

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

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**Anacortes School District No. 103**  
**Skagit County**

Audit Period  
**September 1, 2007 through August 31, 2008**

**Report No. 1001431**

Issue Date  
**May 18, 2009**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

May 18, 2009

Board of Directors  
Anacortes School District No. 103  
Anacortes, Washington

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

Please find attached our report on Anacortes School District No. 103'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.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# Table of Contents

**Anacortes School District No. 103  
Skagit County  
September 1, 2007 through August 31, 2008**

Federal Summary.....	1
Schedule of Federal Audit Findings and Questioned Costs .....	2
Schedule of Prior Federal Audit Findings .....	6
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i> .....	7
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	9
Independent Auditor's Report on Financial Statements .....	11
Financial Section.....	13

# Federal Summary

## Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008

The results of our audit of Anacortes School District No. 103 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 significant 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 significant deficiencies that we consider to be material weaknesses.

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

We reported one finding that is required to be disclosed under 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>
84.027/173	Special Education Cluster

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

## Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008

### 1. Anacortes School District lacked adequate internal controls and did not comply with federal requirements over its Safety Net funds.

<b>CFDA Number and Title:</b>	84.027 Special Education Grants to States 84.173 Special Education Preschool Grants
<b>Federal Grantor Name:</b>	Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Numbers:</b>	302142,336235 and 365435
<b>Questioned Cost Amount:</b>	\$39,197

#### Background

School districts may apply for federal money from the state Office of Superintendent of Public Instruction's (OSPI) Special Education Safety Net Committee to assist in paying special education costs when they exceed the standard funding for a special education student.

Districts applying for this money must comply with federal and state requirements for Individualized Education Plans (IEP) for special education students. IEPs are written programs that explain students' educational needs, goals and services to be provided. Districts receive funding that is specific to each student and it must be used in accordance with the IEP. The costs are identified in that child's IEP. When a special education student withdraws from the District, the Safety Net funding must go to District or entity providing services to the student or be returned to the state.

The District contracts with Educational Service District No. 189 to provide services to its special education students. The Educational Service District invoices the District for the services. During fiscal year 2008, the District spent \$433,392 for purchased services through its Safety Net program.

#### Description of Condition

During our audit, we found four special education students had withdrawn from the District during the 2007-2008 school year. However, the District received its Safety Net funding based on its application showing these students receiving services during the year. Instead of repaying the state, the District retained the money.

#### Cause of Condition

The District did not have adequate internal controls in place to ensure it complied with federal and state laws regarding the use of Safety Net funds.

## Effect of Condition and Questioned Costs

The Safety Net application process relies on the District to notify OSPI and return money when special education students withdraw from the District. Since the District did not properly notify OSPI, we are questioning costs totaling \$39,197 for four students including \$37,420 of federal funds and \$1,777 of state funds.

## Recommendation

We recommend the District follow proper procedures for returning Safety Net funds and contact OSPI to determine the amount to be repaid, if any.

## District's Response

*Anacortes School District concurs with the finding that the district did not notify OSPI when the safety net special education students left the district to determine if an award adjustment was necessary.*

*In response to three of the four students, the district had a contract with the Educational Service District No. 189 for the educational services provided at the Cypress Island location of Secret Harbor. The contract was not a per student charge from the Educational Service District No. 189 and the Anacortes School District was obligated to pay the entire contract. The districts interpretation at the time was that the withdrawal of the three students did not reduce the costs the district was obligated to.*

*Subsequently, the District has done the following:*

- 1. Secret Harbor facility on Cypress Island was closed August 31, 2008.*
- 2. The District has changed the process of communication between the Special Services department and Business Office to ensure notification is given to OSPI for any future students that withdraw from the district if they had related safety net awards.*
- 3. The District has not yet claimed any current year expenditures for safety net awards received to allow for recovery of funds by OSPI, if deemed necessary.*

## Auditor's Remarks

We appreciate the District's commitment to correcting the condition described. We will determine the status of the finding during the next audit.

## Applicable laws and Regulations

Title 34, Code of Federal Regulations, Section 300.704, State-level activities:

(c)(3)(c)(B) Establish eligibility criteria for the participation of an LEA that, at a minimum, take into account the number and percentage of high need children with disabilities served by an LEA;

(c)(3)(c)(D) Establish criteria to ensure that placements supported by the fund are consistent with the requirements of Sec. Sec. 300.114 through 300.118;

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

Appendix A, Section C(1)

To be allowable under Federal awards, costs must meet the following general criteria: . . .

