

Washington State Auditor's Office
Financial Statements Audit Report

Kalama School District No. 402
Cowlitz County

Audit Period
September 1, 2011 through August 31, 2012

Report No. 1009744

Issue Date
May 20, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

May 20, 2013

Superintendent and Board of Directors
Kalama School District No. 402
Kalama, Washington

Report on Financial Statements

Please find attached our report on Kalama School District No. 402's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Cowlitz County
September 1, 2011 through August 31, 2012**

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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*

Kalama School District No. 402
Cowlitz County
September 1, 2011 through August 31, 2012

Superintendent and Board of Directors
Kalama School District No. 402
Kalama, Washington

We have audited the financial statements of Kalama School District No. 402, Cowlitz County, Washington, as of and for the year ended August 31, 2012, and have issued our report thereon dated April 12, 2013.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, 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 Superintendent and 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 that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

April 12, 2013

Independent Auditor's Report on Financial Statements

**Kalama School District No. 402
Cowlitz County
September 1, 2011 through August 31, 2012**

Superintendent and Board of Directors
Kalama School District No. 402
Kalama, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kalama School District No. 402, Cowlitz County, Washington, as of and for the year ended August 31, 2012, as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting that demonstrates compliance with the Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington* 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalama School District No. 402, as of August 31, 2012, and the changes in financial position thereof for the year then ended on the basis of accounting that demonstrates compliance with Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington* described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with 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 basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Liabilities is presented for purposes of additional analysis as required by the prescribed accounting manual. This schedule is 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.

Purpose of this Report

This report is intended for the information and use of management and the Superintendent and Board of Directors of the District. 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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 audit.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

April 12, 2013

Financial Section

**Kalama School District No. 402
Cowlitz County
September 1, 2011 through August 31, 2012**

FINANCIAL STATEMENTS

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Kalama School District No. 402

Balance Sheet

Governmental Funds

August 31, 2012

	GENERAL FUND	ASB FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL
ASSETS:							
Cash and Cash Equivalents	315,566.46	20,870.63	7,347.78	209,155.25	0.00	0.00	552,940.12
Minus Warrants Outstanding	-310,994.75	-5,350.55	0.00	-209,154.57	0.00	0.00	-525,499.87
Taxes Receivable	815,991.17	0.00	125,931.58	0.00	112.82	0.00	942,035.57
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	62,430.37	0.00	0.00	0.00	0.00	0.00	62,430.37
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	0.00	0.00	0.00	0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Items	107,354.33	0.00	0.00	0.00	0.00	0.00	107,354.33
Investments	750,433.37	50,661.00	291,131.89	412,662.00	1,447.61	0.00	1,506,335.87
Investments/Cash With Trustee	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Self-insurance Deposit	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS	1,740,780.95	66,181.08	424,411.25	412,662.68	1,560.43	0.00	2,645,596.39
LIABILITIES:							
Accounts Payable	92,620.08	1,815.06	0.00	0.00	0.00	0.00	94,435.14
Contracts Payable Current	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued Interest Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued Salaries	13,675.18	0.00	0.00	0.00	0.00	0.00	13,675.18
Revenue Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payroll Deductions and Taxes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due To Other Governmental Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Estimated Employee Benefits Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The accompanying notes are an integral part of this financial statement

