.20	94,480.90
Plan 3 TRS	398,219.50	546,674.93	547,311.08
Plan 2 SERS	65,976.65	91,774.43	104,397.40
Plan 3 SERS	86,386.40	124,169.97	135,197.69
Plan 1 PERS	<u>5,069.56</u>	<u>6,281.26</u>	<u>0</u>
Total Contributions	\$ 615,999.55	\$ 853,799.51	\$ 896,711.46

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, 2015, 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), 60 of the State's K-12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 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 2014-15, the District was required to pay the HCA \$66.64 per month per full-time equivalent employee to support the program, for a total payment of \$139,717.94. 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, 2015, the District had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Lease-Purchase Commitments					
Ricoh MP 4503	\$13,848.60	\$2,769.72	08/31/2020	0	\$13,848.60
Ricoh MP 301 SPF	\$ 2,270.40	\$ 454.08	08/31/2020	0	\$ 2,270.40
Ricoh Pro C51000S	\$38,339.40	\$7,667.88	08/31/2019	0	\$30,671.52
Ricoh PC C7501	\$45,001.20	\$9,000.24	12/31/2019	0	\$39,001.04
Ricoh MP 6002 SP	\$16,847.40	\$3,369.48	08/31/2019	0	\$13,477.92
<i>Total Lease-Purchase Commitments</i>					\$99,269.48
Other Long-Term Commitments					
City of Chelan Bldg Lease	\$15,000.00	\$7,500.00	July 1, 2016	0	\$7,500
<i>Total Other Long-Term Commitments</i>					\$7,500

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

The District did have one significant commitment at August 31, 2015. The District was in the middle of constructing a new entryway into the Middle/High School Building. The total remaining /commitment for this construction was approximately \$330,000.

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount \$63,985,682 for fiscal year 2015. 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, 2015, 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	\$1,750,000
Total General Obligation Bonds	\$2,100,000				\$1,750,000

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2015:

Long-Term Debt Payable at 9/1/201	\$2,100,000
New Issues	\$ 0
Debt Retired	\$ 350,000
Long-Term Debt Payable at 8/31/2015	\$1,750,000

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2015:

Years Ending August 31,	Principal	Interest	Total
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	\$1,750,000	\$ 35,437.50	\$1,785,437.50

As of August 31, 2015, the District had \$10,095.92 available in the Debt Service Fund to service the general obligation bonds.

Note 11: INTERFUND BALANCES AND TRANSFERS

The following table depicts interfund transfer activity:

Transferred From (Fund) 535 or 536	Transferred To (Fund) 965 9900	Amount	Description
General	Capital Projects	\$100,000	To cover project costs
General	Debt Service	\$21,498.75	Bond Interest Payment
Capital Projects	Debt Service	\$350,000	Bond Principal Payment
Debt Service	Capital Projects	\$183,360.44	Use of Excess Levy Proceeds

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, 2015, were \$1,678,247.63.

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, 2015, Lake Chelan School District made payments totaling \$121,054.62 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 \$5,931.86 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	\$ 3,606				
Restricted FB		\$111,222.07		\$10,095.92	\$190,336.45
Carryover of Revenues	\$ 19,110.19				
Committed FB					
Debt Service					
Other Items					
Minimum FB Per Policy					
Assigned FB					
Other Purposes					
Fund Purposes			\$676,715.20		\$ -.10
Unassigned Fund Balance	\$1,276,046.31				

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

Unemployment

The District is a member of the North Central Unemployment Cooperative with the North Central ESD. The funds held by the ESD for the North Central Unemployment Cooperative are listed as assets on the District's Financial Statements.

Compensated Absences

Prior to August 31, 2015, the District had been a member of the North Central Compensated Absences Liability Pool with the North Central ESD. Changes in GASB reporting requirements caused a significant diminishment to the value of the pool for its members. As such the decision was made to stop receiving contributions and dissolve the pool. As of August 31, 2015 no remaining funds are being held at the ESD on behalf of the District in relation to this pool.