- (b) Be allocable to Federal awards under the provisions of this Circular.
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (i) Be the net of all applicable credits.

Appendix A, Section C(4)

Applicable credits.

- a. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: . . . adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

WAC 392-140-600 Special education safety net – Applicable provisions:

The provisions of WAC 392-140-600 through 392-140-685 apply to the determination of safety net allocations of state special education moneys and Individuals with Disabilities Education Act (IDEA) federal funds for the 2007-08 school year and thereafter.

WAC 392-140-605 Special education safety net – Application types, certification, worksheets:

Application for safety net funding shall be made on Form SPI 1381 - Certification published by the superintendent of public instruction...

(1) . . . The school district making application for either or both categories of safety net funding shall certify that:

- (a) The district recognizes that differences in costs attributable to district philosophy, service delivery choice, or accounting practice are not a legitimate basis for safety net awards.
- (b) The application complies with the respective safety net application standards of WAC 392-140-616 and 392-140-617;
- (c) The application provides true and complete information to the best of the school district's knowledge;
- (d) The district understands that safety net funding is not an entitlement, is subject to adjustment and recovery, may not be available in future years, must be expended in program 21 or program 24 as specified in

the award letter, and certifies that federal medicaid has been billed for all services to eligible students;

WAC 392-140-609 Special education safety net – Standards and criteria - Appropriate and properly and efficiently prepared and formulated IEPs:

Individualized education programs (IEPs) which are appropriate, properly and efficiently prepared and formulated are those IEPs that meet all of the following criteria:

- (1) The IEPs comply with federal and state procedural requirements.
- (2) The delivery of specially designed instruction identified on the IEP also complies with state and federal requirements (i.e., regularly scheduled teaching or training activities provided or designed by special education qualified staff).
- (3) The provision of special education services conforms with areas of need identified in the student's evaluation and/or reevaluation made pursuant to chapter 392-172A WAC.

WAC 392-140-616 Special education safety net – Standards – High need student applications

For districts requesting safety net funding to meet the extraordinary needs of an eligible high need special education student, the district shall convincingly demonstrate at a minimum that:

- (1) The IEP for the eligible special education student is appropriate, and properly and efficiently prepared and formulated.
- (2) All of the following criteria apply to the high need student:
  - (a) Costs eligible for safety net consideration must be associated with providing direct special education and related services identified in a properly formulated IEP.
  - (b) In order to deliver appropriate special education and related services to the student, the district must be providing services which incur costs exceeding:
    - (i) The annual threshold as established by the office of superintendent of public instruction for state funding; then
    - (ii) Three times the average per pupil expenditure (as defined in section 9101 of the Elementary and Secondary Education Act of 1965) for the state of Washington for federal funding. . .
  - (c) The total cost of educational services must exceed any carryover of federal flow-through special education funding as of August 31 of the prior school year.
- (3) The state safety net oversight committee shall adapt the high need student application as appropriate for applications prepared by the Washington state school for the blind and the Washington school for the deaf.

WAC 392-140-660 Special education safety net – Approved application – Special education safety net allocations:

- (1) The special education safety net allocation for an individual district shall be the smaller of:
  - (a) The amount requested by the school district; or
  - (b) The amount authorized by the state oversight committee.
- (2) Special education safety net allocations for high need students under WAC 392-140-605(1) shall use appropriated federal and state moneys.



