

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Southside School District No. 42**  
**Mason County**

Audit Period  
**September 1, 2006 through August 31, 2009**

**Report No. 1003822**

Issue Date  
**June 28, 2010**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

June 28, 2010

Board of Directors  
Southside School District No. 42  
Shelton, Washington

***Report on Financial Statements***

Please find attached our report on Southside School District No. 42's financial statements.

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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**Mason County**  
**September 1, 2006 through August 31, 2009**

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# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

## Southside School District No. 42 Mason County September 1, 2006 through August 31, 2009

Board of Directors  
Southside School District No. 42  
Shelton, Washington

We have audited the financial statements of Southside School District No. 42, Mason County, Washington, as of and for the years ended August 31, 2009, 2008 and 2007, and have issued our report thereon dated May 3, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended for the information and use of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 3, 2010

# Independent Auditor's Report on Financial Statements

## **Southside School District No. 42 Mason County September 1, 2006 through August 31, 2009**

Board of Directors  
Southside School District No. 42  
Shelton, Washington

We have audited the accompanying financial statements of Southside School District No. 42, Mason County, Washington, for the years ended August 31, 2009, 2008 and 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the District prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Southside School District No. 42, for the years ended August 31, 2009, 2008 and 2007, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt are 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 3, 2010

# Financial Section

**Southside School District No. 42  
Mason County  
September 1, 2006 through August 31, 2009**

## ***FINANCIAL STATEMENTS***

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Southside School District No. 042

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	478,679.23	2,648.79	277,906.75	21,997.97	191.37		781,424.11
State	1,507,582.81		0.00	0.00	7,901.92		1,515,484.73
Federal	149,071.33		0.00	0.00	0.00		149,071.33
Federal Stimulus	103,049.00						103,049.00
Other	0.00			0.00	0.00	0.00	0.00
<b>TOTAL REVENUES</b>	<b>2,238,382.37</b>	<b>2,648.79</b>	<b>277,906.75</b>	<b>21,997.97</b>	<b>8,093.29</b>	<b>0.00</b>	<b>2,549,029.17</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	1,075,651.24						1,075,651.24
Federal Stimulus	103,049.00						103,049.00
Special Education	196,244.73						196,244.73
Vocational Education	0.00						0.00
Skills Center	0.00						0.00
Compensatory Programs	165,271.33						165,271.33
Other Instructional Programs	9,074.16						9,074.16
Community Services	0.00						0.00
Support Services	562,068.18						562,068.18
Student Activities/Other		2,213.02				0.00	2,213.02
<b>CAPITAL OUTLAY:</b>							
Sites				23,745.70			23,745.70
Building				104,998.08			104,998.08
Equipment				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Other	0.00						0.00
<b>DEBT SERVICE:</b>							
Principal			144,849.26	0.00	0.00		144,849.26
Interest and Other Charges			133,264.52	0.00	0.00		133,264.52
<b>TOTAL EXPENDITURES</b>	<b>2,111,358.64</b>	<b>2,213.02</b>	<b>278,113.78</b>	<b>128,743.78</b>	<b>0.00</b>	<b>0.00</b>	<b>2,520,429.22</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>127,023.73</b>	<b>435.77</b>	<b>-207.03</b>	<b>-106,745.81</b>	<b>8,093.29</b>	<b>0.00</b>	<b>28,599.95</b>

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, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		5,351.78	0.00	0.00		5,351.78
Transfers Out (GL 536)	0.00		0.00	0.00	-5,351.78	0.00	-5,351.78
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	247.00		0.00	0.00	0.00		247.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>247.00</b>		<b>5,351.78</b>	<b>0.00</b>	<b>-5,351.78</b>	<b>0.00</b>	<b>247.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>127,270.73</b>	<b>435.77</b>	<b>5,144.75</b>	<b>-106,745.81</b>	<b>2,741.51</b>	<b>0.00</b>	<b>28,846.95</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>100,262.16</b>	<b>4,751.11</b>	<b>112,423.90</b>	<b>173,622.94</b>	<b>10,323.59</b>	<b>0.00</b>	<b>401,383.70</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>227,532.89</b>	<b>5,186.88</b>	<b>117,568.65</b>	<b>66,877.13</b>	<b>13,065.10</b>	<b>0.00</b>	<b>430,230.65</b>

