

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Blaine School District No. 503**  
**Whatcom County**

Audit Period  
**September 1, 2012 through August 31, 2013**

**Report No. 1011710**

Issue Date  
**April 28, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

April 28, 2014

Board of Directors  
Blaine School District No. 503  
Blaine, Washington

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

Please find attached our report on Blaine School District No. 503's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" for the middle initial.

**TROY KELLEY**  
STATE AUDITOR

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Whatcom County  
September 1, 2012 through August 31, 2013**

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# Federal Summary

## Blaine School District No. 503 Whatcom County September 1, 2012 through August 31, 2013

The results of our audit of Blaine School District No. 503 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements.

#### ***Internal Control Over Financial Reporting:***

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

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

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

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

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

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

***Identification of Major Programs:***

The following were major programs during the period under audit:

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

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

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

# Schedule of Federal Audit Findings and Questioned Costs

**Blaine School District No. 503  
Whatcom County  
September 1, 2012 through August 31, 2013**

- 1. The District does not have adequate internal controls to ensure compliance with the federal Title I grant requirement for Highly Qualified Teachers.**

<b>CFDA Number and Title:</b>	84.010 Title I Part A
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	0201092
<b>Questioned Cost Amount:</b>	\$90,742.98

## **Description of Condition**

For the fiscal year ending August 31, 2013, the District spent \$368,944 in its Title I program. The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families.

### Highly Qualified Paraeducators:

To meet the highly qualified requirements, all paraeducators must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:

- Have completed at least two years of study at an institution of higher education
- Have obtained an Associate (or higher) degree
- Have met a rigorous standard of quality and can demonstrate, through a formal state or approved local academic assessment, knowledge of, and the ability to assist in instructing, reading, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness as appropriate.

Our audit found the District employed one paraeducator who did not meet highly qualified status, and four paraeducators whose qualifications for highly qualified status could not be confirmed due to a lack of adequate documentation.

### Notification to Parents

At the beginning of the school year, a district receiving Title I Part A funds must notify parents of children enrolled in schools receiving Title I Part A funds that they can request the following information regarding instructional staff who work with their children:

- Whether or not the child's teacher has met state certification for the grades and subjects she/he is teaching.
- Whether or not the teacher is working with an emergency or conditional certificate where state certification criteria has been waived.
- The baccalaureate degree major of the teacher and any other graduate certification or degree held, including field of discipline of the certificate or degree.
- If the child receives instructional services from a paraeducator, the paraeducator's qualifications.

The District failed to include information regarding paraeducators in the notification to the parents.

### **Cause of Condition**

The District lacked internal controls to ensure all paraeducators providing Title I services met the highly qualified guidelines and had adequate documentation of their qualifications on file.

The District notified to parents of their right to request information about the qualifications of teachers in the District's Title I schools, but used an outdated template from previous years, which did not include paraeducators.

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

One paraeducator, paid a total of \$36,291.13, did not meet the requirements to be a paraeducator providing Title I services during the audit period by holding a high school diploma or equivalent. Four paraeducators, paid a total of \$54,451.85, did not have adequate documentation of their qualifications on file. Further, parents of the students who received Title I services from paraeducators, were not notified of their right to request the qualifications of those paraeducators providing services to their children.

### **Recommendation**

We recommend the District establish and follow internal controls to ensure it meets all federal compliance requirements for its Title I grant. It should ensure:

- All paraeducators providing Title I services meet the highly qualified paraeducator requirements.

- Documentation is retained to prove the highly qualified status of paraeducators, such as transcripts or assessment scores.
- Parent notification of the right to request the qualifications is prepared using the guidelines set forth by the Office of Superintendent of Public Instruction (OSPI).

We further recommend the District consult with OSPI about repayment of questioned costs.

## **District's Response**

The District concurs with the audit finding. In the 2012-2013 school year, the District was able to increase the number of staff serving students in the Title I program, but did not have a mechanism in place to ensure the additional documentation supporting their highly qualified status was filed in personnel files. Four of the paraeducators met all the qualifications to serve in the Title I program, even though their documentation was not on file. One paraeducator did not meet the qualifications, but was highly regarded as an asset to the Title I program. During 2012-2013, the District prompted this paraeducator to obtain the additional qualifications. However, the process was not complete until the school year was over.