# Schedule of Prior Federal Audit Findings

## Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Anacortes School District No. 103. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> Fiscal Year 2007	<b>Report Reference No:</b> 74646	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 84.027/173
<b>Federal Program Name and Granting Agency:</b> U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> Anacortes School District did not comply with federal requirements over time and effort documentation related to its Special Education Cluster program.			
<b>Background:</b> During fiscal year 2007, the District spent \$945,453 in federal funding for its special education program. Special education funds are used to provide assistance to schools for the education of children with disabilities. Of this amount, 22 percent or \$211,536 was used to pay employee salaries. We reviewed payroll transactions to determine whether salaries charged to federal grants were supported by adequate time and effort documentation as required by federal grant guidelines. Depending on the number of activities an employee works on, documentation can be provided in the form of a semi-annual certification or a monthly time sheet.  We examined payroll expenditures charged to the grant for six employees during 2007. We noted two employees' payroll expenditures were not fully supported by adequate time and effort documentation. The amount of payroll costs attributed to these employees was \$41,154. These employees did not track their actual time and effort spent on special education duties. Instead, they used a budgeted percentage of hours or FTE. Each employee certified on an annual cover letter that the percentage of time claimed was based on daily recurring activities, but the District was unable to provide documentation supporting the budgeted amount. Because these employees worked on other cost objectives in addition to special education, an annual certification does not meet federal requirements.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>In response to the audit finding, the District no longer uses an annual certification of time and effort for employees working on multiple cost objectives. In addition, the district has provided official OSPI guidance materials to the federal program directors, with regards to time and effort reporting. Program directors also complete an internal review of staff time and effort records, to ensure that the federal requirements are currently being met. This process includes a review of current records, and providing additional guidance and/or training to employees as necessary.</i>  <i>Subsequent to the receipt of the audit finding the district worked with the OSPI to provide alternative documentation to support the accuracy of the questioned costs. The alternative documentation provided to OSPI was accepted as adequate support for the costs incurred.</i>			

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

## **Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008**

Board of Directors  
Anacortes School District No. 103  
Anacortes, Washington

We have audited the financial statements of Anacortes School District No. 103, Skagit County, Washington, as of and for the year ended August 31, 2008, and have issued our report thereon dated May 6, 2009.

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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

May 6, 2009

# Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

## **Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008**

Board of Directors  
Anacortes School District No. 103  
Anacortes, Washington

### **COMPLIANCE**

We have audited the compliance of Anacortes School District No. 103, Skagit 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 are applicable to its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 requirements referred to above that are applicable to its major federal programs for the year ended August 31, 2008. However, the results of our auditing procedures disclosed an instances of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

### **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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs, we consider Finding 1 to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

May 6, 2009

# Independent Auditor's Report on Financial Statements

## **Anacortes School District No. 103 Skagit County September 1, 2007 through August 31, 2008**

Board of Directors  
Anacortes School District No. 103  
Anacortes, Washington

We have audited the accompanying financial statements of Anacortes School District No. 103, Skagit County, Washington, as of and for the year ended August 31, 2008, as listed on page 13. 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 1 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 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anacortes School District No. 103, as of August 31, 2008, and the changes in financial position thereof for the year then ended on the basis of accounting described in Note 1.

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 a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 6, 2009

# Financial Section

**Anacortes School District No. 103  
Skagit County  
September 1, 2007 through August 31, 2008**

## ***FINANCIAL STATEMENTS***

Balance Sheet – Governmental Funds – 2008  
Statement of Revenues, Expenditures and Changes in Fund Balance– Governmental Funds –  
2008  
Statement of Fiduciary Net Assets – Fiduciary Funds – 2008  
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds– 2008  
Notes to Financial Statements – 2008

## ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt– 2008  
Schedule of Expenditures of Federal Awards – 2008  
Notes to the Schedule of Expenditures of Federal Awards – 2008



**ANACORTES SCHOOL DISTRICT NO. 103**

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
-----							
<b>ASSETS:</b>							
Cash & Cash Equivalent	857,238.88	28,337.14	8,261.83	3,749.00	3,749.00	325,992.92	1,223,579.77
Minus Outstdng Warrant	799,512.28	14,750.76					818,012.04
Taxes Receivable	3,025,894.46		1,425,633.09				4,451,527.55
Due From Other Funds							
Due Fm Other Gov Units	82,854.88						82,854.88
Accounts Receivable	28,395.75						28,395.75
Intfd Loans Receivable							
Accrued Int Receivable							
Inventory	100,976.36	4,892.82					105,869.18
Prepaid Items	100,234.49						100,234.49
Investments	2,251,724.52	311,966.61	980,593.53	579,742.45	148,420.33	11,019.59	4,283,467.03
Invest/Cash W/Trustee							
Invest/Deferd Comp							
Slf-Insur Secu Deposit							
<b>TOTAL ASSETS</b>	5,647,807.06	330,445.81	2,414,488.45	575,993.45	152,169.33	337,012.51	9,457,916.61
<b>LIABILITIES:</b>							
Accounts Payable	335,764.52	22,672.31		3,980.25			362,417.08
Contracts Pay. Current							
Accrued Int Payable							
Accrued Salaries	17,382.83						17,382.83
Rev Anticipation Notes							
Payroll Ded/Taxes Paya	2,365.19						2,365.19
Due to Other Gov Units	10,313.00						10,313.00
Deferred Compensation							
Est Employee Benefits							
Due to Other Funds							
Intfd Loans Payable							
Deposits							
Matured Bonds Payable			0.08				0.08
Matured Bond Interest							
Arbitrg Rebate Payable							
Deferred Revenue	3,063,271.22	53,647.00	1,425,633.09				4,542,551.31
<b>TOTAL LIABILITIES</b>	3,429,096.76	76,319.31	1,425,633.17	3,980.25			4,935,029.49
<b>FUND BALANCE:</b>							
Reserve of Fund Balanc	274,888.28			572,013.20		300,000.00	1,146,901.48
Unres Desig Fnd Balanc	103,943.34						103,943.34
Unres Undesig Fnd Bala	1,839,878.68	254,126.50	988,855.28	572,013.20	152,169.33	37,012.51	3,272,042.30
<b>TOTAL FUND BALANCE</b>	2,218,710.30	254,126.50	988,855.28	572,013.20	152,169.33	337,012.51	4,522,887.12
<b>TOTAL LIAB/FUND BALANC</b>	5,647,807.06	330,445.81	2,414,488.45	575,993.45	152,169.33	337,012.51	9,457,916.61

