



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Sequim School District No. 323

Clallam County

For the period September 1, 2013 through August 31, 2014

Published May 26, 2015

Report No. 1014299





Washington State Auditor

May 26, 2015

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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014

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 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 identified 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 unmodified opinion on the District's compliance with requirements applicable to its major federal program.

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>
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA, Part B)

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**

**Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014**

2014-001 The District did not have adequate internal controls to ensure compliance with federal time and effort requirements.

CFDA Number and Title:	84.027/84.173 Special Education Cluster
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The objective of the Special Education program is to ensure all children with disabilities receive special education and related services to meet their needs. During fiscal year 2014, the District received \$502,099 in Special Education program funds.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by federally required time and effort documentation. Depending on the number and type of activities an employee works on, time and effort documentation can be a semi-annual certification or a monthly personnel activity report, such as a time sheet.

Our audit found the District did not design an effective process to monitor and review employees whose positions are funded, in whole or in part, with federal grant funds to ensure semi-annual certifications or monthly personnel activity reports are completed.

We consider these control weaknesses to be significant deficiencies.

Cause of Condition

The District did not dedicate sufficient time and resources to ensure an adequate process was in place to obtain and maintain time and effort documentation.

Effect of Condition and Questioned Costs

Without adequate time and effort documentation, federal grantors cannot be assured salaries and benefits charged to their programs are accurate and valid.

Our audit found the District did not maintain the semi-annual time and effort certification for two of the sixteen employees whose positions were fully paid with Title I funds. These employees charged \$26,879 to the grant. However, the District provided adequate alternative forms of documentation which indicate the costs charged to the program were allowable. As a result, we are not questioning costs

Recommendation

We recommend the District strengthen internal controls over time and effort records to ensure records are obtained and maintained to support all payroll costs charged to Federal programs.

District's Response

District Business Manager will reconcile on a quarterly basis hours worked by employees in federal programs and substantiated by time and effort reports completed by those employees to costs claimed for reimbursement from federal grants. Learning Support Services staff will work with Payroll staff to identify employees charged to federal programs for purposes of creating time and effort reports. Learning Support Services staff will also ensure that staff charged to federal programs are working in the federal program to which they are charged. Any variations in actual work assignments from payroll records will be reported to the Business Manager and Payroll staff so employee cost records can be appropriately adjusted.

Auditor's Remarks

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

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial

reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively. ...

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur. ...

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300, states in part:

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 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.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection

(5) Unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(6) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Sequim School District No. 323. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/1/2012 – 8/31/2013	Report Ref. No.: 1011908	Finding Ref. No.: 1	CFDA Number(s): 84.027/84.173
Federal Program Name and Granting Agency: Special Education Cluster, U.S. Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: The District did not have adequate internal controls to ensure compliance with time and effort requirements to support payroll costs charged to the Special Education Program			
Background: During fiscal year 2013, the District spent \$1,568,176 in federal Special Education program funds. The District has a process in place to obtain the required semi-annual and monthly time and effort documentation. However, the District did not know the semi-annual certifications should be signed after the end of the period, not before, and the monthly certifications should be signed at least monthly. Furthermore, a lack of communication between the program staff responsible for the time and effort documentation and the accounting staff responsible for the grant reimbursement requests caused amounts charged to the grant to not always agree with the time and effort records. Without proper time and effort records, the District is unable to substantiate the accuracy of \$25,791 of salary and benefits charged to its federal Special Education program in the manner required by the grantor.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The Business Manager provides the Federal Grants Program Manager a listing of employees charged to federal grant programs to confirm that those employees should be charged to those programs and that percentage assignments to the programs reflect what the employee is actually working. The Federal Grants Program Manager interviews employees charged to federal programs to insure that employees are actually working in the federal program. The Business Manager and Federal Grants Program Manager periodically review payroll records to re-confirm employee costs recorded to federal programs include only appropriately assigned personnel.</i>			

**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**

**Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014**

Board of Directors
Sequim School District No. 323
Sequim, 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 Sequim School District No. 323, Clallam County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 15, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014**

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

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

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, 2014. 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, 2014.