The District has now obtained all the necessary supporting documents for the five paraeducators, and continues to operate its successful Title I program. In addition, the District has updated its annual form letter to parents with the latest version from OSPI.

## **Auditor's Remarks**

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

## **Applicable laws and Regulations**

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

Section 300 Auditee responsibilities.

The auditee shall:

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

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



34 CFR 200.58 Qualifications of paraprofessionals, states in part:

(b) *All paraprofessionals.* A paraprofessional covered under paragraph (a) of this section, regardless of the paraprofessional's hiring date, must have earned a secondary school diploma or its recognized equivalent.

(c) *New paraprofessionals.* A paraprofessional covered under paragraph (a) of this section who is hired after January 8, 2002 must have—

(1) Completed at least two years of study at an institution of higher education;

(2) Obtained an associate's or higher degree; or

(3)(i) Met a rigorous standard of quality, and can demonstrate—through a formal State or local academic assessment—knowledge of, and the ability to assist in instructing, as appropriate—

34 CFR 200.61 Parents' right to know

(a) At the beginning of each school year, an LEA that receives funds under subpart A of this part must notify the parents of each student attending a Title I school that the parents may request, and the LEA will provide the parents on request, information regarding the professional qualifications of the student's classroom teachers, including, at a minimum, the following:

(1) Whether the teacher has met State qualification and licensing criteria for the grade levels and subject areas in which the teacher provides instruction.

(2) Whether the teacher is teaching under emergency or other provisional status through which State qualification or licensing criteria have been waived.

(3) The baccalaureate degree major of the teacher and any other graduate certification or degree held by the teacher, and the field of discipline of the certification or degree.

(4) Whether the child is provided services by paraprofessionals and, if so, their qualifications.

(b) A school that participates under subpart A of this part must provide to each parent—

(1) Information on the level of achievement of the parent's child in each of the State academic assessments required under §200.2;

(2) Timely notice that the parent's child has been assigned, or has been taught for four or more consecutive weeks by, a teacher of a core academic subject who is not highly qualified.

(c) An LEA and school must provide the notice and information required under this section—

(1) In a uniform and understandable format, including alternative formats upon request; and

(2) To the extent practicable, in a language that parents can understand.

# **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***

**Blaine School District No. 503  
Whatcom County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Blaine School District No. 503  
Blaine, 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 Blaine School District No. 503, Whatcom County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 16, 2014.

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

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

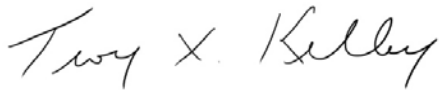
## ***COMPLIANCE AND OTHER MATTERS***

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

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

## ***PURPOSE OF THIS REPORT***

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



**TROY KELLEY**  
STATE AUDITOR

April 16, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Blaine School District No. 503  
Whatcom County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Blaine School District No. 503  
Blaine, Washington

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

We have audited the compliance of Blaine School District No. 503, Whatcom County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

### ***District's Response to Findings***

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

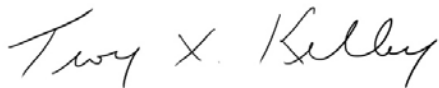
a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

### ***District's Response to Findings***

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

April 16, 2014

# **Independent Auditor's Report on Financial Statements**

## **Blaine School District No. 503 Whatcom County September 1, 2012 through August 31, 2013**

Board of Directors  
Blaine School District No. 503  
Blaine, Washington

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

We have audited the accompanying financial statements of Blaine School District No. 503, Whatcom County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 17.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the



appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)***

As described in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blaine School District No. 503, as of August 31, 2013, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

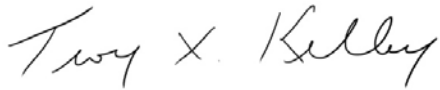
### ***Other Matters***

#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Liabilities is also presented for purposes of additional analysis as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