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

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

**SOUTHSIDE SCHOOL DISTRICT NO. 042**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For The Year Ended August 31, 2008

	General Fund	Assoc. Student Body	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	475,665.40	2,443.78	278,263.60	36,784.95	412.32		793,570.05
State	1,506,540.12		1.09		6,336.25		1,512,877.46
Federal	176,858.97						176,858.97
Other							
<b>TOTAL REVENUES</b>	<b>2,159,064.49</b>	<b>2,443.78</b>	<b>278,264.69</b>	<b>36,784.95</b>	<b>6,748.57</b>		<b>2,483,306.48</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	1,183,219.05						1,183,219.05
Special Education	187,464.83						187,464.83
Vocational Education							
Skills Center							
Compensatory Program	228,590.60						228,590.60
Other Instruct. Prog	4,177.55						4,177.55
Community Services	3,901.59						3,901.59
Support Services	559,106.95						559,106.95
Stu. Activities/Othe		2,982.36					2,982.36
<b>CAPITAL OUTLAY:</b>							
Sites				21,306.03			21,306.03
Building				1,415.05			1,415.05
Equipment							
Energy							
Transportation Equip							
Other							
<b>DEBT SERVICE:</b>							
Principal			139,641.22				139,641.22
Int. & Other Charges			138,343.81				138,343.81
<b>TOTAL EXPENDITURES</b>	<b>2,166,460.57</b>	<b>2,982.36</b>	<b>277,985.03</b>	<b>22,721.08</b>			<b>2,470,149.04</b>
<b>REVS OVER (UNDER) EX</b>	<b>7,396.08-</b>	<b>538.58-</b>	<b>279.66</b>	<b>14,063.87</b>	<b>6,748.57</b>		<b>13,157.44</b>
<b>OTHER FIN SRCS(USES</b>							
Bond Sls & Ref Bond							
Long-Term Financing							
Transfers In			5,351.78				5,351.78
Trans Out (GL 536)					5,351.78-		5,351.78-
Oth Fin Use (GL 535)							
Other	48.17						48.17
<b>TOTAL OTHER FINANCE</b>	<b>48.17</b>		<b>5,351.78</b>		<b>5,351.78-</b>		<b>48.17</b>
<b>SOURCES (USES)</b>							
<b>EXCESS OF REVS &amp; OTH</b>							
<b>FIN SRCS OVER (UNDER</b>							
<b>EXP &amp; OTHER FIN USES</b>	<b>7,347.91-</b>	<b>538.58-</b>	<b>5,631.44</b>	<b>14,063.87</b>	<b>1,396.79</b>		<b>13,205.61</b>
<b>BEG TOT FUND BALANCE</b>	<b>107,610.07</b>	<b>5,289.69</b>	<b>106,792.46</b>	<b>159,559.07</b>	<b>8,926.80</b>		<b>388,178.09</b>
<b>Prior Year(s) Correc</b>							
<b>or Restatements</b>							
<b>END TOT FUND BALANCE</b>	<b>100,262.16</b>	<b>4,751.11</b>	<b>112,423.90</b>	<b>173,622.94</b>	<b>10,323.59</b>		<b>401,383.70</b>

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

**SOUTHSIDE SCHOOL DISTRICT NO. 042**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For The Year Ended August 31, 2007