Kalama School District No. 402
Balance Sheet
Governmental Funds
August 31, 2012

	GENERAL FUND	ASB FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL
LIABILITIES:							
Interfund Loans Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Matured Bonds Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Matured Bond Interest Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Arbitrage Rebate Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Revenue	820,576.52	0.00	125,931.58	0.00	112.82	0.00	946,620.92
TOTAL LIABILITIES	926,871.78	1,815.06	125,931.58	0.00	112.82	0.00	1,054,731.24
FUND BALANCE:							
Nonspendable Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Restricted Fund Balance	39,721.99	64,366.02	298,479.67	412,662.68	0.00	0.00	815,230.36
Committed Fund Balance	405,273.02	0.00	0.00	0.00	0.00	0.00	405,273.02
Assigned Fund Balance	184,514.99	0.00	0.00	0	1,447.61	0.00	185,962.60
Unassigned Fund Balance	184,399.17	0.00	0.00	0.00	0.00	0.00	184,399.17
TOTAL FUND BALANCE	813,909.17	64,366.02	298,479.67	412,662.68	1,447.61	0.00	1,590,865.15
TOTAL LIABILITIES AND FUND BALANCE	1,740,780.95	66,181.08	424,411.25	412,662.68	1,560.43	0.00	2,645,596.39

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, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	1,967,923.53	238,662.61	319,543.07	7.83	784.50		2,526,921.54
State	5,369,597.72		5.23	0.00	0.20		5,369,603.15
Federal	385,390.53		0.00	0.00	0.00		385,390.53
Federal Stimulus	3,052.00						3,052.00
Other	28,446.53			0.00	0.00	0.00	28,446.53
TOTAL REVENUES	7,754,410.31	238,662.61	319,548.30	7.83	784.70	0.00	8,313,413.75
EXPENDITURES:							
CURRENT:							
Regular Instruction	5,021,073.67						5,021,073.67
Federal Stimulus	4,114.27						4,114.27
Special Education	713,838.98						713,838.98
Vocational Education	125,135.91						125,135.91
Skills Center	0.00						0.00
Compensatory Programs	292,468.96						292,468.96
Other Instructional Programs	6,826.73						6,826.73
Community Services	0.00						0.00
Support Services	1,617,997.78						1,617,997.78
Student Activities/Other		217,967.25				0.00	217,967.25
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				395,181.34			395,181.34
Equipment				24,877.12			24,877.12
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease							0.00
Other	83,244.45			0.00			83,244.45
DEBT SERVICE:							
Principal	31,534.45		345,000.00	9,235.00	0.00		385,769.45
Interest and Other Charges	1,802.57		26,625.00	0.00	0.00		28,427.57
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	7,898,037.77	217,967.25	371,625.00	429,293.46	0.00	0.00	8,916,923.48

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, 2012

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-143,627.46	20,695.36	-52,076.70	-429,285.63	784.70	0.00	-603,509.73
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	839,250.00	0.00		839,250.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	0.00		0.00	839,250.00	0.00	0.00	839,250.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-143,627.46	20,695.36	-52,076.70	409,964.37	784.70	0.00	235,740.27
BEGINNING TOTAL FUND BALANCE	957,536.63	43,670.66	350,556.37	2,698.31	662.91	0.00	1,355,124.88
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	813,909.17	64,366.02	298,479.67	412,662.68	1,447.61	0.00	1,590,865.15

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

Statement Of Fiduciary Net Assets

Fiduciary Funds

August 31, 2012

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	15,750.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	173.09	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	0.00	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	15,923.09	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET ASSETS:		
Net assets held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance		0.00
Restricted for Uninsured Risks		0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Assigned to Fund Purposes	15,923.09	0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET ASSETS	15,923.09	0.00

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

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended August 31, 2012

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		0.00
Other	29,281.73	0.00
TOTAL CONTRIBUTIONS	29,281.73	0.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	0.00	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	0.00	0.00
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	29,281.73	0.00
DEDUCTIONS:		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	29,081.73	
Other	80.00	0.00
TOTAL DEDUCTIONS	29,161.73	0.00
Net Increase (Decrease)	120.00	0.00
Net Assets--Beginning	15,803.09	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
NET ASSETS--ENDING	15,923.09	0.00

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

Kalama School District No. 402
Notes to Financial Statements
September 1, 2011 – August 31, 2012

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

The Kalama 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 Kalama School District includes all funds and organizations that are 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 Kalama School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principals (GAAP) and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. However, the district elects to not present district wide financial statements, and management's discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. 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 those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, food services, maintenance, data processing, printing, and transportation activities are included in the fund.