April 16, 2014

## **Financial Section**

**Blaine School District No. 503  
Whatcom County  
September 1, 2012 through August 31, 2013**

### ***FINANCIAL STATEMENTS***

Balance Sheet – Governmental Funds – 2013  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2013  
Statement of Fiduciary Net Position – Fiduciary Funds – 2013  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013  
Notes to Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Long-Term Liabilities – 2013  
Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

Blaine School District No. 503

Balance Sheet

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	614,179.42	30,764.64	4,429.31	10,478.50	1.98	0.00	659,853.85
Minus Warrants Outstanding	-542,868.58	-4,182.89	0.00	-10,469.95	0.00	0.00	-557,521.42
Taxes Receivable	2,941,459.33		1,758,209.70	0.00	0.00		4,699,669.03
Due From Other Funds	45,223.88	0.00	0.00	0.00	0.00	0.00	45,223.88
Due From Other Governmental Units	151,434.70	0.00	0.00	0.00	0.00	0.00	151,434.70
Accounts Receivable	998.53	0.00	0.00	0.00	0.00	0.00	998.53
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	13,148.77	0.00					13,148.77
Prepaid Items	20,105.08	0.00		0.00	0.00	0.00	20,105.08
Investments	1,687,611.20	156,818.91	2,161,605.41	1,038,837.44	172,747.92	0.00	5,217,620.88
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>4,931,292.33</b>	<b>183,400.66</b>	<b>3,924,244.42</b>	<b>1,038,845.99</b>	<b>172,749.90</b>	<b>0.00</b>	<b>10,250,533.30</b>
<b>LIABILITIES:</b>							
Accounts Payable	121,885.76	2,109.48	0.00	889,378.46	0.00	0.00	1,013,373.70
Contracts Payable Current	0.00	0.00		0.00	0.00		0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	28,310.62	0.00		0.00			28,310.62
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	45,486.03	0.00		0.00			45,486.03
Due To Other Governmental Units	0.21	0.00		0.00	0.00	0.00	0.21
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	4,024.48	0.00	41,199.40	0.00	0.00	45,223.88

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

Blaine School District No. 503

Balance Sheet

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
Deferred Revenue	2,978,797.90	40,313.31	1,758,209.70	0.00	0.00	0.00	4,777,320.91
<b>TOTAL LIABILITIES</b>	<b>3,174,480.52</b>	<b>46,447.27</b>	<b>1,758,209.70</b>	<b>930,577.86</b>	<b>0.00</b>	<b>0.00</b>	<b>5,909,715.35</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	33,253.85	0.00	0.00	0.00	0.00	0.00	33,253.85
Restricted Fund Balance	2,168.86	136,953.39	2,166,034.72	107,659.76	172,749.90	0.00	2,585,566.63
Committed Fund Balance	1,278,192.87	0.00	0.00	0.00	0.00	0.00	1,278,192.87
Assigned Fund Balance	0.00	0.00	0.00	608.37	0.00	0.00	608.37
Unassigned Fund Balance	443,196.23	0.00	0.00	0.00	0.00	0.00	443,196.23
<b>TOTAL FUND BALANCE</b>	<b>1,756,811.81</b>	<b>136,953.39</b>	<b>2,166,034.72</b>	<b>108,268.13</b>	<b>172,749.90</b>	<b>0.00</b>	<b>4,340,817.95</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>4,931,292.33</b>	<b>183,400.66</b>	<b>3,924,244.42</b>	<b>1,038,845.99</b>	<b>172,749.90</b>	<b>0.00</b>	<b>10,250,533.30</b>