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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Sequim School District No. 323 Clallam County September 1, 2013 through August 31, 2014

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

REPORT ON THE FINANCIAL STATEMENTS

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, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 20.

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 to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by 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 Sequim School District No. 323, as of August 31, 2014, 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 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 and Transportation Vehicle funds as of August 31, 2014, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 Schedules of Long-Term Liabilities are 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 May 15, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 15, 2015

FINANCIAL SECTION

**Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Sequim School District No. 323

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	707,719.29	72,419.27	0.00	0.00	4.00	0.00	780,142.56
Minus Warrants Outstanding	-640,258.69	-7,422.28	0.00	0.00	0.00	0.00	-647,680.97
Taxes Receivable	2,552,331.93		194,588.12	0.00	674,736.43	0.00	3,421,656.48
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	99,177.24	0.00	0.00	0.00	0.00	0.00	99,177.24
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	117,832.76	0.00					117,832.76
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	2,094,414.28	409,546.98	568,564.47	33,789.06	439,295.95	0.00	3,545,610.74
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	4,931,216.81	474,543.97	763,152.59	33,789.06	1,114,036.38	0.00	7,316,738.81
LIABILITIES:							
Accounts Payable	54,684.62	1,603.95	0.00	0.00	0.00	0.00	56,288.57
Contracts Payable Current	0.00	0.00					0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00		0.00		0.00
Payroll Deductions and Taxes Payable	6,057.70	0.00		0.00			6,057.70
Due To Other Governmental Units	252,567.44	0.00		0.00	0.00	0.00	252,567.44
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, 2014

	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			0.00
Unearned Revenue	0.00	0.00	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
TOTAL LIABILITIES	313,309.76	1,603.95	0.00	0.00	0.00	0.00	314,913.71
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	24,300.80		0.00	0.00	0.00		89,230.56
Unavailable Revenue - Taxes Receivable	2,552,331.93		194,588.12	0.00	674,736.43		3,421,656.48
TOTAL DEFERRED INFLOWS OF RESOURCES	2,576,632.73	64,929.76	194,588.12	0.00	674,736.43	0.00	3,510,887.04
FUND BALANCE:							
Nonspendable Fund Balance	117,832.76	0.00	0.00	0.00	0.00	0.00	117,832.76
Restricted Fund Balance	0.00	408,010.26	568,564.47	0.00	0.00	0.00	976,574.73
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	0.00	0.00	0.00	33,789.06	439,299.95	0.00	473,089.01
Unassigned Fund Balance	1,923,441.56	0.00	0.00	0.00	0.00	0.00	1,923,441.56
TOTAL FUND BALANCE	2,041,274.32	408,010.26	568,564.47	33,789.06	439,299.95	0.00	3,490,938.06
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	4,931,216.81	474,543.97	763,152.59	33,789.06	1,114,036.38	0.00	7,316,738.81

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, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	6,414,659.33	465,407.53	1,350,153.21	36.09	912,897.14		9,143,153.30
State	18,296,764.74		36,874.47	0.00	197,281.54		18,530,920.75
Federal	1,913,320.87		0.00	0.00	0.00		1,913,320.87
Federal Stimulus	0.00						0.00
Other	74,821.04			0.00	0.00		74,821.04
TOTAL REVENUES	26,699,565.98	465,407.53	1,387,027.68	36.09	1,110,178.68	0.00	29,662,215.96
EXPENDITURES:							
CURRENT:							
Regular Instruction	14,227,669.07						14,227,669.07
Federal Stimulus	0.00						0.00
Special Education	3,377,479.17						3,377,479.17
Vocational Education	1,231,976.09						1,231,976.09
Skill Center	0.00						0.00
Compensatory Programs	1,363,145.50						1,363,145.50
Other Instructional Programs	91,529.79						91,529.79
Community Services	33,309.96						33,309.96
Support Services	5,728,910.75						5,728,910.75
Student Activities/Other		496,251.93				0.00	496,251.93
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				76,192.95			76,192.95
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				34,130.12			34,130.12
Transportation Equipment					808,235.27		808,235.27
Sales and Lease						0.00	0.00
Other	458,597.11						458,597.11
DEBT SERVICE:							
Principal	0.00		2,853,754.10	0.00	0.00		2,853,754.10
Interest and Other Charges	0.00		80,705.48	0.00	0.00		80,705.48
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	26,512,617.44	496,251.93	2,934,459.58	110,323.07	808,235.27	0.00	30,861,887.29