The accompanying notes are an integral part of this financial statement

**ANACORTES SCHOOL DISTRICT NO. 103**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For The Year Ended August 31, 2008**

	General Fund	Assoc. Student Body	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	7,156,264.40			21,732.59	5,367.10		10,626,557.44
State	18,468,369.62				107,361.08		18,575,730.70
Federal	1,802,282.48						1,802,282.48
Other	98,730.14					14,116.02	112,846.16
<b>TOTAL REVENUES</b>	<b>27,525,646.64</b>	<b>322,143.26</b>	<b>3,121,050.09</b>	<b>21,732.59</b>	<b>112,728.18</b>	<b>14,116.02</b>	<b>31,117,416.78</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	15,035,074.10						15,035,074.10
Special Education	3,495,942.89						3,495,942.89
Vocational Education	888,521.27						888,521.27
Skills Center							
Compensatory Program	1,862,867.16						1,862,867.16
Other Instruct. Prog	228,729.42						228,729.42
Community Services	17,422.07						17,422.07
Support Services	5,408,279.60						5,408,279.60
Stu. Activities/Othe		320,234.14				13,988.18	334,222.32
<b>CAPITAL OUTLAY:</b>							
Sites				9,572.05			9,572.05
Building				35,081.58			35,081.58
Equipment					110,357.44		110,357.44
Energy							
Transportation Equip	103,123.11						103,123.11
Other							
<b>DEBT SERVICE:</b>							
Principal			2,662,545.34				2,662,545.34
Int. & Other Charges			901,617.83				901,617.83
<b>TOTAL EXPENDITURES</b>	<b>27,039,959.62</b>	<b>320,234.14</b>	<b>3,564,163.17</b>	<b>44,653.63</b>	<b>110,357.44</b>	<b>13,988.18</b>	<b>31,093,356.18</b>
<b>REVS OVER (UNDER) EX</b>	<b>485,687.02</b>	<b>1,909.12</b>	<b>443,113.08-</b>	<b>22,921.04-</b>	<b>2,370.74</b>	<b>127.84</b>	<b>24,060.60</b>
<b>OTHER FIN SRCS(USES)</b>							
Bond Sls & Ref Bond				12,500.00	187,500.00		260,279.39
Long-Term Financing					60,279.39-		
Transfers In							
Trans Out (GL 536)	200,000.00-						
260,279.39-							
Oth.Fin Use (GL 535)	2,297.00				743.80		3,040.80
<b>TOTAL OTHER FINANCE SOURCES (USES)</b>	<b>197,703.00-</b>			<b>12,500.00</b>	<b>127,964.41</b>		<b>3,040.80</b>
<b>EXCESS OF REVS &amp; OTH FIN SRCS OVER (UNDER EXP &amp; OTHER FIN USES</b>	<b>287,984.02</b>	<b>1,909.12</b>	<b>382,833.69-</b>	<b>10,421.04-</b>	<b>130,335.15</b>	<b>127.84</b>	<b>27,101.40</b>
<b>BEG TOT FUND BALANCE Prior Year(s) Correc or Restatements</b>	<b>1,930,726.28</b>	<b>252,217.38</b>	<b>1,371,688.97</b>	<b>582,434.24</b>	<b>21,834.18</b>	<b>336,884.67</b>	<b>4,495,785.72</b>
<b>END TOT FUND BALANCE</b>	<b>2,218,710.30</b>	<b>254,126.50</b>	<b>988,855.28</b>	<b>572,013.20</b>	<b>152,169.33</b>	<b>337,012.51</b>	<b>4,522,887.12</b>