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

Blaine School District No. 503

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	6,166,976.33	277,918.38	3,473,007.12	9,723.53	193.12		9,927,818.48
State	13,162,068.56		0.00	0.00	124,381.48		13,286,450.04
Federal	1,657,588.14		0.00	0.00	0.00		1,657,588.14
Federal Stimulus	0.00						0.00
Other	87,816.04			0.00	0.00	0.00	87,816.04
<b>TOTAL REVENUES</b>	<b>21,074,449.07</b>	<b>277,918.38</b>	<b>3,473,007.12</b>	<b>9,723.53</b>	<b>124,574.60</b>	<b>0.00</b>	<b>24,959,672.70</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	11,683,987.46						11,683,987.46
Federal Stimulus	0.00						0.00
Special Education	2,650,258.85						2,650,258.85
Vocational Education	601,226.87						601,226.87
Skills Center	0.00						0.00
Compensatory Programs	1,057,103.38						1,057,103.38
Other Instructional Programs	206,066.48						206,066.48
Community Services	81,696.68						81,696.68
Support Services	4,808,992.24						4,808,992.24
Student Activities/Other		305,553.34				0.00	305,553.34
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				2,507,928.86			2,507,928.86
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	213,882.54						213,882.54
<b>DEBT SERVICE:</b>							
Principal	0.00		3,150,000.00	0.00	0.00		3,150,000.00
Interest and Other Charges	0.00		412,539.36	0.00	0.00		412,539.36
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>21,303,214.50</b>	<b>305,553.34</b>	<b>3,562,539.36</b>	<b>2,507,928.86</b>	<b>0.00</b>	<b>0.00</b>	<b>27,679,236.06</b>

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

Blaine School District No. 503

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-228,765.43	-27,634.96	-89,532.24	-2,498,205.33	124,574.60	0.00	-2,719,563.36
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	-228,765.43	-27,634.96	-89,532.24	-2,498,205.33	124,574.60	0.00	-2,719,563.36
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>1,985,577.24</b>	<b>164,588.35</b>	<b>2,255,566.96</b>	<b>2,606,473.46</b>	<b>48,175.30</b>	<b>0.00</b>	<b>7,060,381.31</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>1,756,811.81</b>	<b>136,953.39</b>	<b>2,166,034.72</b>	<b>108,268.13</b>	<b>172,749.90</b>	<b>0.00</b>	<b>4,340,817.95</b>

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

Blaine School District No. 503  
Statement Of Fiduciary Net Position  
Fiduciary Funds  
August 31, 2013

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	0.00	0.00
Cash On Hand	250.00	0.00
Cash On Deposit with Cty Treas	1,116.00	0.00
Minus Warrants Outstanding	-1,110.05	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	20,550.09	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
<b>TOTAL ASSETS</b>	<b>20,806.04</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Net position held in trust for:</b>		
Scholarships and Student Aid	20,806.04	0.00
<b>TOTAL NET POSITION</b>	<b>20,806.04</b>	<b>0.00</b>

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



Blaine School District No. 503

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2013

	Private Purpose Trust	Other Trust
<b>ADDITIONS:</b>		
Contributions:		
Private Donations	6,336.00	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>6,336.00</b>	<b>0.00</b>
<b>Investment Income:</b>		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	69.23	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	69.23	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>6,405.23</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	450.00	
Other	1,110.05	0.00
<b>TOTAL DEDUCTIONS</b>	<b>1,560.05</b>	<b>0.00</b>
Net Increase (Decrease)	4,845.18	0.00
Net Position--Beginning	15,960.86	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET POSITION--ENDING</b>	<b>20,806.04</b>	<b>0.00</b>

# **Blaine School District**

## **Notes to the Financial Statements**

**September 1, 2012 through August 31, 2013**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** **(SSAP)**

#### **Description of the government-wide financial statements.**

The Blaine School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in Grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP) and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. 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's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual allows for a practice that differs from generally accepted accounting principles in the following manner:

- (1) Districtwide statements, as defined in GAAP, 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 budgetary comparison schedule compares the district's actual results with the final budgeted amounts. The original budget document is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is optional.
- (6) The financial statements do not report a liability for Other Post-Employment Benefits (GASB Statement 45).
- (7) Other departures from GAAP that are material in nature are indicated throughout the Notes.

## **Description of the activities accounted for in each of the following funds presented in the basic financial statements.**

The District presents financial information 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 (or expenses) 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 for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

#### Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

#### Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principle and interest.

#### Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

#### Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual.

## ***Fiduciary Funds***

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

### **Private-Purpose Trust Fund**

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

## ***Proprietary Funds***

School districts in the State of Washington are not allowed to utilize proprietary fund types, which is a departure from GAAP.