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, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	186,948.54	-30,844.40	-1,547,431.90	-110,286.98	301,943.41	0.00	-1,199,671.33
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		143,970.45	100,000.00	0.00		243,970.45
Transfers Out (GL 536)	-223,088.83		0.00	0.00	-20,881.62	0.00	-243,970.45
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	0.00		0.00
TOTAL OTHER FINANCING SOURCES (USES)	-223,088.83		143,970.45	100,000.00	-20,881.62	0.00	0.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-36,140.29	-30,844.40	-1,403,461.45	-10,286.98	281,061.79	0.00	-1,199,671.33
BEGINNING TOTAL FUND BALANCE	2,077,414.61	438,854.66	1,972,025.92	40,654.70	158,238.16	0.00	4,687,188.05
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	3,421.34	0.00	0.00	3,421.34
ENDING TOTAL FUND BALANCE	2,041,274.32	408,010.26	568,564.47	33,789.06	439,299.95	0.00	3,490,938.06

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

Sequim School District No. 323
Notes to the Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(SSAP)

Description of the government-wide financial statements.

The Sequim 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.

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.

The Superintendent and/or Director of Business Services are the only persons who have the authority to create Assignments of fund balance.

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.

Accounting and Reporting Changes for 2013-2014

Effective for the 2013-2014 school year, the district implemented provisions of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Clallam 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, 2014, 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			\$3,545,610.74
County Treasurer's Investment Pool			
Total Investments			\$3,545,610.74

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

Litigation

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

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

A. General Information

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

Membership by retirement system program as of June 30, 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

Membership by retirement system program as of June 30, 2013:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Data is as of last actuarial valuation date of June 30, 2013.

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, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

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

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

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

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

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

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

B. Contributions

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
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, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

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	Fiscal Year		
	2011-2012	2012-2013	2013-2014
TRS 1	\$32,128	\$32,768.24	\$30,002.47
TRS 2	\$136,015	\$178,634.27	\$235,820.65
TRS 3	\$655,650	\$681,200.54	\$885,915.98
PERS 1	\$1,038	\$0.00	\$0.00
SERS 2	\$88,414	\$106,567.42	\$176,408.29
SERS 3	\$160,578	\$163,291.56	\$207,636.29
Total	\$1,073,823	\$1,162,462.03	\$1,535,783.68

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

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).

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 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$226,676.17. 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: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE

There was no construction in progress as of August 31, 2014.

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$103,158,081 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 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
4/21/2008	4,290,000	197,582-918,500	12/1/14	3.5	500,000
Total Gen Obligation Bonds	14,225,000				500,000

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2014:

Long-Term Debt Payable at 9/1/2013	\$3,225,000
New Issues	\$0
Debt Retired	\$2,725,000
Long-Term Debt Payable at 8/31/2014	\$500,000

Non-voted bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
Non-Voted Bonds					
6/15/2004 Bus Purchase	136,159	13,796	6/1/17	4.34	38,414
9/10/2004 Bus Purchase	72,648	7,086	6/1/17	3.86	19,892
8/10/2010 Equipment	475,000	58,970-59,970	8/1/20	4.25	300,104
7/31/2012 Building Remodel	300,000	64,864	6/1/2017	2.5-3.0	185,222
Total Non-Voted Bonds	983,807				543,632

The following is a schedule of annual requirements to amortize debt at August 31, 2014:

Years Ending August 31	Principal	Interest	Total
2015	625,831	26,890	652,721
2016	126,945	17,024	143,969
2017	131,849	12,136	143,985
2018	50,513	7,712	58,225
2019	52,963	5,262	58,225
2020	55,532	2,693	58,225
Total	1,043,633	71,717	1,115,350

At August 31, 2014, the District had \$568,564.47 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 10: 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.

