Washington State Auditor's Office

Financial Statements Audit Report

Prescott School District No. 402-37

Walla Walla County

Audit Period
September 1, 2010 through August 31, 2012

Report No. 1010074

Issue Date
July 8, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

July 8, 2013

Board of Directors
Prescott School District No. 402-37
Prescott, Washington

Report on Financial Statements

Please find attached our report on Prescott School District No. 402-37's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Table of Contents

Prescott School District No. 402-37
Walla Walla County
September 1, 2010 through August 31, 2012

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Prescott School District No. 402-37
Walla Walla County
September 1, 2010 through August 31, 2012

Board of Directors
Prescott School District No. 402-37
Prescott, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Prescott School District No. 402-37, Walla Walla County, Washington, as of and for the years ended August 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 19, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

June 19, 2013

Independent Auditor's Report on Financial Statements

Prescott School District No. 402-37
Walla Walla County
September 1, 2010 through August 31, 2012

Board of Directors
Prescott School District No. 402-37
Prescott, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Prescott School District No. 402-37, Walla Walla County, Washington, for the years ended August 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's financial statements, 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 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 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 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 accounting 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 and results of operations of Prescott School District No. 402-37, for the years ended August 31, 2011 and 2012, on the basis of accounting 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 State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Liabilities and Schedule 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 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

The report is intended for the information and use of the management and the 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 dated June 19, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

June 19, 2013

Financial Section

Prescott School District No. 402-37
Walla Walla County
September 1, 2010 through August 31, 2012

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

Prescott School District No. 402

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	637,780.89	10,554.05	355,904.08	663.49	6,190.62		1,011,093.13
State	2,897,394.82		0.00	0.00	75,777.81		2,973,172.63
Federal	414,416.27		0.00	0.00	0.00		414,416.27
Federal Stimulus	7,228.98						7,228.98
Other	47,167.23			0.00	0.00	0.00	47,167.23
TOTAL REVENUES	**4,003,988.19**	**10,554.05**	**355,904.08**	**663.49**	**81,968.43**	**0.00**	**4,453,078.24**
EXPENDITURES:							
CURRENT:							
Regular Instruction	2,192,616.24						2,192,616.24
Federal Stimulus	3,752.20						3,752.20
Special Education	204,219.76						204,219.76
Vocational Education	0.00						0.00
Skills Center	0.00						0.00
Compensatory Programs	293,935.44						293,935.44
Other Instructional Programs	1,045.71						1,045.71
Community Services	0.00						0.00
Support Services	1,165,681.75						1,165,681.75
Student Activities/Other		19,632.02				0.00	19,632.02
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				43,628.86			43,628.86
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Sales and Lease				0.00			0.00
Other	0.00						0.00
DEBT SERVICE:							
Principal	0.00		165,000.00	0.00	0.00		165,000.00
Interest and Other Charges	0.00		183,121.32	0.00	0.00		183,121.32
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	**3,861,251.10**	**19,632.02**	**348,121.32**	**43,628.86**	**0.00**	**0.00**	**4,272,633.30**

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

Prescott School District No. 402

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	142,737.09	-9,077.97	7,782.76	-42,965.37	81,968.43	0.00	180,444.94
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		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**	**0.00**	**0.00**	**0.00**	**0.00**
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	142,737.09	-9,077.97	7,782.76	-42,965.37	81,968.43	0.00	180,444.94
BEGINNING TOTAL FUND BALANCE	**269,229.14**	**38,731.70**	**225,771.80**	**113,630.17**	**686,579.53**	**0.00**	**1,333,942.34**
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	**411,966.23**	**29,653.73**	**233,554.56**	**70,664.80**	**768,547.96**	**0.00**	**1,514,387.28**