The accompanying notes are an integral part of this financial statement

**ANACORTES SCHOOL DISTRICT NO. 103**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
August 31, 2008

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash		
Cash on Hand		
Cash on Deposit with Cty Treasurer	523.68	
Minus Warrants Outstanding	523.68-	
Due From Other Funds		
Accounts Receivable		
Accrued Interest Receivable		
Investments		
Investments/Cash W/Trustees	6,997.79	
Other Assets		
Capital Assets, Land		
Capital Assets, Buildings		
Capital Assets, Equipment		
Accum. Depreciation, Buildings		
Accum. Depreciation, Equipment		
<b>TOTAL ASSETS</b>	<b>6,997.79</b>	
<b>LIABILITIES:</b>		
Accounts Payable		
Due to Other Funds		
<b>TOTAL LIABILITIES</b>		
<b>NET ASSETS:</b>		
Net assets held in trust for:		
Reserved for Other Items		
Reserved for Self Insured Risk		
Reserved for Trust Principal		
Unreserved, Designated for Other Items	6,997.79	
Unreserved, Undesignated Fund Balance	6,997.79	
Total Net Assets		

The accompanying notes are an integral part of this financial statement

**ANACORTES SCHOOL DISTRICT NO. 103**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For The Year Ended August 31, 2008

	Private Purpose Trust	Other Trust
--	-----------------------------	----------------

<b>ADDITIONS:</b>		
Contributions:		
Private Donations	883.00	
Employer Members		
Other		
Total Contributions	883.00	
Investment Income:		
Net Appreciation (Depreciation) in Fair Value		
Interest and dividend	364.14	
Less Investment Expense		
Net Investment Income	364.14	
Other Additions:		
Rent or Lease Revenue		
Total Other Additions		
Total Additions		1,247.14
<b>DEDUCTIONS:</b>		
Benefits		
Refund of Contributions	1,900.00	
Administrative Expenses	2,850.89	
Scholarships		
Other		
Total Deductions		4,750.89
Net Increase (Decrease)		3,503.75-
Net Assets-Beginning		
Prior Year(s) Corrections or Restatements		10,501.54
Net Assets-Ending		6,997.79

The accompanying notes are an integral part of this financial statement

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

**Anacortes School District**  
**Notes to Financial Statements**  
**September 1, 2007 through August 31, 2008**

**Note 1 Summary of Significant Accounting Policies**

a. Reporting Entity

The Anacortes 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 Anacortes 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 Anacortes 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 districtwide 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 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 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 principal, may be used to support the district's programs.

#### FIDUCIARY FUNDS

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

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

Agency Fund. This fund is used to account for assets that the district holds for other agencies in a custodial capacity.

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

d. Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, 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 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, 2008, are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit	3	\$ 978,340	\$ 978,340
Commercial Paper	1	2,254	2,277
County Treasurer's Investment Pool	6	3,309,871	3,309,871
<b>Total Investments</b>	<b>10</b>	<b>\$4,290,465</b>	<b>\$4,290,488</b>

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. Reservation of fund balance is not necessary. 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. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

f. Revenue and Expenditure Recognition

Debt Service

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

## Property Taxes

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

## Compensated Absences

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

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

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

For certificated employees, the district's estimate is that a teacher belonging to TRS 1 will retire from the ASD once they have at least 15 years toward teaching. Cert experience is based on in-state and out-of-state for eligibility purposes. The district's assumption is that a TRS 2 and TRS 3 teacher would need 20 years experience (based on the same criteria) before we feel they would retire with our district. TRS 1 – recognize only those employees with at least 15 years experience; maximum of 1,274 (tchrs) or 1,440 (admin) hours for retirement purposes.

For classified employees there is no difference between belonging to Plan 1 or Plan 2 for PERS/SERS. The benchmark for assuming an employee will retire with the ASD is based on bargaining group versus membership in either PERS 1, 2, or 3. All groups except the unrepresented have a 15 year benchmark and the unrepresented have a benchmark of 10 years. The employment date listed is the date employed with the ASD. Adjustments to that date have been made for those employees with known experience in other districts or PERS/SERS covered positions. Therefore, those employees with hire dates after 9-1-92 are discounted for all groups except unrepresented with that group discounting employment after 9-1-97. There is a maximum of 1,440 hours for retirement buyback purposes.