In September, 1995, the District joined together with other school districts in the state to form the Schools Insurance Association of Washington, a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and automobile insurance. The District pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Schools Insurance Association of Washington provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$10,000 for each insured event.

Worker's Compensation: In fiscal year ending August 2013, the district made payments totaling \$236,399.55 to the ESD 114 Worker's Compensation Trust, which administers claims on behalf of several local school districts. This fund is operated for the district's benefit in lieu of the district having to make monthly premium payments to the State of Washington for industrial insurance.

NOTE 11: 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 12: 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 \$22,700 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 13: 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	\$117,832.76				
Restricted Fund Balance					
Carryover of Restricted Revenues					
Debt Service					
Arbitrage Rebate					
Uninsured Risks					
Other Items		\$408,010.26		\$568,564.47	
Committed Fund Balance					
Minimum Fund Balance Policy					
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects					
Other Purposes					
Fund Purposes			\$33,789.06		\$439,299.95
Unassigned Fund Balance	\$1,923,441.56				

NOTE 14: 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, or the District.

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 two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

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

NOTE 15: 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 termination payment method.

Sequim School District No. 323

Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	10,292.88	0.00	10,292.88	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	241,181.00	5,349.56	0.00	246,530.56	76,200.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	251,473.88	5,349.56	10,292.88	246,530.56	76,200.00

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

Sequim School District No. 323
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	3,225,000.00	0.00	2,725,000.00	500,000.00	500,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	665,910.13	0.00	122,278.27	543,631.86	125,830.52
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	3,890,910.13	0.00	2,847,278.27	1,043,631.86	625,830.52