Lake Chelan School District No. 129
Schedule of Long-Term Liabilities: GENERAL FUND
For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.	0.00	0.00
Contracts Payable	0.000.00	0	00	0.00	0.00
Non-Cancellable Operating Leases		0.00	0.	0.00	0.00
Claims & Judgements		0	00	0.00	0.00
Compensated Absences	589,538.78	102,497.81	49,296.19	642,740.40	50,775.08
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
Net Pension Liabilities:					
Net Pension Liabilities TRS 1	0.00	4,148,716.00	0.00	4,148,716.00	
Net Pension Liabilities TRS 2/3	0.00	1,099,374.00	0.00	1,099,374.00	
Net Pension Liabilities SERS 2/3	0.00	572,093.00	0.00	572,093.00	
Net Pension Liabilities PERS 1	0.00	1,117,472.00	0.00	1,117,472.00	
Total Long-Term Liabilities	589,538.78	7,040,152.81	49,296.19	7,580,395.40	50,775.08

Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2015

Description	Beginning Outstanding Debt September 1, 2014	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2015	Amount Due within One Year
Voted Debt					
Voted Bonds	0.00	0.00	0.00	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	2,100,000.00	0.00	350,000.00	1,750,000.00	700,000.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	2,100,000.00	0.00	350,000.00	1,750,000.00	700,000.00

LAKE CHELAN SCHOOL DISTRICT No. 129
Schedule of Expenditures of Federal Awards
For The Year Ending August 31, 2015

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	25,218		25,218	5
10.553		School Breakfast Program		WA OSPI	107,721		107,721	5
10.555		National School Lunch Program		WA OSPI	398,693		398,693	5
10.665		School and Roads - Grants to States		WA OSPI	72,794		72,794	
Department of Agriculture Subtotal					604,426	0	604,426	
U.S. Department of Education								
84.010		Title I Grants to Local Education Agencies	Grant No. 0201873	WA OSPI	412,355		412,355	4, 5
84.010		Title I Grants to Local Education Agencies	Grant No. 0228705	WA OSPI	10,851		10,851	4, 5
84.011		Migrant Education - State Grant Program	Grant No. 0282138	WA OSPI	54,146		54,146	
84.027		Special Education - Grants to States	Grant No. 0305257	WA OSPI	249,399		249,399	
84.048		Career and Technical Education - Basic Grants to States	Grant No. 0173240	WA OSPI	10,957		10,957	
84.027		Special Education - Grants to States	Grant No. 0329053	WA OSPI	7,582		7,582	
84.173		Special Education - Preschool Grants	Grant No. 0363255	WA OSPI	8,879		8,879	
84.173		Special Education - Preschool Grants	Grant No. 0329503	WA OSPI	1,031		1,031	
84.334		Gaining Early Awareness and Readiness for Undergraduate Program	N/A	CWU	22,341		22,341	
84.365		English Language Acquisition State Grants	Grant No. 0402045	WA OSPI	34,476		34,476	
84.367		Improving Teacher Quality State Grants	Grant No. 0523681	WA OSPI	61,815		61,815	4
Department of Education Subtotal					873,830	0	873,830	
U.S. Department of Health and Human Services								
93.778		Medical Assistance Program		WA HCA	24,796		24,796	
TOTAL FEDERAL AWARDS EXPENDED					1,503,053	0	1,503,053	

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, 2015
Notes to the Schedule of Expenditures of Federal Awards**

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District'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 – PROGRAM COST/MATCHING REQUIREMENTS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including Lake Chelan School District's local matching share, may be more than shown.

NOTE 3 – 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 4 – 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) – \$412,355; and Title II A, School Improvement (84.367) – \$61,815.

NOTE 5 – MAJOR PROGRAMS

Designates major programs for the District in 2014-15; Title I and Nutrition Cluster.

NOTE 6 – FEDERAL INDIRECT RATE

The district's indirect rate was 2.4%.

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

Lake Chelan School District No. 129 Chelan County September 1, 2014 through August 31, 2015

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: 2015-001	Finding caption: The District does not have adequate controls in place to ensure compliance with federal child nutrition reporting, verification and suspension and debarment requirement.
Name, address, and telephone of auditee contact person: Scott Renick, Business Manager P.O. Box 369 Chelan, WA 98816-0369 (509) 682-3515	
Corrective action the auditee plans to take in response to the finding: <i>As we are all aware the verification and suspension and debarment requirements were addressed in the current year prior to the audit. The reporting issue was corrected in the first month following the audit. The District will monitor periodically to ensure that the reporting issue remains addressed.</i>	
Anticipated date to complete the corrective action: Fiscal Year 2016	

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