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type 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. This fund tracks money that is forwarded to Woodland School District for the purchase of buses. The district is in a four school cooperative with Kalama, Woodland, Ridgefield and La Center.

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, interest, and related expenditures.

Special Revenue Funds

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Program Fund (ASB 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. The district does not have any activity in this fund.

FIDUCIARY FUNDS

Fiduciary funds include private-purpose trust funds that are used to account for assets held by the district in a trustee and agency capacity.

Private-Purpose Trust Fund - This fund is used to account for resources legally held in trust where principal and income benefit individuals, private organizations, or other governments.

The district has money entrusted to them for scholarships. Lundquist scholarship money is accounted for with the Wells Fargo Bank of Oregon, who is the Trustee. The principal scholarship amount is held by the Trustee, but some interest on the fund is transferred to the Cowlitz County Treasurer and held in a trust and agency fund #7. This money is then deposited and held in account at Cowlitz Bank, Kalama Branch.

The amount held by the district in a revolving fund account for school year ending August 31, 2012, was \$15,000.00.

The Kalama School District was awarded \$210.00 from Seattle HAAS Foundation (Now known as InVest Ed). This money is being expended as per the guidelines of the trust. At year end of August 31, 2012, the Cowlitz County Treasurer had a cash balance of \$ 173.09 in this account. Reporting of this account had been completed by the Business Manager and final year-end reporting to the InVest Ed Foundation takes place in June of each year.

During the 2004-05 school year the Kalama Elementary established a fund called the Children's Medical Fund. This account is funded by a group in Longview known as the Children's Community Resources to assist in the unmet medical costs of elementary students who are in poverty, uninsured, etc. The current balance as of August 31, 2012 is \$750.00.

c. Basis of Accounting

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*, 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 a practice that differs from generally accepted accounting principles in the following manner.

- (1) Districtwide statements are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Liabilities. The Schedule of Long-Term Liabilities is required supplemental information.

- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.

The modified accrual basis of accounting is used for all governmental funds. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year end to pay liabilities of the current period. Property taxes receivable are measurable but not available and therefore are not accrued as revenue. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified 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. The fund liability is incurred when the goods or services have been received. For federal grants, the recognition of expenditures is dependent on the obligation date, (obligations means purchase order issued, contracts awarded, or goods and services received).

All governmental funds' reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

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 the modified accrual basis as prescribed 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. Assets, Liabilities, and Fund Equity

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.

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

The district's investments as of August 31, 2012, are as follows.

<u>General Fund</u>	State Investment Pool	Certificate of Deposit	\$750,433.37
<u>Capital Projects</u>	State Investment Pool	Certificate of Deposit	412,662.00
<u>ASB Fund</u>	State Investment Pool	Certificate of Deposit	50,661.00
<u>Transportation</u>			
<u>Vehicle Fund</u>	State Investment Pool	Certificate of Deposit	1,447.61
<u>Debt Service Fund</u>	State Investment Pool	Certificate of Deposit	<u>291,131.89</u>
Total District Invested Deposits Ending August 31, 2012			\$1,506,335.87

Note: The carrying value is equal to the market value.

Receivables and Payables

All receivables are expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. 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.

f. Revenue and Expenditure Recognition

Debt Service

Principal and interest on general long-term debt is recognized only when due.

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 option of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the taxes due on October 31 are recorded as deferred revenue.

Compensated Absences

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

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

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

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

g. Fund Balance – May contain nonspendable amounts, restrictions, commitments, or assignments.

Nonspendable fund balance amounts are those assets of the school district that are not in spendable format. These can be in the form of inventory items, or amounts that have been received that are legally or contractually required to be maintained intact.

Restrictions are legal restrictions placed 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.

Commitments represent formal actions taken by the board of directors to commit funds for specific purposes. Funds that have been committed cannot be used for another purpose unless the board of directors takes a specific action to end the commitment.