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

Prescott School District No. 402

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2011

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	605,755.33	20,020.95	350,268.80	572.85	6,622.09		983,240.02
State	2,294,956.22		0.00	0.00	48,700.24		2,343,656.46
Federal	353,373.76		0.00	0.00	0.00		353,373.76
Federal Stimulus	140,476.03						140,476.03
Other	53,183.71			0.00	0.00	0.00	53,183.71
TOTAL REVENUES	**3,447,745.05**	**20,020.95**	**350,268.80**	**572.85**	**55,322.33**	**0.00**	**3,873,929.98**
EXPENDITURES:							
CURRENT:							
Regular Instruction	1,838,822.06						1,838,822.06
Federal Stimulus	141,086.57						141,086.57
Special Education	197,430.89						197,430.89
Vocational Education	0.00						0.00
Skills Center	0.00						0.00
Compensatory Programs	340,930.82						340,930.82
Other Instructional Programs	480.17						480.17
Community Services	0.00						0.00
Support Services	1,075,136.08						1,075,136.08
Student Activities/Other		24,778.40				0.00	24,778.40
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				23,072.61			23,072.61
Equipment				3,553.94			3,553.94
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Other	0.00						0.00
DEBT SERVICE:							
Principal	0.00		155,000.00	0.00	0.00		155,000.00
Interest and Other Charges	0.00		189,920.50	0.00	0.00		189,920.50
TOTAL EXPENDITURES	**3,593,886.59**	**24,778.40**	**344,920.50**	**26,626.55**	**0.00**	**0.00**	**3,990,212.04**
REVENUES OVER (UNDER) EXPENDITURES	-146,141.54	-4,757.45	5,348.30	-26,053.70	55,322.33	0.00	-116,282.06

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

Prescott School District No. 402

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2011

OTHER FINANCING SOURCES (USES):	**General Fund**	**ASB Fund**	**Debt Service Fund**	**Capital Projects Fund**	**Transportation Vehicle Fund**	**Permanent Fund**	**Total**
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	74,654.12	0.00		74,654.12
TOTAL OTHER FINANCING SOURCES (USES)	**0.00**		**0.00**	**74,654.12**	**0.00**	**0.00**	**74,654.12**
EXCESS OF REVENUES/OTHER FINANCING SOURCES	-146,141.54	-4,757.45	5,348.30	48,600.42	55,322.33	0.00	-41,627.94
OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES							
BEGINNING TOTAL FUND BALANCE	**415,370.68**	**43,489.15**	**220,423.50**	**65,029.75**	**631,257.20**	**0.00**	**1,375,570.28**
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	**269,229.14**	**38,731.70**	**225,771.80**	**113,630.17**	**686,579.53**	**0.00**	**1,333,942.34**

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

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

The Prescott School District No. 402-37 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 Prescott School District No. 402-37 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 (or expenses), as appropriate. (Refer to Note 1.c. for Basis of Accounting.) The various funds in the report are grouped into governmental (and fiduciary funds) 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.

c. Basis of Accounting

The basis of accounting refers to when revenues and expenditures (or expenses) 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 Schedule of Long-Term Liabilities. The Schedule of Long-Term Liabilities 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

$630,227.56	**As of August 31, 2012**	**General Fund**
$ 70,664.80	**As of August 31, 2012**	**Capital Projects Fund**
$233,554.56	**As of August 31, 2012**	**Debt Service Fund**
$ 28,003.70	**As of August 31, 2012**	**A.S.B. Fund**
$768,547.96	**As of August 31, 2012**	**Transportation Vehicle Fund**

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 **$0** invested on behalf of the district as of August 31, 2012. The district is currently participating in the Walla Walla County Investment Pool.

f. Inventory
The cost of supplies and materials is recorded as an expenditure 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	**As of August 31, 2012**	**Inventory Balance**

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 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 statute also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. The district has adopted its own buy-back provisions for sick leave. Staff who have accumulated beyond the 180 days (specifically, to 192 days, i.e. 12 buy-out days and a maximum leave accrual of 180 days, as of December 31 of each year shall have the option of annual sick leave buy out of VEBA PLAN procedure in RCW 28A.400.210 except the 60-day floor in said statute. District obligation for buy-back liability as follows:

District obligation for vested sick leave at August 31, 2012 amounts to:

$56,192.60	**As of August 31, 2012**	**Buyback Liability**

Vested sick leave for employees eligible for retirement is recorded as long-term debt liability. These expenditures are recorded when paid, except termination sick leave that is accrued upon death or retirement. Vested sick leave was computed using the S275 to determine which employees have at least 30 years of service. Employee birth dates are also used to determine age of potential employees who may retire. Those employees eligible for sick leave buy back under district guidelines are also included in the total liability. Hourly sick leave balances at the end of February (after the deduction of SL Buyback) are multiplied by .25. The number of hours is then multiplied by the employee’s hourly rate to determine the amount listed.

No liability exists for other employee benefits.

i. 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 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.

