

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

Sequim School District No. 323
Clallam County

Audit Period
September 1, 2009 through August 31, 2010

Report No. 1005317

Issue Date
April 4, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

April 4, 2011

Board of Directors
Sequim School District No. 323
Sequim, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Sequim School District No. 323'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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Clallam County
September 1, 2009 through August 31, 2010**

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Federal Summary

Sequim School District No. 323 Clallam County September 1, 2009 through August 31, 2010

The results of our audit of Sequim School District No. 323 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified 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 no deficiencies that we consider to be material weaknesses.

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

We reported no 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
84.027	Special Education Cluster - Grants to States (IDEA, Part B)
84.173	Special Education Cluster - Preschool Grants (IDEA Preschool)"
84.389	ARRA - Title I Cluster, Part A (Recovery Act)
84.391	ARRA - Special Education Cluster, IDEA Part B (Recovery Act)
84.392	ARRA - Special Education Cluster, Preschool Grants (Recovery Act)
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants (Recovery Act)

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.

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

Sequim School District No. 323
Clallam County
September 1, 2009 through August 31, 2010

Board of Directors
Sequim School District No. 323
Sequim, Washington

We have audited the financial statements of Sequim School District No. 323, Clallam County, Washington, as of and for the year ended August 31, 2010, and have issued our report thereon dated March 4, 2011.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 4, 2011

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct
and Material Effect on Each Major Program and
on Internal Control over Compliance in
Accordance with OMB Circular A-133**

**Sequim School District No. 323
Clallam County
September 1, 2009 through August 31, 2010**

Board of Directors
Sequim School District No. 323
Sequim, Washington

COMPLIANCE

We have audited the compliance of Sequim School District No. 323, Clallam 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, 2010. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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

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

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

March 4, 2011

Independent Auditor's Report on Financial Statements

Sequim School District No. 323 Clallam County September 1, 2009 through August 31, 2010

Board of Directors
Sequim School District No. 323
Sequim, Washington

We have audited the accompanying financial statements of Sequim School District No. 323, Clallam County, Washington, as of and for the year ended August 31, 2010, as listed on page 9. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b to the financial statements, the District prepares its financial statements using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which demonstrates compliance with the regulatory basis of accounting which differs from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and the accounting principles generally accepted in the United States of America are also described in Note 1b.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sequim School District No. 323, as of August 31, 2010, and the changes in financial position thereof for the year then ended on the basis of accounting described in Note 1b.

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

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 Debt 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information and use of the governing body and management 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 4, 2011

Financial Section

**Sequim School District No. 323
Clallam County
September 1, 2009 through August 31, 2010**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2010
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2010
Notes to Financial Statements – 2010

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2010
Schedule of Expenditures of Federal Awards and Notes – 2010

Sequim School District No. 323
Balance Sheet
Governmental Funds
August 31, 2010

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	4,804.27	101,555.54	22,342.89	563.00	0.00	0.00	129,265.70
Minus Warrants Outstanding	-643,872.96	-6,355.97	0.00	0.00	0.00	0.00	-650,228.93
Taxes Receivable	1,450,005.14		1,140,793.78	0.00	0.00	0.00	2,590,798.92
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	13,823.82	0.00	0.00	0.00	0.00	0.00	13,823.82
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	189,052.27						189,052.27
Prepaid Items	0.00			0.00			0.00
Investments	3,538,508.32	303,244.16	1,597,558.69	664,697.69	39,067.25	0.00	6,143,076.11
Investments/Cash With Trustee	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
TOTAL ASSETS	4,552,320.86	398,443.73	2,760,695.36	665,260.69	39,067.25	0.00	8,415,787.89
LIABILITIES:							
Accounts Payable	45,673.79	2,055.39	0.00	29,800.63	0.00	0.00	77,529.81
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	4,092.82	0.00		0.00			4,092.82
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Sequim School District No. 323
Balance Sheet
Governmental Funds
August 31, 2010

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	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	1,502,286.45	103,075.45	1,140,793.78	0.00	0.00	0.00	2,746,155.68
TOTAL LIABILITIES	1,552,053.06	105,130.84	1,140,793.78	29,800.63	0.00	0.00	2,827,778.31
FUND BALANCE:							
Reservation Of Fund Balance	163,087.05	0.00	0.00	0.00	0.00	0.00	163,087.05
Unreserved, Designated Fund Balance	641,074.76	0.00		0.00		0.00	641,074.76
Unreserved, Undesignated Fund Balance	2,196,105.99	293,312.89	1,619,901.58	635,460.06	39,067.25	0.00	4,783,847.77
TOTAL FUND BALANCE	3,000,267.80	293,312.89	1,619,901.58	635,460.06	39,067.25	0.00	5,588,009.58
TOTAL LIABILITIES AND FUND BALANCE	4,552,320.86	398,443.73	2,760,695.36	665,260.69	39,067.25	0.00	8,415,787.89