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the district. The policy is that the board of directors affirm their

commitment to maintain an end-of-year general fund balance that shall be at least 5% of the total operating budget. For the 2011-2012 fiscal year, the amount committed to this minimum fund policy is \$387,720.52, which is included in the amount reported as Committed Fund Balance on the financial statements. The 2011-2012 Committed Fund Balance of \$405,273.02 also includes the total funds received for stadium rental fees; which will be used to help in the costs of updating the astro turf at the stadium field.

Assignments are 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 2 Self-Insurance

The Kalama School District is self-insured with ESD 112 for Workers' Compensation. See Notes under Risk Management.

Note 3 Capital Assets

The district's capital assets are insured in the amount \$22,924,720 with annual premium payment of \$75,019 in 2012. 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 Kalama School District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement system managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2011:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	66,203	9,204	41,709
PERS	152,417	29,925	79,363
SERS	52,332	10,262	6,428

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan I) 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 and 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, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten

service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and 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 two 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 two percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

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

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

b. Contributions

Employee contributions rates effective September 1, 2011 through August 31, 2012:

Plan 1 TRS	6.0%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS	5.00% maximum		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 effective September 1, 2011 through August 31, 2012:

	9/1/11-8/31/12	9/1/11-3/31/12	4/1/12-6/30/12	7/1/12-8/31/12
Plan 1 TRS	8.04%	Plan 1 PERS 7.25%	7.08%	7.21%
Plan 2 TRS	8.04%	Plan 2 SERS 7.59%	7.58%	7.58%
Plan 3 TRS	8.04%	Plan 3 SERS 7.59%	7.58%	7.58%

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, 2012):

<u>Plan</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
Plan 1 TRS	\$ 1,900	\$ 2,409
Plan 2 TRS	\$ 32,372	\$ 47,768
Plan 3 TRS	\$ 161,794	\$ 203,698
Plan 1 PERS	\$ 3,391	\$ 4,363
Plan 2 SERS	\$ 16,093	\$ 19,828
Plan 3 SERS	\$ 17,944	\$ 21,884

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, 2012, 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

There are no funds committed for construction.

Note 6 Deferred Compensation Plans

457 Plan – Deferred Compensation Plan

Kalama School District employees have the option of participating in an IRC, Section 457, deferred compensation plan 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 an elective deferral (employee contribution).

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, CPI Qualified Plan Consultants, Inc. The plan assets are assets of the SD employees, not the school district, and are therefore not reflected on these financial statements.

Note 7 Risk Management

Unemployment Compensation Insurance

The district is a member of the SW Washington Unemployment Compensation Pool administered by Educational Service District No. 112. The purpose of this pool is to share the risk of unemployment compensation claims arising from previous employees of the members. The Pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pay for unemployment claims and for the administration of the fund. There is provision that members can be additionally assessed if the Pool needs additional funding. The financial statements of the Pool may be obtained by contacting Educational Service District No. 112.

Workers' Compensation Insurance

The district is a member of the Worker's Compensation Trust administered by Educational Service District No. 112. This Trust provides industrial injury accident insurance coverage for its membership. The Trust is fully funded by its member participants. Member contributions are calculated based on the members' hours worked. The Trust retains responsibility for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. The Trust acquires insurance from unrelated underwriters. The Trust's per-occurrence retention limit is \$350,000 and the annual aggregate retention is \$3,904,200. Since the Trust is a cooperative program, there is a joint liability among participating members. The financial statements of the Trust may be obtained by contacting Educational Service District No. 112.

Property and Casualty Insurance

The district is a member of the Southwest Washington Risk Management Insurance Cooperative (Cooperative) administered by Educational Service District No. 112. This cooperative provides property and casualty insurance coverage for its membership as authorized by Chapter 48.62 RCW. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Cooperative was formed in September 1986, when 25 school districts in the State of Washington joined together by signing an Interlocal agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The member of the Cooperative include 31 school districts, one transportation cooperative, one school information processing cooperative and one educational service district.