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 Capital Assets

The district's capital assets are insured in the amount of $ 10,259,309 for fiscal 2012. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Note 3 Annual Pension Cost and Net Pension Obligations

A. General Information

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

Membership by retirement system program as of June 30, 2010:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	66,325	8,950	40,570
PERS	156,526	28,860	76,899
SERS	52,339	9,700	5,384

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

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

Data is as of last actuarial valuation date of June 30, 2011.

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

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

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

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

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

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

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

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

B. Contributions

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employer contribution rates effective September 1, 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):

Plan	FY 2011-12	FY 2010-11	FY 2009-10
Plan 1 TRS	$ 13,554.43	$ 13,566.18	$ 19,784.66
Plan 2 TRS	$ 13,235.88	$ 16,831.87	$ 15,236.98
Plan 3 TRS	$ 67,610.62	$ 44,402.65	$ 44,188.89
Plan 1 PERS	$ 1,581.65	$ 1,243.30	$ 1,250.15
Plan 2 SERS	$ 23,571.23	$ 18,441.84	$ 19,590.23
Plan 3 SERS	$ 15,452.14	$ 13,125.50	$ 13,121.49

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 4 Construction and Other Significant Commitments

Construction is complete:

Note 5 Deferred Compensation Plans

457 Plan – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state deferred compensation plan, or the district.

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

The district offers a tax deferred annuity plan for its employees. The plan may permit participants to defer a portion of their salary until future years under elective deferrals (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. The plan assets are assets of the school district employees, not the school district, and are therefore not reflected on these financial statements.

Note 6 Risk Management

USIP Program – 2011-12

The Prescott School District is a member of the United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1985 when 29 school districts in the State of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 full member school districts.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims, administration, etc. Sexual abuse and school board legal coverage is on a “claims made basis”. All other coverages are on an “occurrence basis”. The pool provides the following forms of group purchased insurance coverage for its members: property, general liability, automobile liability, school board legal liability, and crime.

Liability insurance is subject to a self-insured retention of $100,000. Members are responsible for $1,000 deductible amount for each claim, while the program is responsible for the remaining $100,000 self-insured retention. Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 of the self-insured retention. The program also purchases a stop loss policy with an attachment point of $941,250 as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of $100,000. Members are responsible for $1,000 deductible for each claim, while the program is responsible for the $100,000 self-insurance retention.

Boiler and machinery insurance is subject to a per-occurrence deductible of $10,000. Members are responsible for the deductible amount of each claim.

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

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2012, was $1,517,756.

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

Workers' Compensation – 2011-12

In fiscal year 1985, school districts within Educational Service District (ESD) #123 joined together to form the Southeast Washington Workers Compensation Cooperative Trust, a public entity risk pool currently operating as a common risk management and insurance program for industrial insurance. For fiscal year 2011-2012, there are nineteen school districts, including ESD #123, in the pool. The pool allows members to pool their self-insured losses and jointly purchases insurance and administrative services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. The district pays an annual contribution to the fund based on their total payroll hours and claims history for the past three years. The pool is fully funded by its member participants. The pool acquires insurance from unrelated underwriters. The pool's per-occurrence retention limit is $350,000 and the annual aggregate retention is $2,645,696. The maximum coverage under the excess insurance contract is $2,645,696. Since the pool is a cooperative program, there is a joint liability among the participating members. The financial statements of the pool may be obtained by contacting Educational Service District No. 123.

A Cooperative Board that is comprised of one designated representative from each participating member and a six member Executive Board governs the Pool. The Executive Board has five members elected by the Cooperative Board and the ESD Superintendent. ESD #123 is responsible for conducting the business affairs of the Pool.

Unemployment 2011-12

In fiscal year 1978, school districts within Educational Service District (ESD) #123 joined together to form the Cooperative Unemployment Compensation Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for unemployment compensation. Seventeen district, including ESD #123, have joined the Pool. Members pool their self-insured losses and administrative services and have established a plan of self-insurance and related services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. Members make a contributions to the fund based on their total gross payroll and unemployment history during the preceding year. The pool is fully funded by its member participants. The financial statements of the pool may be obtained by contacting Educational Service District No. 123.

The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating members and a six member Executive Board. Five members elected by the Cooperative Board and the ESD Superintendent comprise the Executive Board. ESD #123 is responsible for conducting the business affairs of the Pool.

