

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

Lake Washington School District No. 414
King County

Audit Period
September 1, 2007 through August 31, 2008

Report No. 1001422

Issue Date
May 18, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

May 18, 2009

Board of Directors
Lake Washington School District No. 414
Redmond, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Lake Washington School District No. 414'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

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King County
September 1, 2007 through August 31, 2008**

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Federal Summary

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

The results of our audit of Lake Washington School District No. 414 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 of the governmental activities, each major fund, and the aggregate remaining fund information.

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 findings that are 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>
84.010	Title I Part A
84.027/173	Special Education Cluster (IDEA)
93.600	Head Start

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

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

1. Lake Washington School District No. 114 did not comply with the allowable activities of its federal Special Education grant.

CFDA Number and Title:	84.027/173 Special Education Cluster
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	302193
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$658,435

Background

The District spent \$4,474,134 in its federal Special Education program (Individuals with Disabilities Education Act) in fiscal year 2008. The purpose of the grant is to ensure public special education services are available to children who qualify for them, to provide related services to parents and others and to assess and ensure the effectiveness of Special Education programs.

Description of Condition

During fiscal year 2008, the District was reimbursed \$658,435 for payments to a contractor to deliver services to children from birth to two years. The federal Special Education Grant does not cover costs for students ages birth to two.

Cause of Condition

The District erroneously coded the charges to the federal Special Education Grant instead of the state Special Education Grant because it did not have internal controls in place to ensure Special Education costs were allowable before claiming them for reimbursement.

Effect of Condition and Questioned Costs

The District was reimbursed \$658,435 for activities that were unallowable. We are questioning this amount.

Recommendation

We recommend the District:

- Establish and follow internal controls to ensure costs are correctly coded and claimed.

- Consult with the Office of Superintendent of Public Instruction about repayment of questioned costs.

District's Response

Lake Washington School District concurs with the finding. A purchase order for our birth to two contract was entered with an input error for the wrong program code. Internal procedures have been revised to ensure that this does not happen again. The district can prove equitable offset for these expenses and will be working with OSPI to do so.

Auditor's Remarks

We appreciate the District's commitment to resolving the issue. We will review the status during the next audit.

Applicable laws and Regulations

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

1. Factors affecting allowability of costs. 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 . . .

(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 . . .

(j) Be adequately documented.

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

Section 300 Auditee responsibilities.

The auditee shall:

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

Schedule of Federal Audit Findings and Questioned Costs

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

2. Lake Washington School District did not comply with requirements for its Title I Grant.

CFDA Number and Title:	84.010 Title I Grants to Local Educational Agencies
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:	221402
Questioned Cost Amount:	\$0

Background

The District spent \$1,215,213 in its Title I program (CFDA 84.010) in fiscal year 2008. The Title I program is designed to improve the teaching and learning of children at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families.

Description of Condition

Paraprofessionals

Each paraprofessional who works in a program supported with Title I, Part A funds must meet specific qualifications. A paraprofessional is considered highly qualified if he or she has obtained a high school diploma and meets one of these requirements:

- Completed at least two years of study at an institution of higher education.
- Obtained an associate's or higher degree.
- Passed a formal state or local academic assessment test on their knowledge and ability to assist in instructing specific curriculum.

During our audit, we found the District's internal control did not include confirming that paraprofessionals had graduated from high school or obtained a GED. The District does not request transcripts, diplomas or GED certificates, or ask the employee to certify his or her status when submitting a job application. During our audit, the District was unable to demonstrate that two of 11 paraprofessionals working in the Title I program obtained a high school diploma.

Teachers

School Districts must report the status of its highly qualified teachers to the Office of the Superintendent of Public Instruction (OSPI) by April 30 each year. During the audit, we found the District did not include 11 of 13 Title I teachers in its annual report to OSPI.

Cause of Condition

The District was unaware it is required to ensure paraprofessionals had high school diplomas. Although the District was aware of the reporting requirements, it did not have internal controls in place to verify all teachers were reported to OSPI.

Effect of Condition

The District paid two employees \$17,978.35 from Title I funds without evidence they met the requirements for paraprofessionals. Subsequent to our audit, the District verified the paraprofessionals earned at least a high school diploma.

The District did not report highly qualified teachers to OSPI. As a result, OSPI did not have this information when making program-related decisions and did not include these individuals in its report to the U.S. Department of Education.