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

Sequim School District No. 323
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2010

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	3,839,712.06	399,120.89	2,282,355.97	737.90	506.84		6,522,433.66
State	17,249,485.31		45,650.46	0.00	174,133.13		17,469,268.90
Federal	2,318,999.63		0.00	0.00	0.00		2,318,999.63
Federal Stimulus	790,174.59						790,174.59
Other	197,156.02			0.00	0.00	0.00	197,156.02
TOTAL REVENUES	24,395,527.61	399,120.89	2,328,006.43	737.90	174,639.97	0.00	27,298,032.80
EXPENDITURES:							
CURRENT:							
Regular Instruction	12,621,994.25						12,621,994.25
Federal Stimulus	680,559.88						680,559.88
Special Education	2,626,634.07						2,626,634.07
Vocational Education	1,059,116.06						1,059,116.06
Skills Center	0.00						0.00
Compensatory Programs	1,361,595.57						1,361,595.57
Other Instructional Programs	49,152.59						49,152.59
Community Services	25,968.60						25,968.60
Support Services	5,004,779.02						5,004,779.02
Student Activities/Other		398,771.23				0.00	398,771.23
CAPITAL OUTLAY:							
Sites				27,234.10			27,234.10
Building				115,187.32			115,187.32
Equipment				62,260.63			62,260.63
Energy				0.00			0.00
Transportation Equipment					102,551.00		102,551.00
Other	593,814.52						593,814.52
DEBT SERVICE:							
Principal	0.00		2,158,985.08	0.00	0.00		2,158,985.08
Interest and Other Charges	0.00		381,870.18	2,200.00	0.00		384,070.18
TOTAL EXPENDITURES	24,023,614.56	398,771.23	2,540,855.26	206,882.05	102,551.00	0.00	27,272,674.10
REVENUES OVER (UNDER) EXPENDITURES	371,913.05	349.66	-212,848.83	-206,144.15	72,088.97	0.00	25,358.70

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

Sequim School District No. 323
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2010

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	475,000.00	0.00		475,000.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		62,700.00	206,490.00	0.00		269,190.00
Transfers Out (GL 536)	-206,490.00		0.00	0.00	-62,700.00	0.00	-269,190.00
Other Financing Uses (GL 535)	-3,449.88		0.00	0.00	0.00		-3,449.88
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	-209,939.88		62,700.00	681,490.00	-62,700.00	0.00	471,550.12
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	161,973.17	349.66	-150,148.83	475,345.85	9,388.97	0.00	496,908.82
BEGINNING TOTAL FUND BALANCE	2,838,294.63	292,963.23	1,770,050.41	160,114.21	29,678.78	0.00	5,091,101.26
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	3,000,267.80	293,312.89	1,619,901.58	635,460.06	39,067.75	0.00	5,588,010.08

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

**OTHER COMPREHENSIVE BASIS OF ACCOUNTING
MODIFIED ACCRUAL BASIS (F-196)**

Sequim School District No. 323

Notes to Financial Statements

September 1, 2009 through August 31, 2010

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

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

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

b. Basis of Presentation—Fund Accounting

The Sequim School 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. However, the district elects to not present district wide financial statements, and management’s discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. The various funds in the report are grouped into governmental funds as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all expendable financial resources, except those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, food services, maintenance, data processing, printing, and transportation activities are included in the fund.

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of the Capital Projects Fund and the Transportation Vehicle Fund.

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

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

Debt Service Fund

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

Special Revenue Funds

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Fund (ASB Fund) is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

Permanent Funds

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

c. Basis of Accounting

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

- (1) Districtwide statements are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Debt. The Schedule of Long-Term Debt is required supplemental information.
- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.

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

Expenditures are recognized under the modified basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. The fund liability is incurred when the goods or services have been received. For

federal grants, the recognition of expenditures is dependent on the obligation date, (obligations means purchased order issued, contracts awarded, or goods and services received).

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

d. Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, pursuant to law, the budgeted ending fund balance cannot be negative.

e. Assets, Liabilities, and Fund Equity

All of the district’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All of the district’s investments (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, 2010, are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers’ Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer’s Investment Pool	1	6,143,076	6,143,076
County Treasurer’s Investment Pool			
Total Investments	1	6,143,076	6,143,076

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. Management

may reserve a portion of fund balance in any amount as a budgetary technique to ensure the availability of resources at the appropriate time. (Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.)

f. Revenue and Expenditure Recognition

Debt Service

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

Property Taxes

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

Compensated Absences

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

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

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

No unrecorded liability exists for other employee benefits.