	General Fund	Assoc. Student Body	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	443,588.77			9,573.09	581.49		724,065.05
State	1,496,761.69			483.72	4,538.48		1,501,783.89
Federal	159,082.50						159,082.50
Other							
TOTAL REVENUES	2,099,432.96	2,930.76	267,390.94	10,056.81	5,119.97		2,384,931.44
EXPENDITURES:							
CURRENT:							
Regular Instruction	1,211,432.71						1,211,432.71
Special Education	159,440.37						159,440.37
Vocational Education							
Skills Center							
Compensatory Program	176,316.78						176,316.78
Other Instruct. Prog	1,738.45						1,738.45
Community Services							
Support Services	527,348.29						527,348.29
Stu. Activities/Othe		2,686.37					2,686.37
CAPITAL OUTLAY:							
Sites				10,485.79			10,485.79
Building				6,416.45			6,416.45
Equipment				39,812.46			39,812.46
Energy							
Transportation Equip							
Other							
DEBT SERVICE:							
Principal			129,442.10				129,442.10
Int. & Other Charges			142,869.18				142,869.18
TOTAL EXPENDITURES	2,076,276.60	2,686.37	272,311.28	56,714.70			2,407,988.95
REVS OVER (UNDER) EX	23,156.36	244.39	4,920.34-	46,657.89-	5,119.97		23,057.51-
OTHER FIN SRCS(USES							
Bond Sls & Ref Bond							
Long-Term Financing							
Transfers In							
Trans Out (GL 536)							
Oth Fin Use (GL 535)							
Other							
TOTAL OTHER FINANCE							
SOURCES (USES)							
EXCESS OF REVS & OTH							
FIN SRCS OVER (UNDER							
EXP & OTHER FIN USES	23,156.36	244.39	431.44	46,657.89-	231.81-		23,057.51-
BEG TOT FUND BALANCE	84,453.71	5,045.30	106,361.02	206,216.96	9,158.61		411,235.60
Prior Year(s) Correc							
or Restatements							
END TOT FUND BALANCE	107,610.07	5,289.69	106,792.46	159,559.07	8,926.80		388,178.09

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

**OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA) CASH BASIS NOTES TO THE  
FINANCIAL STATEMENTS**

**SOUTHSIDE SCHOOL DISTRICT  
Notes to Financial Statements  
September 1, 2006 through August 31, 2009**

**Note 1 Summary of Significant Accounting Policies**

a. Reporting Entity

The Southside 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.

For financial reporting purposes, the Southside School District includes all funds, and all organizations controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

b. Basis of Presentation—Fund Accounting

The district reports on cash basis of accounting pursuant to RCW 28A.505.020, which permits districts with less than one thousand full time equivalent students for the preceding fiscal year to make a uniform election of cash basis accounting for all funds, except debt service. The accounts of the district are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its fund equity, revenues, and expenditures. The various funds in the report are grouped as follows:

**GOVERNMENTAL FUNDS**

General Fund

This fund is the general operating fund of the district. It accounts for all expendable financial resources, except those required to be accounted for in another fund.

Capital Projects Funds

This fund type accounts for financial resources to be used for the construction or purchase of major capital assets. It consists of the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

#### Debt Service Fund

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

#### Special Revenue Funds

This fund type accounts for the proceeds of specific revenue sources legally restricted for specific purposes. The Associated Student Body Fund is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

#### Permanent Funds

These funds are used to report resources legally restricted such that only earnings, and not principal, may be used to support the district's programs.

#### c. Basis of Accounting

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The district's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington* for cash basis districts. The publication was issued jointly by the State Auditor and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. This manual allows for practices that differ from generally accepted accounting principles in the following manner:

- (1) Revenues are recognized when they are received in cash, rather than when measurable and available. Expenditures are recognized when warrants are issued rather than when expenditures are incurred.
- (2) The cost of supplies and materials is recorded as an expenditure at the time the inventory item is purchased rather than when consumed.
- (3) Districtwide statements are not presented.
- (4) The financial statements do not report capital assets.
- (5) Debt is not reported on the face of the financial statements. It is reported in the notes to the financial statements and on the Schedules of Long-Term Debt. The Schedule of Long-Term Debt is required supplemental information.
- (6) The original budget is not presented but is available at the Office of Superintendent of Public Instruction.
- (7) Management Discussion and Analysis is not presented.

d. Budgetary Data

General Budgetary Policies

Chapter 28A.505 RCW and Chapter 392-123 *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. The board adopts the budget after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period.

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on a cash basis as allowed in law for all governmental funds. 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.

e. Deposits and Investments

The county treasurer is the ex officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf.

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.

The district's deposits are guaranteed up to \$1 million entirely by federal depository insurance. The district's cash on deposit balance with the county was \$211,770.52, \$183,576.76 and \$162,780.13 as of August 31, 2007, 2008 and 2009, respectively.