Recommendation

We recommend the District establish controls to ensure all paraprofessionals meet the federal requirements and it reports highly qualified teachers to OSPI.

District's Response

Lake Washington School District concurs with the finding. Internal procedures have been revised to ensure that copies of high school diplomas/GED are obtained and provided. We are also updating our reporting of highly qualified teachers to the state.

Auditor's Remarks

We appreciate the District's commitment to resolving the issue. We will review the status during the next audit.

Applicable laws and Regulations

Title 34, Code of Federal Regulations, Section 200.58 - Qualifications of paraprofessionals, states:

- (a) Applicability. (1) An LEA must ensure that each paraprofessional who is hired by the LEA and who works in a program supported with funds under subpart A of this part meets the requirements in paragraph (b) of this section and, except as provided in paragraph (e) of this section, the requirements in either paragraph (c) or (d) of this section.
- (b) All paraprofessionals. A paraprofessional covered under paragraph (a) of this section, regardless of the paraprofessional's hiring date, must have earned a secondary school diploma or its recognized equivalent.
- (c) New paraprofessionals. A paraprofessional covered under paragraph (a) of this section who is hired after January 8, 2002 must have—

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

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

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

(A) Reading/language arts, writing, and mathematics; or

(B) Reading readiness, writing readiness, and mathematics readiness.

(ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.

(d) Existing paraprofessionals. Each paraprofessional who was hired on or before January 8, 2002 must meet the requirements in paragraph (c) of this section no later than January 8, 2006.

(e) Exceptions. A paraprofessional does not need to meet the requirements in paragraph (c) or (d) of this section if the paraprofessional—

(1)(i) Is proficient in English and a language other than English; and

(ii) Acts as a translator to enhance the participation of limited English proficient children under subpart A of this part; or

(2) Has instructional-support duties that consist solely of conducting parental involvement activities.

Note: As provided in letters from the U.S. Department of Education Secretary and the Assistant Secretary for Elementary and Secondary Education, dated October 21, 2005, and March 21, 2006, respectively . . . , most States have negotiated a plan to come into compliance with the highly qualified teacher requirements by the end of the 2006-07 school year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300 Auditee responsibilities, 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 the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Office of Superintendent of Public Instruction (OSPI) Bulletin No.012-08 Title II Part A states in part:

The deadline for school district HQT and Title I paraeducator data reporting to the Office of Superintendent of Public Instruction (OSPI) is scheduled for April 30, 2008. It is important that all data be reported in a timely manner to ensure state and school district compliance with NCLB requirements for reporting to the U.S. Department of Education.

Highly Qualified Teacher (HQT) Data Collection

The following data will be requested for the HQT and Paraeducator Data Collection Reporting for the 2007–08 school year.

Section I: Teacher Data

- A. The total number of teachers who teach core academic classes.
- B. The total number of core academic classes taught by teachers.
- C. The number of teachers who DO NOT MEET the highly qualified requirements.
- D. The number of core academic classes taught by teachers who DO NOT MEET the highly qualified requirements.
- E. The number of core academic teachers who hold an emergency certificate.
- F. The number of core academic teachers who hold a conditional certificate.

Section II: Teachers not meeting HQT Requirements

If at least one class is taught by a teacher not meeting HQT requirements, the following information is requested:

1. The teacher's certificate number, school name, teaching assignment, program (i.e., general education, special education, alternative education, bilingual education, juvenile institution), core academic subject area in which the teacher does not meet highly qualified requirements.
2. The number of core academic subject area classes taught by the teacher in the core academic subject area in which the teacher does not meet the HQT requirement.
3. NEW Data Request: The total number of classes taught by all teachers in the core academic subject area or areas in which one or more teachers have been reported as not meeting HQT requirements. See example below.

Section III: Title I Paraeducator Data

Data reporting for paraeducators is by district level in the following areas:

1. The total number of paraeducators in the district required to meet the Title I requirements due to funding by Title I or employed in a Title I schoolwide program and who assist with instruction in reading, writing, and mathematics.
2. Of the total number of paraeducators required to meet the Title I requirements, the number of paraeducators who actually do.

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

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

Board of Directors
Lake Washington School District No. 414
Redmond, Washington

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lake Washington School District No. 414, King County, Washington, as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 26, 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 opinions 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

February 26, 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

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

Board of Directors
Lake Washington School District No. 414
Redmond, Washington

COMPLIANCE

We have audited the compliance of Lake Washington School District No. 414, King 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 instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2.