The Cooperative purchases excess insurance coverage and provides related services, such as administration, risk management and claims administration. All coverage is on an occurrence basis. The Cooperative provides the following forms of group purchased insurance coverage for its members: Property, including owned buildings, automobiles and equipment, Equipment Breakdown, Commercial Crime, General Liability, Errors and Omissions Liability and Employment Practices Liability. Members are responsible for the first \$1,000 of all property claims and the Cooperative is responsible for the next \$249,000. There is no member deductible for liability claims. Excess insurance covers insured losses over \$250,000 up to the limits of each policy. The Cooperative is a member of Washington Schools Risk Management Pool to obtain this excess insurance.

The Cooperative also purchases additional excess crime coverage as well as required Public Official Bonds. The Commercial Crime coverage is subject to a per-occurrence deductible of \$5,000. Members are responsible for \$1,000 of that deductible amount for each claim.

Cooperative members contract to automatically renew from year to year unless the member gives written notice of its election to terminate at least 180 days prior to August 31 of any year. Termination occurs on August 31. Even after termination, a member is still responsible for contributions to the Cooperative for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal governmental agreement. The Cooperative is fully funded by its member participants.

The Cooperative is governed by a board of directors which is comprised of one designed representative from each participating member. A five member executive committee is responsible for conducting the business affairs of the Cooperative. The financial statements of the Cooperative may be obtained by contacting Educational Service District No. 112.

Note 8 Lease Obligations and Conditional Sales Contract Obligations

For the fiscal years ended August 31, 2012, the Kalama School District had incurred additional long-term debt as follows:

2011-12 Lease-Purchase Commitments	Amount	Principal Annual Installment	Final Installment Date	% Interest Rate	Balance Due 8/31/12
Konica C750 Copier-Elem	\$ 44,454.00	\$ 9,000.00	12/15/2013	0.00	12,000.00
Canon 5070 Copier-Dist On a monthly continuing lease	13,480.80	2,696.16	09/30/2011	0.00	0.00
Konica 751 Copier-HS	31,260.00	6252.00	08/10/14	0.00	12,504.00
Security Cameras – combined old plus new	34,200.00	11,400.00	05/15/2013	0.00	8,550.00
Total - Lease Purchase					33,054.00

Note 9 Debt

Bonds payable at August 31, 2012, are comprised of the following individual issues:

General Obligation Bonds

Issue Name	Amount Authorized	Annual Installment	Final Maturity	Interest Rate(s)	Amount Outstanding
2005 UTGO Refunding Bonds	2,265,000	345,000	2012	3.00 – 5.00	360,000
Total GO Voted Bonds					\$360,000
LGO Bond, 2012	840,000	137,071- 142,961	2015	1.690%	840,000
Total NON-VOTED Bonds					840,000
Total Bonded Debt					\$1,200,000

The following is a summary of general obligation long-term debt transactions of the district for the year ending August 31, 2012.

Long-Term Debt Payable at 9/1/11	\$705,000
New Issues	840,000
Debt Retired	345,000
Long-Term Debt Payable at 8/31/12	\$1,200,000

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

Years Ending August 31,	Principal	Interest	Total
2012-13	497,071	21,383	518,454
2013-14	277,628	10,712	288,340
2014-15	282,340	6,000	288,340
2015-16	142,961	1,209	144,170
TOTAL	\$1,200,000	39,304	\$ 1,239,304

At August 31, 2012, the district had \$ 298,479.67 available in the debt service fund to service the general obligation bonds.

Refunded Debt

On July 11, 2005, the Kalama School board authorized the current refunding of the 1996 refinanced bonds in order to take advantage of the lowest bond interest rates in over 30 years. The refinancing will save the District's taxpayers a total of over \$100,000 during the next seven years. The bonds are issued in the amount of \$2,265,000; with interest rates averaging 3.59% on the new bonds compared to 4.97% on the old debt. The official Statement dated July 11, 2005 is on file.