Note 2 Capital Assets

The district's capital assets are insured in the amount of \$67,157,108 for fiscal year 2009-2010. 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 Sequim 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, 2009:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	67,388	8,660	39,927
PERS	159,235	28,074	74,857
SERS	52,474	9,193	4,629

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

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

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

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

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

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

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

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

B. Contributions

Employee contribution rates for the fiscal year are shown in the table below:

Employee Contribution Rates		
Plan	9/1/09 through 6/30/10 Rate	7/1/10 Rate
TRS 1	6.00%	6.00%
TRS 2	4.26%	3.36%
TRS 3	5.00% Min, 15.00% Max	
PERS 1	6.00%	6.00%
PERS 2	3.89%	3.90%
PERS 3	5.00% Min, 15.00% Max	
SERS 2	4.68%	3.14%
SERS 3	5.00% Min, 15.00% Max	

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 for the fiscal year are shown in the table below:

Employer Contribution Rates		
Plan	9/1/09 through 6/30/10 Rate	7/1/10 Rate
TRS 1	8.46%	6.14%
TRS 2	8.46%	6.14%
TRS 3	8.46%	6.14%
PERS 1	5.29%	5.31%
PERS 2	5.29%	5.31%
PERS 3	5.29%	5.31%
SERS 2	7.54%	5.44%
SERS 3	7.54%	5.44%

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 September 30):

Plan	Fiscal Year		
	2007-2008	2008-2009	2009-2010
TRS 1	\$72,773	\$97,127	\$53,599
TRS 2	\$58,106	\$114,661	\$95,723
TRS 3	\$447,838	\$692,493	\$532,206
PERS 1	\$5,335	\$6,915	\$4,275
SERS 2	\$60,712	\$90,413	\$63,295
SERS 3	\$116,386	\$152,331	\$113,021
Total	\$761,150	\$1,153,939	\$862,119

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2009, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
 Office of Financial Management
 300 Insurance Building
 PO BOX 43113
 Olympia, WA 98504-3113

Note 4 Risk Management

The Sequim School District is a member of the Schools Insurance Association of Washington. 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, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 45 member districts.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The pool provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, equipment breakdown, crime, employee benefits and wrongful act liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joining liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool also purchases a stop loss policy in the amount \$3,200,000 to reduce risk to its members.

Property insurance is subject to a per-occurrence deductible of \$25,000. Members are responsible for the first \$5,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$20,000.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$5,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs 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 Interlocal Agreement.

The pool is fully funded by its member participants. Claims are filled 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, 2010 were \$3,098,672.

A governing board is selected by the membership 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. The pool has no employees.

Note 5 Debt

Long-Term Debt

Voted bonds payable at August 31, 2010, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
6/1/2003	9,935,000	218,063-2,038,950	12/1/13	2.0 – 3.5	6,830,000
4/21/2008	4,290,000	197,582-918,500	12/1/14	3.5	3,515,000
Total Gen Obligation Bonds	14,225,000				10,345,000

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2010:

Long-Term Debt Payable at 9/1/2009	12,450,000
New Issues	0
Debt Retired	2,105,000
Long-Term Debt Payable at 8/31/2010	10,345,000

Non-voted bonds payable at August 31, 2010, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
Non-Voted Bonds					
4/1/2001 Bus Purchase	169,846	16,189-26,053	12/1/10	4.68	12,245
9/1/2002 Bus Purchase	131,417	15,758	12/1/13	3.79	30,077
6/15/2004 Bus Purchase	136,159	13,796	6/1/17	4.34	82,504
9/10/2004 Bus Purchase	72,648	7,086	6/1/17	3.86	43,101
8/101/2010 Equipment	475,000	58,970-59,970	8/1/20	4.25	475,000
Total Non-Voted Bonds	985,070				642,927

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2010:

Non-Voted Debt Payable at 9/1/2009	221,913
New Issues	475,000
Debt Retired	53,986
Non Voted Debt Payable at 8/31/2010	642,927

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2010:

Years Ending August 31	Principal	Interest	Total
2011	2,287,797	312,061	2,599,858
2012	2,386,784	238,418	2,625,202
2013	2,537,158	158,605	2,695,763
2014	2,742,882	68,187	2,811,069
2015-2017	557,305	13,088	570,393
Total	10,511,926	790,359	11,302,285

At August 31, 2010, the district had \$1,619,902 available in the Debt Service Fund to service the general obligation bonds.

Prior-Year Defeasance of Debt

In prior years, the district defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 2009 \$4,185,000 of bonds outstanding are considered defeased.