Note 7 Debt

Long-Term Debt

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

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
09/06/07 Bond Issue	$4,596,277	18	12/01/2026	4.0%-5.0%	$4,130,000
Total General Obligation Bonds	$4,596,277	18			$4,130,000

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

Long-Term Debt Payable at 9/1/2011	$ 4,295,000.00
New Issues	0
Debt Retired	$ 165,000.00
Long-Term Debt Payable at 8/31/2012	$ 4,130,000.00

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2012:

Years Ending August 31,	Principal	Interest	Total
2013	$ 180,000.00	$ 175,487.50	$ 355,487.50
2014	$ 190,000.00	$ 167,625.00	$ 357,625.00
2015	$ 200,000.00	$ 159,337.50	$ 359,337.50
2016	$ 215,000.00	$ 149,712.50	$ 364,712.50
2017	$ 225,000.00	$ 138,712.50	$ 363,712.50
2018 – 2022	$1,350,000.00	$ 523,342.50	$1,873,342.50
2023 – 2027	$1,770,000.00	$ 196,693.75	$1,966,693.75
Totals	$4,130.000.00	$1,510,911.25	$5,640,911.25

At August 31, 2012, the district had $ 233,554.56 available in the Debt Service Fund to service the general obligation bonds.

Note 8 Summary of Significant Contingent Liabilities

Litigation

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

Note 9 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 Board authorized joining the association by passing Resolution which could not be physically located) prior to an amendment dated July 24, 1974, and has remained in the joint venture ever since. The district's current equity of $2,250.64 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.

Note 10 Subsequent Events

Two private schools in our district of 550 square miles became public schools. Both are 20+ miles from the Prescott School District's Elementary and High School buildings. Vista Hermosa Elementary and Jubilee Leadership Academy contract educational services from the Prescott School District.

We are continuing our contractual relationship with Vista and Jubilee during the 12-13 school year.

Note 11: Fund balance classification details

The District's financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items					
Restricted Fund Balance	$6,296.20	$29,653.73		$233,554.56	
Carryover of Restricted Revenues					
Debt Service					
Arbitrage Rebate					
Uninsured Risks					
Other Items					
Committed Fund Balance					
Minimum Fund Balance Policy					
Other Commitments					
Assigned Fund Balance			$70,664.80	$768,547.96	
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes Unassigned	$405,670.03				

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

The Prescott School District No. 402-37 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 Prescott School District No. 402-37 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 (or expenses), as appropriate. (Refer to Note 1.c. for Basis of Accounting.) The various funds in the report are grouped into governmental (and fiduciary funds) 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.

c. Basis of Accounting

The basis of accounting refers to when revenues and expenditures (or expenses) 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 Schedule 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

$400,655.97	**As of August 31, 2011**	**General Fund**
$126,945.70	**As of August 31, 2011**	**Capital Projects Fund**
$225,771.80	**As of August 31, 2011**	**Debt Service Fund**
$ 36,931.70	**As of August 31, 2011**	**A.S.B. Fund**
$686,579.53	**As of August 31, 2011**	**Transportation Vehicle Fund**

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 **$0** invested on behalf of the district as of August 31, 2011. The district is currently participating in the Walla Walla County Investment Pool.

f. Inventory
The cost of supplies and materials is recorded as an expenditure 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	**As of August 31, 2011**	**Inventory Balance**

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 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 statute also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. The district has adopted its own buy-back provisions for sick leave. Staff who have accumulated beyond the 180 days (specifically, to 192 days, i.e. 12 buy-out days and a maximum leave accrual of 180 days, as of December 31 of each year shall have the option of annual sick leave buy out of VEBA PLAN procedure in RCW 28A.400.210 except the 60-day floor in said statute. District obligation for buy-back liability as follows:

District obligation for vested sick leave at August 31, 2011 amounts to:

$64,712.49	**As of August 31, 2011**	**Buyback Liability**

Vested sick leave for employees eligible for retirement is recorded as long-term debt liability. These expenditures are recorded when paid, except termination sick leave that is accrued upon death or retirement. Vested sick leave was computed using the S275 to determine which employees have at least 30 years of service. Employee birth dates are also used to determine age of potential employees who may retire. Those employees eligible for sick leave buy back under district guidelines are also included in the total liability. Hourly sick leave balances at the end of February (after the deduction of SL Buyback) are multiplied by .25. The number of hours is then multiplied by the employee’s hourly rate to determine the amount listed.