RCW 28A.320.320 authorizes district funds to be invested in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability. The county treasurer had \$378,901.79, \$391,296.93 and \$425,044.70 invested on behalf of the district as of August 31, 2007, 2008 and 2009, respectively.

f. Inventory

The cost of supplies and materials are recorded as expenditures at the time the inventory item is purchased. For donated USDA commodities inventory a beginning and ending inventory is kept to meet federal requirements. The district USDA ending inventory is valued at \$0, \$4,641.80 and \$3,381.78 as of August 31, 2007, 2008 and 2009, respectively.

g. 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.

h. Compensated Absences

Employees earn sick leave at a rate of twelve days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This statute also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buy out purposes employees may accumulate sick leave to a maximum of 192 days, i.e., 12 buy out days and a maximum leave accrual of 180 days, as of December 31 of each year.

District obligation for vested sick leave at August 31, 2009 amounts to \$59,679.81.

Vested sick leave for employees eligible for retirement is recorded as long-term debt liabilities. These expenditures are recorded when paid, except termination sick leave that is accrued upon death or retirement. Vested sick leave was computed using the termination payment method.

No liability exists for other employee benefits.

i. Fund Balance – May contain designations or reserves.

Reservation is a legal restriction on spending of the fund balance of a district based upon statute, WAC, or other legal requirements beyond the discretion of the board of directors of the district. Examples include anticipated carryover or recovery of revenues previously received and restricted as to usage.

Unreserved, Designated is used to set aside financial resources 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.

**Note 3 Capital Assets**

The district's capital assets are insured in the amount of \$2,464,808, \$3,162,022 and \$4,070,920 for fiscal years 2007, 2008 and 2009, respectively. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

**Note 4 Pensions**

a. General Information

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



Membership by retirement system program as of September 30, 2006:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	67,736	7,811	38,252
PERS	155,027	25,610	70,201
SERS	50,818	6,894	2,758

Membership by retirement system program as of June 30, 2007:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	64,939	9,428	38,091
PERS	158,022	26,583	71,244
SERS	50,825	7,674	3,141

Membership by retirement system program as of June 30, 2008:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	66,524	8,699	39,150
PERS	161,668	27,267	73,122
SERS	51,774	8,600	3,873

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

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

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

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits after five years of credited service and attainment of age 60 or after ten years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

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

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

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2, employee contribution rates are established by the Pension Funding Council based

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

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

b. Contributions

Employee contribution rates as of August 31, 2007:

Plan 1 TRS	6%	Plan 1 PERS	6%
Plan 2 TRS	3.01%	Plan 2 SERS	3.79%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employee contribution rates as of August 31, 2008:

Plan 1 TRS	6%	Plan 1 PERS	6%
Plan 2 TRS	2.9%	Plan 2 SERS	3.9%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employee contribution rates as of August 31, 2009:

Plan 1 TRS	6%	Plan 1 PERS	6%
Plan 2 TRS	4.26%	Plan 2 SERS	4.68%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employer contribution rates as of August 31, 2007:

Plan 1 TRS	4.74%	Plan 1 PERS	6.12%
Plan 2 TRS	4.74%	Plan 2 SERS	4.85%
Plan 3 TRS	4.74%	Plan 3 SERS	4.85%

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):

Employer contribution rates as of August 31, 2008:

Plan 1 TRS	5.82%	Plan 1 PERS	8.31%
Plan 2 TRS	5.82%	Plan 2 SERS	5.88%
Plan 3 TRS	5.82%	Plan 3 SERS	5.88%

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):

Employer contribution rates as of August 31, 2009:

Plan 1 TRS	8.46%	Plan 1 PERS	5.29%
Plan 2 TRS	8.46%	Plan 2 SERS	7.54%
Plan 3 TRS	8.46%	Plan 3 SERS	7.54%

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

<u>Plan</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
Plan 1 TRS	\$0.00	\$0.00	\$0.00
Plan 2 TRS	\$8,027.46	\$10,394.96	\$8,249.73
Plan 3 TRS	\$27,744.90	\$37,642.72	\$25,039.27
Plan 1 PERS	\$0.00	\$0.00	\$0.00
Plan 2 SERS	\$8,473.20	\$10,263.22	\$6,820.03
Plan 3 SERS	\$6,019.03	\$7,866.59	\$5,922.07

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, 2009, 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 5 Construction and Other Significant Commitments**

The district currently has no construction in progress.