Note 6 Lease Obligations and Conditional Sales Contract Obligations

The district initiated a lease agreement beginning May, 2009 for the lease of a garbage compactor. Lease payments are made from the district's General Fund. For the fiscal year ended August 31, 2010, the district had incurred additional long-term debt in the form of a lease for the compactor as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due
1 st Source Bank	\$48,961	\$9,508	4/15/2014	5.25%	\$39,453

Note 7 Summaries of Significant Contingencies

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

Note 8 Other Disclosures

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity of \$28,681 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 9 Construction and Other Significant Commitments

As of August 31, 2010, the district had an outstanding commitment to purchase and install a new heating system for Helen Haller Elementary School.

Note 10 Subsequent Events

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

Sequim School District No. 323
Schedule of Long-Term Debt
For the Year Ended August 31, 2010

Description	Beginning Outstanding Debt September 1, 2009	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2010
Total Voted Bonds	12,450,000.00	0.00	2,105,000.00	10,345,000.00
Total Non-Voted Notes/Bonds	221,912.28	475,000.00	53,985.08	642,927.20
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	45,847.00	11,852.04	33,994.96
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	216,291.95	2,867.06	0.00	219,159.01
Other Long-Term Debt	0.00	0.00	0.00	0.00
Total Other Long-Term Debt	216,291.95	48,714.06	11,852.04	253,153.97
TOTAL LONG-TERM DEBT	12,888,204.23	523,714.06	2,170,837.12	11,241,081.17

Sequim School District No. 323
Clallam County
EIN: 91-0951996
Schedule of Expenditure of Federal Awards
For Fiscal Year Ending August 31, 2010

Federal Catalog Number	Rev Acct No.	Exp Acct No.	Federal Agency Name	Federal Program Title	Pass Thru Agency	Pass Thru Amount	Direct Fund Amount	Total Funds Expended	Foot Note
10.553	6198	98	USDA	School Breakfast Program	WA OSPI	112,486		112,486	
10.555	6998	98		National School Lunch-Non Cash Assistance Food Commodities	WA OSPI	62,858		62,858	2
10.555	6198	98		National School Lunch-Cash Assistance	WA OSPI	410,447		410,447	
10.665	5500			Schools and Roads-Grants	WA OSPI	206,850		206,850	
Dept of Agriculture Subtotal						792,642		792,642	
84.010	6151	51	USD Ed	Title I Grants to LEAs	WA OSPI	492,312		492,312	3
84.027	6124	24-00		Special Education-Grants	WA OSPI	494,231		494,231	3
84.048	6138-02	38		Career and Technical Education	WA OSPI	18,356		18,356	3
84.060	6268	68		Indian Education-Grants to LEAs			29,363	29,363	3
84.173	6124-26	24-26		Special Education-Preschool Grants	WA OSPI	14,388		14,388	3
84.366	7169	69		Title IIB Math Science	OESD114	78,225		78,225	
84.367	6152	52-00		Improving Teacher/Princ. Quality	WA OSPI	109,607		109,607	3
84.367	2198	98		Improving Teacher/Princ. Quality	OESD114	1,119		1,119	
84.386	6152	52-16		ARRA-Education Technology Grants	WA OSPI	6,826		6,826	
84.386	6152	52-16		ARRA-Education Technology Grants	WA OSPI	6,908		6,908	
84.387	6118	18		ARRA-Ed for Homeless	WA OSPI	238		238	
84.389	6111	11		ARRA-Title I	WA OSPI	124,834		124,834	3
84.391	6114	14		ARRA - Special Education -Grants to LEAs	WA OSPI	323,040		323,040	3
84.392	6114	14-26		ARRA-Special Educ-Preschool Grants	WA OSPI	22,758		22,758	
84.394	6113	13		State Fiscal Stabilization Funds	WA OSPI	317,164		317,164	
94.004	4158	58-14		Learn & Serve America	WA OSPI	2,846		2,846	
Dept of Education Subtotal						2,012,852	29,363	2,042,215	
93.276	6200-62	79-62	Hlth/Hm Svc	Drug-Free Communities		115,369		115,369	
93.778	6310	79-63	Hlth/Hm Svc	Medicaid Admin Match		63,054		63,054	
Dept of Hlth/Human Svcs Subtotal						178,423	0	178,423	

TOTAL FEDERAL AWARDS EXPENDED

2,983,917 29,363 3,013,280

Notes to the Schedule

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on 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 - NON CASH AWARDS - FOOD COMMODITIES

The amount of food commodities reported on the schedule is the market value of commodities received by the School District during the current year. The value is determined by the USDA.

NOTE 3 - FEDERAL INDIRECT RATE

The district claimed indirect costs under this grant using its federal restricted rate of 2.47%



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

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

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

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

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

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