## **The measurement focus and basis of accounting used in the government-wide statements.**

The District's accounting policies 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. The District's financial statements are presented in conformity with that publication.

The measurement focus for the District's funds is the modified accrual basis and the current financial resources focus. This basis of accounting 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.

Revenues are recognized as soon as they are measurable and available. "Measurable" means the amount of the transaction can be readily determined. Revenues are considered "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 are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. 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. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

## ***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.

#### **The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.**

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

#### **The government's fund balance classifications policies and procedures.**

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

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

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

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

### **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.

### **Inventory**

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

## **NOTE 2:CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Whatcom County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District's investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

The District's investments as of August 31, 2013, are as follows:

	Market Value
County Treasurer's Investment Pool	5,238,170.97
Total Investments	5,238,170.97

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

The Washington State Auditor's Office issued a management letter dated December 7, 2012 concerning high school credit in Alternative Learning Experience courses, and questioning \$149,538 in related apportionment revenues received from the Office of Superintendent of Public Instruction (OSPI). The district does not agree with the State's interpretation and is currently in the administrative appeals process to protest any recovery of revenue.

#### **Litigation**

Litigation involving the District arises from a student who alleges she was injured during a weight training class. In a tort claim and in related discovery, the student claims to have suffered \$5,000,000 in general damages and over \$166,000 in special medical damages as a result of the incident. The parents are each alleging to have suffered over \$500,000 in general damages, over \$55,000 in special damages and approximately \$30,000-\$40,000 in lost wages as a result of the alleged injury. The District is vigorously defending the Plaintiffs' claims and is unable to offer any opinions as to liability or damages, pending further discovery. The litigation currently pending against the district is covered by insurance coverage through the Washington Schools Risk Management Pool, and in management's estimation, would not pose a financial loss to the district for this reason.

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

The district learned in January 2014 that taxable property within its boundaries, valued at \$975 million in 2013, is undergoing a review of its assessed valuation with the State Board of Tax Appeals. Depending on the outcome, the district could experience a fluctuation in property tax revenues during the subsequent fiscal year, or a future fiscal year. The magnitude of such a fluctuation depends upon a number of variables and cannot currently be determined. Property tax refund amounts can be added to the subsequent year's levy.

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

#### **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, 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

Membership by retirement system program as of June 30, 2012:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

*Data is as of last actuarial valuation date of June 30, 2012.*

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

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

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

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits 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 members, it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

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

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



## **Contributions**

Employee contribution rates effective September 1, 2012 through August 31, 2013:

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, 2012 through August 31, 2013:

	9/1/12-8/31/13		9/1/12-6/30/13	7/1/13-8/31/13
Plan 1 TRS	8.05%	Plan 1 PERS	7.21%	9.19%
Plan 2 TRS	8.05%	Plan 2 SERS	7.59%	7.59%
Plan 3 TRS	8.05%	Plan 3 SERS	7.59%	7.59%

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	2011	2012	2013
Plan 1 TRS	\$11,966	\$11,244	\$11,734
Plan 2 TRS	\$61,452	\$74,351	\$81,154
Plan 3 TRS	\$481,430	\$600,717	\$636,903
Plan 1 PERS	\$8,100	\$7,271	\$7,227
Plan 2 SERS	\$49,712	\$73,879	\$84,178
Plan 3 SERS	\$129,739	\$177,813	\$181,172

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, 20XX, 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  
POBOX 43113  
Olympia, WA98504-3113

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

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)<sup>(5)</sup>.

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2012-13, the District was required to pay the HCA \$65.17 per month per full-time equivalent employee to support the program, for a total payment of \$143,091. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

## **NOTE 7: CONTRACT COMMITMENTS**

For the fiscal year ended August 31, 2013, the District had additional long-term debt as follows:

Contracts Payable	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
1993 Property Purchase	40,000	3,120	02/2015	7%	5149
<i>Total Other Long-Term Commitments</i>					5149

## **NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES**

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/13	Additional Local Funds Committed	Additional State Funds Committed
High School Science Modernization	2,631,186	2,450,805	99,124	81,257
Special Education Classrooms	267,477	241,535	9,768	16,174
Total	2,898,663	2,692,340	108,892	97,431

## Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2013:

Fund	Amount
General	\$857
Capital Projects Fund	\$67,312

## **NOTE 9:REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$58,026,190 for fiscal year 2013. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

## **NOTE 10:REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### Long-Term Debt

Bonds payable at August 31, 2013, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
UTGO Ref 2010	14,635,000	3,150,000	12/1/2016	2 to 4	10,915,000
2012 GO	3,000,000		12/1/2016	2 to 2.5	3,000,000
Total General Obligation Bonds	17,635,000	3,150,000			13,915,000

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year ended August 31, 2013:

Long-Term Debt Payable at 9/1/2012	17,065,000
New Issues	
Debt Retired	3,150,000
Long-Term Debt Payable at 8/31/2013	13,915,000

The following is a schedule of annual requirements to amortize debt at August 31, 2013:

Years Ending August 31	Principal	Interest	Total
2014	3,290,000	332,013	3,622,013
2015	3,440,000	242,769	3,682,769
2016	3,610,000	143,069	3,753,069
2017	3,575,000	45,250	3,620,250
Total	13,915,000	763,100	14,678,100

At August 31, 2013, the District had \$2,166,035 available in the Debt Service Fund to service the general obligation bonds.

## **NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

### **Washington Schools Risk Management Pool**

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

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

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

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

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

### **Whatcom Educational Insurance Consortium**

The Blaine School District is a member of the Whatcom Educational Insurance Consortium (WEIC). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance,

and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1999 when Blaine School District and the six other public school districts in Whatcom County in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services.

The Pool allows members to purchase or arrange for delivery of certain welfare benefits for their employees and eligible dependents. The Pool provides the following forms of group purchased insurance coverage for its members: Vision coverage.

Members make a total monthly contribution of \$0.50 per subscriber per month to pay administrative costs related to vision coverage. Members remit monthly premium amounts to plan providers in accordance with the health benefit plans of their respective subscribers. During the 2012-13 fiscal year (September 1, 2012 through August 31, 2013) members paid a total of \$17,643 for administrative costs related to vision coverage. Since the Pool is a cooperative program, there is a joint liability among the participating members for vision coverage only.

Members contract to remain in the Pool for a minimum of 1 year, and must give notice by December 31 of the preceding year before terminating participation effective September 30 of the following year. The Interlocal Governmental Agreement is renewed automatically each year after the initial 1 year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process vision claims for the period they were a signatory to the interlocal governmental agreement. As of August 31, 2013, there was \$124,064 in reserves to pay vision claims.

The Pool is fully funded by its member participants for vision coverage. Claims are filed by members with Northwest Administrator, Inc. which has been contracted to perform claims administration services for the Pool. Fees paid to Northwest Administrator, Inc., the third party administrator under this arrangement for the year ended August 31, 2013 were \$52,633, which included fees for claims administration services. For 2013-2014, the Pool has contracted with the third party administrator to perform claims adjustment and loss prevention services for \$53,362. This fee is based on a rate of \$1.51 per subscriber per month and the total fluctuates each month based on the number of subscribers.

The Pool is governed by a governing council of which is comprised of one superintendent from each participating member district. A Board of Trustees is selected each year from the member districts, and is responsible for conducting the business affairs of the Pool.

## **Unemployment Insurance**

The district is a member of the Northwest Educational Service District 189 Unemployment Pool Cooperative. The self-insurance program costs the district less than full participation in the state unemployment compensation program. The District made unemployment compensation payments totaling \$7,104 for fiscal year 2013. The district's balance as of August 31, 2013 was \$87,589 which is considered sufficient to pay all known and pending claims.

## **NOTE 13:PROPERTY TAXES**

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

## **NOTE 14:JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's current equity of \$20,753.99 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

## **NOTE 15:FUND BALANCE CLASSIFICATION DETAILS**

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	\$33,254				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$2,169				
Debt Service				\$2,166,035	
Arbitrage Rebate					
Uninsured Risks					
Other Items		\$136,953	\$107,660		\$172,750
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,278,193				
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes			\$608		
Unassigned Fund Balance	\$443,196				

In addition, the Capital Projects Fund has \$107,660 designated as Restricted from Bond Proceeds within the Restricted Fund Balance based on the source of the revenues.