Benefits are FICA/Medicare only at 7.65%; assumes no retirement, unemployment, or L&I. There is a concern on the part of the district that setting the benchmarks may show an ongoing liability but the district is restricted by law from issuing a contract that exceeds the current school year (except in the case of the Superintendent).

## **Note 2 Capital Assets**

The district's capital assets are insured in the amount of \$79,090,672 for fiscal 2008. 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 Anacortes 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, 2007:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	64,939	9,428	38,091
PERS	158,022	26,583	71,244
SERS	50,825	7,674	3,141

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

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

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65 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 as of August 31, 2008:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	2.90%	Plan 2 SERS	3.90%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

Employer contribution rates as of August 31, 2008:

Plan 1 TRS	5.82%	Plan 1 PERS	8.31%*
Plan 2 TRS	5.82%	Plan 2 SERS	5.88%*
Plan 3 TRS	5.82%	Plan 3 SERS	5.88%*

\* Includes DRS Administrative Expense Rate of .16%.

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):

<u>Plan</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Plan 1 TRS	\$ 58,444	\$ 88,265	\$ 97,546
Plan 2 TRS	\$ 26,165	\$ 49,948	\$ 68,941
Plan 3 TRS	\$ 174,629	\$ 328,363	\$ 453,707
Plan 1 PERS	\$ 7,194	\$ 10,579	\$ 13,278
Plan 2 SERS	\$ 32,585	\$ 61,238	\$ 86,037
Plan 3 SERS	\$ 45,868	\$ 86,241	\$ 120,484

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, 2008, 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 Deferred Compensation Plan**

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the district, a state retirement system, or another governmental entity. The district retains a right of legal access to the plan assets valued at market until paid or made available to the employees, subject only to the claims of the district's general creditor.

**Note 5 Risk Management**

In fiscal year 2007-2008, it was not necessary for the district to make any payments to the unemployment insurance pool that is administered by Northwest Educational Service District 189 on behalf of several local school districts. These funds are operated for the districts' benefit in lieu-of the district making

monthly premium payments to the state of Washington for unemployment beneficiaries as they occur and minimizes the district's cost for the program.

The district made payments totaling \$169,571 to the property/liability insurance pool administered by Puget Sound ESD 121 for fiscal year 2007-2008. The purpose of the pool is to provide members with the capability and authority to jointly purchase property/liability insurance, provide a plan of self-insurance, establish and maintain a reserve to pay for self-insurance coverage, and provide related purchased reinsurance to provide for major claims.

The district is exposed to various risks of loss related to its property and liability exposures. The District is one of 70 school districts and four educational service district members of the Washington Schools Risk Management Pool, which was formed August 30, 1986, pursuant to Chapter 48.62 of the Revised Code of Washington.

The Washington Schools Risk Management Pool has published its own audited financial report for the year ended August 31, 2008, which can be obtained from:

David Hayasaka  
 Executive Director  
 Washington Schools Risk Management Pool  
 PO Box 66838  
 Burien, WA 98166

**Note 6 Lease Obligations and Conditional Sales Contract Obligations**

For the fiscal year ended August 31, 2008, the district had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance Due
<b>Other Long-Term Commitments</b>					
Copiers/Printers	\$227,857	\$ 51,730	Varies	Varies	\$ 145,096
Total					
Other					
Long-Term					
Commitments					\$ 145,096

**Note 7 Debt**

Long-Term Debt

Bonds payable at August 31, 2008, are comprised of the following individual issues:

Issue Name	Amount Authorized	Notes	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
January, 2004	\$9,155,000	Refunded May 1997 bonds	\$80,000-\$2,565,000	12/01/16	2.0%-4.05%	\$ 8,770,000
December, 2003	\$4,125,000	Refunded Jan 1996 bonds	\$35,000-\$1,085,000	12/01/14	2.0%-4.0%	\$ 3,520,000
September, 2003	\$4,250,000	Refunding Issue 5/1/93	\$70,000-\$655,000	06/01/10	2.0%-3.5%	\$ 1,285,000
August, 2001	\$8,220,000	Refunded 1995 Issue	\$40,000-\$1,335,000	12/01/13	4.0%-5.0%	\$ 6,795,000
<b>Total Voted Debt</b>						<b>\$20,370,000</b>
July, 2004	\$ 102,889	LOCAL 8 yr	\$5,657-\$7,372	06/01/12	3.8199%	\$ 55,249
July, 2004	\$ 445,759	LOCAL 13yr	\$12,142-\$23,463	06/01/17	4.3423%	\$ 327,678
<b>Total Non-Voted Debt</b>						<b>\$ 382,927</b>
<b>Total General Obligation Bonds</b>						<b>\$20,752,927</b>