#### **Note 6 Deferred Compensation Plans**

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

The district offers a tax deferred annuity plan for its employees. The plan may permit 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 Great American. The plan assets are assets of the school district employees, not the school district, and are therefore not reflected on these financial statements.

#### **Note 7 Risk Management**

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.

##### **ESD 113 Unemployment Pool Cooperative**

In March 1978, the district joined with other school districts in the state to form ESD 113 Unemployment Pool Cooperative, a public entity risk pool currently operating as a common risk management and insurance program for unemployment insurance. The agreement for formation of the ESD 113 Unemployment Pool Cooperative provides that the pool will be self-sustaining through member premiums.

##### **ESD 113 Worker's Compensation Trust**

In June 1982, the district joined with other school districts in the state to form ESD 113 Worker's Compensation Trust, a public entity risk pool currently operating as a common risk management and insurance program for worker's compensation. The agreement for formation of the ESD 113 Worker's Compensation Trust provides that the pool will be self-sustaining through member premiums.

### United School Insurance Program

The Southside School District No. 042 became a member of the United Schools Insurance Program on September 1, 2005. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool of organization for the joint purchase of insurance, and/or joint self-insuring, and/or joint hiring of contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool 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. Two hundred and ten schools have joined the Pool.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a "claims made basis". All other coverage is on an "occurrence basis". The pool provides the following forms of group purchased insurance coverage for its members: Property, liability, vehicle liability, other mobile equipment, boiler and machinery, bonds of various types, excess liability and public official liability.

The pool acquires liability insurance for unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a stop loss policy in the amount of \$3,600,000 to eliminate any risk to members and, in addition, fully funds the stop loss through the budget and unreserved equity.

Property insurance is subject to a per-occurrence deductible of \$50,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$49,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

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

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this agreement for the year ending August 31, 2009 amounted to \$1,202,828.

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 pool. The Board of Directors has contracted with Canfield & Associates to perform day-to-day administration of the pool. This pool has no employees.

### **Note 8 Lease Obligations and Conditional Sales Contract Obligations**

The district had no additional long term debt for lease obligations or conditional sales contracts.

## **Note 9 Debt**

### **Long-Term Debt**

Bonds payable at August 31, 2009, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Refunding Issue 09/01/2001	730,000	10,000/ 100,000	12/01/ 2011	3.0/4.2%	220,000
UTGO Bond 04/01/2003 Building Project	2,970,000	45,000/ 300,000	12/01 2022	2.5/ 4.5%	2,825,000
LGO Bond (Non-Voted) Wash. St. Treas. For Bus	43,238.72		12/01 2010	4.433%	7,684.50
Total General Obligation Bonds					3,052,684.50

The following is a summary of general obligation long-term debt transactions of the district for the three years ended August 31, 2009.

Long-Term Debt Payable at 9/1/2006	\$3,445,000
New Issues	\$0.00
Debt Retired	\$400,000
Long-Term Debt Payable at 8/31/2009	\$3,045,000

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2009:

Years Ending August 31,	Principal	Interest	Total
2010	150,067	127,105	277,172
2011	157,618	120,939	278,557
2012	165,000	114,425	279,425
2013	175,000	107,600	282,600
2014	185,000	100,169	285,169
2015-19	1,095,000	370,329	1,465,329
2020-22	1,125,000	103,318	1,228,318
Total	3,052,685	1,043,885	4,096,570

At August 31, 2007, 2008 and 2009, the district had \$106,792.46, \$112,423.90 and \$117,568.65 respectively, available in the Debt Service Fund to service the general obligation bonds.

## **Note 10 Interfund Loans**

The district had no interfund loans payable and receivable as of August 31, 2007, 2008 and 2009.

## **Note 11 Summary of Significant Contingent Liabilities**

### **Litigation**

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

### **ESD 113 Insurance Cooperative**

In September, 1987 the District joined together with other school districts to form ESD 113 Insurance Cooperative, a public entity risk pool for property and casualty insurance.