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 directs the District to maintain at year end, a balance equal to 6% of general fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as a part of the Committed Fund Balance.

## **NOTE 16:POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

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

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

### **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 elective deferrals.

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

## **NOTE 17:TERMINATION BENEFITS**

### **Compensated Absences**

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

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

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

Blaine School District No. 503  
Schedule of Long-Term Liabilities  
For the Year Ended August 31, 2013

Description	Beginning Outstanding Debt September 1, 2012	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2013
Total Voted Bonds	17,065,000.00	0.00	3,150,000.00	13,915,000.00
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
<b>Other Long-Term Debt</b>				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	8,269.43	0.00	3,119.97	5,149.46
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	781,895.08	104,128.12	0.00	886,023.20
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	790,164.51	104,128.12	3,119.97	891,172.66
<b>TOTAL LONG-TERM LIABILITIES</b>	17,855,164.51	104,128.12	3,153,119.97	14,806,172.66

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



**BLAINE SCHOOL DISTRICT NO. 503**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ending August 31, 2013

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
Department of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A		\$ 100,015.45	\$100,015.45	
	WA OSPI	National School Lunch Program	10.555	N/A		\$ 368,614.58	\$368,614.58	
	WA OSPI	National School Lunch Program - Noncash Assistance - Commodities	10.555	N/A		\$ 41,025.14	\$41,025.14	2
		CFDA Subtotal	10.555			\$ 409,639.72	\$409,639.72	
	State Treasurer	Schools and Roads - Grants to States	10.665	N/A		\$ 37,341.95	\$37,341.95	
		Department of Agriculture Subtotal				\$ 546,997.12	\$546,997.12	
Department of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010	201092		\$ 368,943.62	\$368,943.62	3
	WA OSPI	Special Education_Grants to States	84.027	304354		\$ 378,040.00	\$378,040.00	3
	WA OSPI	Special Education_Grants to States	84.027	337509		\$ 13,160.00	\$13,160.00	
		CFDA Subtotal	84.027			\$ 391,200.00	\$391,200.00	
	WA OSPI	Career and Technical Education -- Basic Grants to States	84.048	172613		\$ 15,380.00	\$15,380.00	3
	WA OSPI	Special Education_Preschool Grants	84.173	364354		\$ 9,402.43	\$9,402.43	3
	Ferndale School District	Education for Homeless Children and Youth	84.196	455071		\$ 3,692.44	\$3,692.44	
	WA OSPI	Twenty-First Century Community Learning Centers	84.287	993775		\$ 116,602.25	\$116,602.25	3
	Higher Education Coordinating Board	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	13-IA 149		\$ 124,276.03	\$124,276.03	3, 4
	WA OSPI	English Language Acquisition State Grants	84.365	401662		\$ 18,183.59	\$18,183.59	3
	WA OSPI	Improving Teacher Quality State Grants	84.367	523168		\$ 71,118.27	\$71,118.27	3
		Department of Education Subtotal				\$ 1,118,798.63	\$1,118,798.63	
Department of Health and Human Services	WA Health Care Authority	Medical Assistance Program	93.778	1165-39788		\$ 674.81	\$674.81	
		Department of Health and Human Services Subtotal				\$ 674.81	\$674.81	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>						<b>\$ 1,666,470.56</b>	<b>\$1,666,470.56</b>	

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

**BLAINE SCHOOL DISTRICT NO 503**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1—BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the District financial statements. The District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

**NOTE 2—NONCASH AWARDS**

The amount of commodities reported on the schedule is the value of commodities distributed by the District during the current year and priced as prescribed by the USDA.

**NOTE 3—FEDERAL INDIRECT RATE**

The District claimed indirect costs under this grant not to exceed its federal restricted rate of 1.87% (2.00% for English Language Acquisition Grants).

**NOTE 4—PROGRAM COSTS/MATCHING CONTRIBUTIONS**

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



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

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

We 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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**Chief of Staff**  
**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Performance Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
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