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year(s) ended August 31, 2008:

Long-Term Debt Payable at 9/1/2007	\$23,415,473
New Issues	-
Debt Retired	2,662,546
Long-Term Debt Payable at 8/31/2008	\$20,752,927

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2008:

Years Ending August 31,	Principal	Interest	Total
2009	\$ 1,982,602	\$ 809,306	\$ 2,791,908
2010	2,110,406	738,833	2,849,239
2011	1,569,776	659,800	2,229,576
2012	2,414,024	579,851	2,993,875
2013	2,566,120	470,499	3,036,619
2014-2016	10,109,999	809,534	10,919,533
<b>Total</b>	<b>\$20,752,927</b>	<b>\$ 4,067,823</b>	<b>\$24,820,750</b>

At August 31, 2008 the district had \$988,855 available in the Debt Service Fund to service the general obligation bonds.

## **Note 8 Summaries of Significant Contingencies**

### **Litigation**

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

### **Arbitrage Rebate**

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the district's July 1995 and May 1997 bond issues totaling \$24,892,000. There is no contingent liability for arbitrage rebate for the fiscal year ending August 31, 2008.

## **Note 9 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 board authorized joining the Association by Board action as stated in the June 19, 1974, minutes and has remained in the joint venture ever since. The district's current equity of \$39,436.32 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 10 Subsequent Events**

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

**ANACORTES SCHOOL DISTRICT NO. 103**  
 Schedule of Long-Term Debt  
 For The Year Ended August 31, 2008

Description	Beginning Outstanding Debt 9/1/2007 (1)	Amount Issued/ Increased (2)	Amount Redeemed/ Decreased (3)	Ending Outstanding Debt 8/31/2008 (1) + (2) - (3)
Total Voted Bonds	22,990,000.00		2,620,000.00	20,370,000.00
Total Non-Voted Notes/Bonds	425,473.00		42,546.00	382,927.00
Qualified Zone Academy Bonds				
Other Long-Term Debt:				
Capital Leases				
Contracts Payable (GL 603)	123,287.00	130,348.00	108,539.00	145,096.00
NonCancellable Operating Leases				
Claims & Judgements	842,714.00	12,685.02		855,399.02
Compensated Absences				
Other Long-Term Debt				
Total Other Long-Term Debt	966,001.00	143,033.02	108,539.00	1,000,495.02
Total Long-Term Debt	24,381,474.00	143,033.02	2,771,085.00	21,753,422.02