No liability exists for other employee benefits.

i. 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 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.

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 Capital Assets

The district's capital assets are insured in the amount of $ 10,259,309 for fiscal 2011. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Note 3 Pensions

A. General Information

Substantially all Prescott 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 June 30, 2010:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	66,325	8,950	40,570
PERS	156,526	28,860	76,899
SERS	52,339	9,700	5,384

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

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

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

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

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

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

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

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

B. Contributions

Employee contribution rates effective September 1, 2010 through August 31, 2011:

Plan 1 TRS	6.0%	Plan 1 PERS	6.0%
Plan 2 TRS	3.36%	Plan 2 SERS	3.15%
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 effective September 1, 2010 through August 31, 2011:

Plan 1 TRS	6.14%	Plan 1 PERS	7.07%†
Plan 2 TRS	6.14%	Plan 2 SERS	5.45%
Plan 3 TRS	6.14%	Plan 3 SERS	5.45%

†Rate effective July 1, 2011 through August 31, 2011. From September 1, 2010 through June 30, 2011, the rate was 5.31%.

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):

Plan	FY 2010-11	FY 2009-10	FY 2008-09
Plan 1 TRS	$ 13,566.18	$ 19,784.66	$ 25,783.24
Plan 2 TRS	$ 16,831.87	$ 15,236.98	$ 15,409.99
Plan 3 TRS	$ 44,402.65	$ 44,188.89	$ 72,083.71
Plan 1 PERS	$ 1,243.30	$ 1,250.15	$ 1,967.33
Plan 2 SERS	$ 18,441.84	$ 19,590.23	$ 21,531.25
Plan 3 SERS	$ 13,125.50	$ 13,121.49	$ 21,164.24

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, 2011, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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Note 4 Construction and Other Significant Commitments

Construction is complete:

Note 5 Deferred Compensation Plans

457 Plan – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state deferred compensation plan, or the district.

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

The district offers a tax deferred annuity plan for its employees. The plan may permit participants to defer a portion of their salary until future years under elective deferrals (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. The plan assets are assets of the school district employees, not the school district, and are therefore not reflected on these financial statements.

Note 6 Risk Management

USIP Program – 2010-11

The Prescott School District is a member of the United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1985 when 29 school districts in the State of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 151 full member school districts and 91 associate member independent schools.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims, administration, etc. Sexual abuse and school board legal coverage is on a "claims made basis". All other coverages are on an "occurrence basis". The pool provides the following forms of group purchased insurance coverage for its members: property, general liability, automobile liability, school board legal liability, and crime.

The pool acquires liability insurance from Munich Reinsurance America, Inc. Liability insurance is 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 $2,652,000 as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of $25,000. Members are responsible for the first $1,000 of the deductible amount of each claim, while the pool is responsible for the remaining $24,000.

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 renewed 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 arrangement for the year ended August 31, 2011 was $2,317,810.

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.

Workers' Compensation 2010-11

In fiscal year 1985, school districts within Educational Service District (ESD) #123 joined together to form the Southeast Washington Workers Compensation Cooperative Trust, a public entity risk pool currently operating as a common risk management and insurance program for industrial insurance. For fiscal year 2010-2011, there are nineteen school districts, including ESD #123, in the pool. The pool allows members to pool their self-insured losses and jointly purchases insurance and administrative services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. The district pays an annual contribution to the fund based on their total payroll hours and claims history for the past three years. The pool is fully funded by its member participants. The pool acquires insurance from unrelated underwriters. The pool's per-occurrence retention limit is $350,000 and the annual aggregate retention is $2,617,923. The maximum coverage under the excess insurance contract is $2,617,923. Since the pool is a cooperative program, there is a joint liability among the participating members. The financial statements of the pool may be obtained by contacting Educational Service District No. 123.

A Cooperative Board that is comprised of one designated representative from each participating member and a six member Executive Board governs the Pool. The Executive Board has five members elected by the Cooperative Board and the ESD Superintendent. ESD #123 is responsible for conducting the business affairs of the Pool.

Unemployment 2010-11

In fiscal year 1978, school districts within Educational Service District (ESD) #123 joined together to form the Cooperative Unemployment Compensation Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for unemployment compensation. Seventeen district, including ESD #123, have joined the Pool. Members pool their self-insured losses and administrative services and have established a plan of self-insurance and related services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. Members make a contributions to the fund based on their total gross payroll and unemployment history during the preceding year. The pool is fully funded by its member participants.

The Pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating members and a six member Executive Board. Five members elected by the Cooperative Board and the ESD Superintendent comprise the Executive Board. ESD #123 is responsible for conducting the business affairs of the Pool.

Note 7 Debt

Long-Term Debt

Bonds payable at August 31, 2011, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
09/06/07 Bond Issue	$4,596,277	18	12/01/2026	4.0%-5.0%	$4,295,000
Total General Obligation Bonds	$4,596,277	18			$4,295,000

The following is a summary of general obligation long-term debt transactions of the district for the year ended August 31, 2011.

Long-Term Debt Payable at 9/1/2010	$ 4,450,000.00
New Issues	0
Debt Retired	$ 155,000.00
Long-Term Debt Payable at 8/31/2011	$ 4,295,000.00

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2011:

Years Ending August 31,	Principal	Interest	Total
2012	$ 165,000.00	$ 182,818.75	$ 347,818.75
2013	$ 180,000.00	$ 175,487.50	$ 355,487.50
2014	$ 190,000.00	$ 167,625.00	$ 357,625.00
2015	$ 200,000.00	$ 159,337.50	$ 359,337.50
2016	$ 215,000.00	$ 149,712.50	$ 364,712.50
2017 – 2021	$1,275,000.00	$ 580,477.50	$1,855,477.50
2022 – 2026	$1,680,000.00	$ 269,886.25	$1,869,886.25
2027	$ 390,000.00	$ 8,385.00	$ 398,385.00
Totals	$4,295,000.00	$1,693,730.00	$5,988,730.00

At August 31, 2011, the district had $ 225,771.80 available in the Debt Service Fund to service the general obligation bonds.

Note 8 Summary of Significant Contingent Liabilities

Litigation

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

Note 9 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 Board authorized joining the association by passing Resolution which could not be physically located) prior to an amendment dated July 24, 1974, and has remained in the joint venture ever since. The district's current equity of $2,548.04 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.

Note 10 Subsequent Events

The Prescott School District converted from WSIPC WISE to WESPaC Skyward Fiscal/HR/Payroll systems during the 2010-11 school year. An undetected error in final close during the 09-10 school year resulted in the following: An open control group from October 2009 did not delete. There was a power outage during the run and we got the message that it had aborted when the electricity came back on. It had not. The September 1 Beginning Balance Beginning Cash and Investment should read $415,370.68 ($177,854.47 + the adjustment of the control group $237,516.21). The Treasurer's balance was $415,370.68. He was made aware of this immediately and so was ESD 123 and ESD 105. There was nothing we could do during the school year. We had to wait until the beginning of the 2011-12 school year for the correction to be made on the new system.

Two private schools in our district of 550 square miles became public schools. Both are 20+ miles from the Prescott School District's Elementary and High School buildings. Vista Hermosa Elementary and Jubilee Leadership Academy contract educational services from the Prescott School District.

Prescott 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	4,295,000.00	0.00	165,000.00	4,130,000.00
Total Non-Voted Notes/Bonds	0.00	0.00	0.00	0.00
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)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	64,712.49	0.00	8,519.89	56,192.60
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	64,712.49	0.00	8,519.89	56,192.60
TOTAL LONG-TERM LIABILITIES	4,359,712.49	0.00	173,519.89	4,186,192.60

Prescott School District No. 402

Schedule of Long-Term Debt

For the Year Ended August 31, 2011

Description	**Beginning Outstanding Debt September 1, 2010**	**Amount Issued/Increased**	**Amount Redeemed/Decreased**	**Ending Outstanding Debt August 31, 2011**
Total Voted Bonds	4,450,000.00	0.00	155,000.00	4,295,000.00
Total Non-Voted Notes/Bonds	0.00	0.00	0.00	0.00
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)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	61,885.27	2,827.22	0.00	64,712.49
Other Long-Term Debt	0.00	0.00	0.00	0.00
Total Other Long-Term Debt	61,885.27	2,827.22	0.00	64,712.49
TOTAL LONG-TERM DEBT	4,511,885.27	2,827.22	155,000.00	4,359,712.49

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.

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Director of Performance Audit	**Larisa Benson**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Local Government Liaison	**Mike Murphy**
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