These bonds were used to remodel the high school, elementary school and to build a new stadium, football field, and track.

On February 14, 2012, the voters approved a three year Capital Projects Fund levy for school improvements. In order to start the projects during the 2012 fiscal year, the board approved a Limited General Obligation Bond. The proceeds of the Bond were used to pay costs to acquire and install a new gymnasium roof, make energy efficiency improvements, acquire and install new playground equipment and gymnasium and auditorium seating, make other capital improvements to school facilities, and carry out other purposes authorized by RCW 28A.503.080. The principal and interest on the bond will be paid from money from the District's Capital Projects Fund (including, but not limited to, tax proceeds received from the District's Capital Levy for School Improvements approved by the voters on February 14, 2012 and General Fund, and from other legally available money of the District.

At the end of August 31, 2012, the new gymnasium roof has been installed, the new playground equipment was installed, and the new gymnasium seating was installed.

Note 10 Interfund Loans

There were no interfund loans outstanding at 8/31/12.

Note 11 Summaries of Significant Contingencies

The Kalama School District had no known legal obligations which would impact the financial position of the Kalama School District for the year ended August 31, 2012.

Litigation

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

Note 12 Other Disclosures

Participation in Inter-local Cooperatives

The district is a member of the following cooperatives which are administered by Educational Service District 112:

Information Management Co-op - provides data processing services/workshops for business operations.

Courier Co-op - provides courier services between school districts within ESD 112.

Special Education Direct Services Co-op – provides direct and indirect special education services to the district by ESD 112.

Special Education Classroom Services Co-op – the district is paying for the additional costs of classroom assistants to maintain our program at the level it was previously maintained – prior to cuts by the ESD/State.

Telephone 800 Fee - cooperative among districts with ESD 112 to call there toll free.

Student Services Co-op – provides WSIPC student services reporting for the building offices.

Network Support System – provides for the service of a technology representative three days a week.

Elementary Science/Materials Co-op – provides training and materials for the science curriculum in the elementary and high school.

School Announcement Network – inclement weather notification to radio and television stations.

Clock Hour Cooperative – the district pays for the fee for teachers to register clock hours on the ESD transcripts.

K-12 network support – no fee to the district.

School Nursing – provides nursing services to the district twice a week.

School Improvement Services – to help assist staff and students in textbook adoptions, WASL training, etc.

Regional Mathematics Initiative – to provide services to support improvements in student performance in mathematics.

Secondary Sustainable Classroom Project – Training Secondary Teachers in the use of technology in their classroom.

The ESD charges member districts on an annual assessment based upon their student full-time enrollment.

The Kalama School District is a member of the KWRL Transportation Co-op - this co-op provides transportation services to the students of the Kalama, Woodland, Ridgefield, and La Center School Districts. The Woodland School District handles all financial and state/federal reports. The Kalama School District's portion of cooperative expenditures totaled \$126,549.96 in 2012. This payment is in addition to funding that is transmitted directly from the state to the cooperative.

The Kalama School District is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity as of December 31, 2011, is \$4,472.62 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

Note 13 Subsequent Events

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

Kalama School District No. 402
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2012

Description	Beginning Outstanding Debt September 1, 2011	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2012
Total Voted Bonds	705,000.00	0.00	345,000.00	360,000.00
Total Non-Voted Notes/Bonds	0.00	840,000.00	0.00	840,000.00
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
Qualified School Construction Bonds (QSCB)	0.00	0.00	0.00	0.00
Other Long-Term Debt				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	72,138.10	0.00	37,084.10	35,054.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	158,940.30	13,208.03	0.00	172,148.33
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	231,078.40	13,208.03	37,084.10	207,202.33
TOTAL LONG-TERM LIABILITIES	936,078.40	853,208.03	382,084.10	1,407,202.33



ABOUT THE STATE AUDITOR'S OFFICE

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 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 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 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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Director of State and Local Audit
Director of Performance Audit
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Deputy Director of State and Local Audit
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