The accompanying notes are an integral part of this financial statement

**Anacortes School District No 103  
Schedule of Expenditures of Federal Awards  
For the Year Ending August 31, 2008**

1 Federal Agency Name	2 Pass-Through Agency	3 Federal Program Title	4 Federal CFDA Number	5 Other Identification Number	6 Expenditures		8 Total	9 Footnote Ref	
					Direct Awards	Pass-Through Awards			
US Dept of Agriculture	WA OSPI	Food Donation	10.550	N/A	\$44,236	\$44,236	\$44,236	3,7	
	WA OSPI	School Breakfast Program	10.553	N/A	\$44,185	\$44,185	\$44,185	7	
	WA OSPI	National School Lunch Program	10.555	N/A	\$227,596	\$227,596	\$227,596	7	
	Off of St. Treasurer	Schools and Roads Grants to States (A)	10.665	N/A	\$88,540	\$88,540	\$88,540	7	
<b>USDA Subtotal</b>					<b>\$0</b>	<b>\$404,557</b>	<b>\$404,557</b>		
National Science Foundation	WWU	Education and Human Resources	47.076	N/A	\$1,073	\$1,073	\$1,073	7	
		<b>National Science Foundation</b>			<b>\$0</b>	<b>\$1,073</b>	<b>\$1,073</b>		
US Department of Education	WA OSPI	TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	221547	\$275,883	\$275,883	\$275,883	4, 5	
	WA OSPI	SPECIAL EDUCATION-GRANTS TO STATES	84.027A	302142	\$502,548	\$502,548	\$502,548		
	WA OSPI	SPECIAL EDUCATION-GRANTS TO STATES	84.027A	336235	\$433,392	\$433,392	\$433,392		
	WA OSPI	CAREER AND TECHNICAL EDUCATION-BASIC GRANTS TO STATES	84.048	171161	\$17,946	\$17,946	\$17,946		
	WA OSPI	CAREER AND TECHNICAL EDUCATION-BASIC GRANTS TO STATES	84.048	179075	\$95	\$95	\$95		
	WA OSPI	SPECIAL EDUCATION-PRESCHOOL GRANTS	84.173A	365435	\$20,954	\$20,954	\$20,954		
	WA OSPI	EDUCATION TECHNOLOGY STATE GRANTS	84.318	721021	\$3,595	\$3,595	\$3,595		
	WA OSPI	STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	501039	\$3,594	\$3,594	\$3,594		
	WA OSPI	Improving Teacher Quality State Grants (A)	84.367	521037	\$104,007	\$104,007	\$104,007		
	<b>Dept of Education Subtotal</b>					<b>\$0</b>	<b>\$1,362,014</b>		<b>\$1,362,014</b>
	US Dept of Health and Human Services	Lakewood SD	Block Grants for Prevention and Treatment of Substance Abuse (A)	93.959	N/A	\$6,945	\$6,945		\$6,945
<b>US Dept of Hlth/Human Serv Subtotal</b>					<b>\$0</b>	<b>\$6,945</b>	<b>\$6,945</b>		
<b>Total Federal Awards Expended</b>					<b>\$0</b>	<b>\$1,774,589</b>	<b>\$1,774,589</b>		

## **Notes to the Schedule of Expenditures of Federal Awards**

### **NOTE 1 - BASIS OF ACCOUNTING**

The Schedule of Expenditures for 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 - PROGRAM COSTS/MATCHING CONTRIBUTIONS**

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

### **NOTE 3 - NON CASH AWARDS**

The amount of commodities reported on the schedule is the value of commodities distributed by the District during the current year. No other non cash awards were received by the district.

### **NOTE 4 - SCHOOLWIDE PROGRAMS**

The district did not operate any schoolwide programs.

### **NOTE 5 - TRANSFERABILITY**

The district did not transfer any funds between programs as allowed by federal regulations.

### **NOTE 6 - SMALL RURAL SCHOOLS ACHIEVEMENT (SRSA)**

The district is not eligible for SRSA.

### **NOTE 7 - NOT AVAILABLE (N/A)**

The district was unable to obtain other identification number.

### **NOTE 8 - FEDERAL INDIRECT RATE**

The district used the federal restricted rate.





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

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

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.

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**Doug Cochran**  
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# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## **Anacortes School District No. 103 September 1, 2007 through August 31, 2008**

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 Anacortes School District. The State Auditor's Office has reviewed the information as presented by the District.

<b>Finding reference number:</b> 1	<b>Finding caption:</b> Anacortes School District lacked adequate internal controls and did not comply with federal requirements over its Safety Net funds.
<b>Name, address, and telephone of auditee contact person:</b> Lisa Matthews, Business and Finance Director 2200 M Ave Anacortes, WA 98221 (360) 293-1200	
<b>Corrective action the auditee plans to take in response to the finding:</b>  Anacortes School District concurs with the finding that the district did not notify OSPI when the safety net special education students left the district to determine if an award adjustment was necessary.  In response to three of the four students, the district had a contract with the Educational Service District No. 189 for the educational services provided at the Cypress Island location of Secret Harbor. The contract was not a per student charge from the Educational Service District No. 189 and the Anacortes School District was obligated to pay the entire contract. The districts interpretation at the time was that the withdrawal of the three students did not reduce the costs the district was obligated to.  Subsequently, the District has done the following: <ol style="list-style-type: none"> <li>1. Secret Harbor facility on Cypress Island was closed August 31, 2008.</li> <li>2. The District has changed the process of communication between the Special Services department and Business Office to ensure notification is given to OSPI for any future students that withdraw from the district if they had related safety net awards.</li> <li>3. The District has not yet claimed any current year expenditures for safety net awards received to allow for recovery of funds by OSPI, if deemed necessary.</li> </ol>	
<b>Anticipated date to complete the corrective action:</b> 05-06-09	