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ending August 31, 2014

1 Federal Agency Name	2 Pass Through Agency	3 Federal Program Title	4 CFDA Number	5 Other Identification Number	6 Expenditures			8 Total	9 Footnote
					From Direct Awards	From Pass Through Awards	Total		
DEPARTMENT OF AGRICULTURE/FOREST SERVICE	WA OSPI	SCHOOLS AND ROADS-GRANTS TO STATES	10.665		\$136,759.81	\$136,759.81	\$136,759.81	1,2	
DEPARTMENT OF AGRICULTURE/OFFICE OF FOOD AND NUTRITION SERVICES	WA OSPI	SCHOOL BREAKFAST PROGRAM	10.553		\$136,832.12	\$136,832.12	\$136,832.12	1,2	
DEPARTMENT OF AGRICULTURE/OFFICE OF FOOD AND NUTRITION SERVICES	WA OSPI	NATIONAL SCHOOL LUNCH-CASH ASSISTANCE	10.555		\$433,128.73	\$433,128.73	\$433,128.73	1,2	
DEPARTMENT OF AGRICULTURE/OFFICE OF FOOD AND NUTRITION SERVICES	WA OSPI	NATIONAL SCHOOL LUNCH-NON CASH ASSISTANCE FOOD COMMODITIES	10.555		\$52,072.26	\$52,072.26	\$52,072.26	1,2,3	
SUBTOTAL-DEPARTMENT OF AGRICULTURE					\$0.00	\$758,792.72	\$758,792.72		
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	TITLE I GRANTS TO LOCAL EDUCATION AGENCIES	84.010	Grant 0201381		\$424,764.32	\$424,764.32	1,2,4,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	TITLE I GRANTS TO LOCAL EDUCATION AGENCIES	84.010	Grant 0224484		\$6,549.82	\$6,549.82	1,2,4,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	SPECIAL EDUCATION GRANTS TO STATES	84.027	Grant 0304616		\$74,595.00	\$74,595.00	1,2,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	SPECIAL EDUCATION PRESCHOOL GRANT	84.027	Grant 0337667		\$16,128.81	\$16,128.81	1,2,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	SPECIAL EDUCATION PRESCHOOL GRANT	84.173	Grant 0364616		\$11,376.00	\$11,376.00	1,2,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	IMPROVING TEACHER QUALITY STATE GRANTS	84.387	Grant 0523273		\$101,280.00	\$101,280.00	1,2,5	
DEPARTMENT OF EDUCATION/OFFICE OF ELEMENTARY AND SECONDARY EDUCATION	WA OSPI	INDIAN EDUCATION-GRANTS TO LOCAL EDUCATION AGENCIES	84.060		\$22,902.20	\$22,902.20	\$22,902.20	1,2,5	
DEPARTMENT OF EDUCATION/OFFICE OF VOCATIONAL AND ADULT EDUCATION	WA OSPI	CAREER AND TECHNICAL EDUCATION-BASIC GRANTS TO STATES	84.048	Grant 0173144		\$7,593.76	\$7,593.76	1,2,5	
SUBTOTAL-DEPARTMENT OF EDUCATION					\$22,902.20	\$1,044,267.51	\$1,067,169.71		
DEPARTMENT OF HEALTH AND HUMAN SERVICES/CENTERS FOR MEDICARE AND MEDICAID SERVICES	WA HCA	MEDICAL ASSISTANCE PROGRAM	93.778		\$51,471.43		\$51,471.43	1,2	
DEPARTMENT OF HEALTH AND HUMAN SERVICES/CENTERS FOR MEDICARE AND MEDICAID SERVICES	WA HCA	SCHOOL BASED HEALTH SERVICES	93.778		\$15,962.32		\$15,962.32	1,2	
SUBTOTAL-DEPARTMENT HEALTH AND HUMAN SERVICES					\$67,433.75		\$67,433.75		
TOTAL FEDERAL AWARDS EXPENDED					\$80,335.95	\$1,803,060.23	\$1,883,396.18		

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 Sequim School District's financial statements. The Sequim School 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—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Of the amount shown for this program, \$0 was paid from ARRA funds.

NOTE 3—NONCASH AWARDS

The amount of *commodities* reported on the schedule is the value of commodities distributed by the Sequim School District during the current year and prescribed by OSPI's Child Nutrition Program.

NOTE 4—SCHOOLWIDE PROGRAMS

The Sequim School District operates a "schoolwide program" in two elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Sequim School District in its schoolwide program. Title I (84.010) \$433,313.94

NOTE 5—FEDERAL INDIRECT RATE

The Sequim School District used the federal *restricted* rate of 3.37 percent for this program.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**Sequim School District No. 323
Clallam County
September 1, 2013 through August 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Sequim School District No. 323.

Finding ref number: 2014-001	Finding caption: The District did not have adequate internal controls to ensure compliance with federal time and effort requirements.
Name, address, and telephone of auditee contact person: Brian Lewis, Director of Business Services Sequim School District No. 323 503 N. Sequim Avenue Sequim, WA 98382 P- (360) 582-3266 F- (360) 683-6303	
Corrective action the auditee plans to take in response to the finding: <i>District business manager will reconcile on a quarterly basis hours worked by employees in federal programs and substantiated by time and effort reports completed by those employees to costs claimed for reimbursement from federal grants. Learning Support Services staff will work with Payroll staff to identify employees charged to federal programs for purposes of creating time and effort reports. Learning Support Services staff will also ensure that staff charged to federal programs are working in the federal program to which they are charged. Any variations in actual work assignments from payroll records will be reported to the Business Manager and Payroll staff so employee cost records can be appropriately adjusted.</i>	
Anticipated date to complete the corrective action: May 2015	

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