On August 20, 2003, the ESD 113 Insurance Cooperative (EIC) Advisory Board voted to cease operation of the EIC. The EIC continues to be responsible for the resolution of all open claims and

other liabilities arising from the time of operation of the EIC up to August 31, 2003. The EIC provided property and liability insurance to members. Provisions of the EIC agreement, Chapter 48.62 RCW, and Chapter 236-22 WAC require that only the remaining assets be distributed after all financial and legal obligations of the EIC have been resolved.

Based on the EIC's April 2003 actuarial study by PricewaterhouseCoopers and current year-end EIC reports, the EIC does not hold sufficient assets to cover the estimated liabilities for which it is responsible. A member assessment is necessary to provide sufficient assets to adequately fund remaining EIC responsibilities.

It is both probable and reasonably estimated that the district may be liable for at least \$0, or a possible assessment of \$0 (worst case assumption) over the next six years.

The projected assessment is based on current claims reported and an actuarial projection based on the prior six years. The EIC will have an assessment of the contingency conducted annually to evaluate the District's probable liability. The time period for disclosing the contingency may change with each year's evaluation.

#### **Note 12 Other Disclosures**

The school district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing co-op designed to pool the member districts' purchasing power. The district's current equity of \$3,422.49 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 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.

Southside School District No. 042

Schedule of Long-Term Debt

For the Year Ended August 31, 2009

Description	Beginning Outstanding Debt September 1, 2008	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2009
Total Voted Bonds	3,185,000.00	0.00	140,000.00	3,045,000.00
Total Non-Voted Notes/Bonds	12,533.76	0.00	4,849.26	7,684.50
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
<b>Other Long-Term Debt:</b>				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00
Compensated Absences	57,583.57	2,096.24	0.00	59,679.81
Other Long-Term Debt	0.00	0.00	0.00	0.00
Total Other Long-Term Debt	57,583.57	2,096.24	0.00	59,679.81
<b>TOTAL LONG-TERM DEBT</b>	<b>3,255,117.33</b>	<b>2,096.24</b>	<b>144,849.26</b>	<b>3,112,364.31</b>

**SOUTHSIDE SCHOOL DISTRICT NO. 042**  
Schedule of Long-Term Debt  
For The Year Ended August 31, 2008

Description	Beginning Outstanding Debt 9/1/2007 (1)	Amount Issued/ Increased (2)	Amount Redeemed/ Decreased (3)	Ending Outstanding Debt 8/31/2008 (1) + (2) - (3)
Total Voted Bonds	3,320,000.00		135,000.00	3,185,000.00
Total Non-Voted Notes/Bonds	17,174.98		4,641.22	12,533.76
Qualified Zone Academy Bonds				
Other Long-Term Debt:				
Capital Leases				
Contracts Payable (GL 603)				
NonCancellable Operating Leases				
Claims & Judgements	65,499.15	2,143.42	10,059.00	57,583.57
Compensated Absences				
Other Long-Term Debt				
Total Other Long-Term Debt	65,499.15	2,143.42	10,059.00	57,583.57
Total Long-Term Debt	3,402,674.13	2,143.42	149,700.22	3,255,117.33



**REPORT F196**  
**E.S.D. 113**  
**COUNTY: 23 MASON**

**SOUTHSIDE SCHOOL DISTRICT NO. 042**  
**Schedule of Long-Term Debt**  
**For The Year Ended August 31, 2007**

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Description	Beginning Outstanding Debt 9/1/2006 (1)	Amount Issued/ Increased (2)	Amount Redeemed/ Decreased (3)	Ending Outstanding Debt 8/31/2007 (1)+(2)-(3)
Total Voted Bonds	3,445,000.00		125,000.00	3,320,000.00
Total Non-Voted Notes/Bonds	21,617.08		4,442.10	17,174.98
Qualified Zone Academy Bonds				
Other Long-Term Debt :				
Capital Leases				
Contracts Payable (GL 603)				
NonCancellable Operating Leases				
Claims & Judgements				
Compensated Absences	58,996.20	17,853.75	11,350.80	65,499.15
Other Long-Term Debt				
Total Other Long-Term Debt	58,996.20	17,853.75	11,350.80	65,499.15
Total Long-Term Debt	3,525,613.28	17,853.75	140,792.90	3,402,674.13



## **ABOUT THE STATE AUDITOR'S OFFICE**

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Chief of Staff**  
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**Director of Audit**  
**Director of Special Investigations**  
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