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 as Finding 1 and 2 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 controls 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

February 26, 2009

Independent Auditor's Report on Financial Statements

Lake Washington School District No. 414 King County September 1, 2007 through August 31, 2008

Board of Directors
Lake Washington School District No. 414
Redmond, Washington

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lake Washington School District No. 414, King County, Washington, as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed on page 14. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lake Washington School District No. 414, as of August 31, 2008, and the respective changes in financial position, and the respective budgetary comparison for the General and Associated Student Body funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

The management's discussion and analysis on pages 15 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. 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*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 26, 2009

Financial Section

**Lake Washington School District No. 414
King County
September 1, 2007 through August 31, 2008**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2008

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2008

Statement of Activities – 2008

Balance Sheet – Governmental Funds – 2008

Reconciliation – Balance Sheet/Statement of Net Assets – 2008

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2008

Reconciliation – Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities – 2008

Budgetary Comparison Statement – General Fund – 2008

Budgetary Comparison Statement – Special Revenue Fund (Associated Student Body Fund) – 2008

Statement of Fiduciary Net Assets – Fiduciary Funds – 2008

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2008

Notes to the Financial Statements – 2008

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2008

Notes to the Schedule of Expenditures of Federal Awards – 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Lake Washington School District No. 414's financial performance provides an overview of the district's financial activities for the fiscal year ended August 31, 2008.

FINANCIAL HIGHLIGHTS

- The district's Statement of Net Assets reports net assets of \$389 million as of August 31, 2008.
- During the year, the district had revenues that were \$23 million higher (before special items) than the \$232 million in expenses incurred for all governmental activities.
- The general fund reported an increase in fund balance of \$3,143,345 for the fiscal year.
- The average student enrollment decreased by 70 full time equivalent students (FTE's) over the previous year.
- The district sold Unlimited Tax General Obligation Bonds totaling \$80,000,000 Refunding on November 18, 2008.
- The district's portion of impaired investments within the King County Investment Pool during the year resulted in a loss allocation of \$4.9 million.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the district as a whole and present a longer-term view of the district finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statement section also reports the district's operations in more detail than the government-wide statements by providing information about the district's most significant funds. The remaining statements provide financial information about activities for which the district acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

Our analysis of the district as a whole begins with the government-wide financial statements. The Statement of Net Assets and Statement of Activities report information about the district as a whole and about its activities in a way that helps determine whether the district is better off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the district's net assets and changes in them. The district's net assets (the difference between assets and liabilities) may be viewed as one way to measure the district's financial health, or financial position. Over time increases or decreases in the district's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the district's property tax base and the student enrollment, to assess the overall health of the district.

In the Statement of Net Assets and the Statement of Activities, the district's governmental activities are detailed. Most of the district's basic services are reported here, including the general fund, associated student body fund, debt service fund, capital projects fund, and the transportation vehicle fund.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Fund Financial Statements

The governmental fund financial statements detail the district's major funds. The focus is on the major funds, not the district as a whole. Some of the funds are required to be established by State law.

Most of the district's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district's general education and support operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. The relationship between governmental activities reported in the Statement of Net Assets and the Statement of Activities and the governmental funds is provided in both of the reconciliation statements and Note 13.

THE DISTRICT AS A WHOLE

The government-wide financial statements uses the full accrual basis of accounting. Comparisons are made with prior years. Included is an analysis on the net assets (Table 1) and changes in net assets (Table 2) of the district's governmental activities.

Net assets serves as a useful indicator of a government's financial position. The Lake Washington School District's assets exceeded liabilities by \$389,556,360 at the end of the 2007-2008 fiscal year.

The largest portion (43%) of net assets is the investment in capital assets (e.g., land, building, and equipment), less any related outstanding debt used to acquire those assets. The district continues to build and modernize various schools to meet student needs. These assets are not available for future spending. Resources required to repay this debt comes from property tax levies. Fifty percent of the net assets represents resources that are subject to external restrictions on their use.

The remaining unrestricted net assets (7%) represents the amount that can be used to finance day-to-day operations without such constraints as debt covenants, legislation, or other legal requirements.

Table 1
Net Assets

	<u>2007-2008</u>	<u>2006-2007</u>
Current and Other Assets	\$251,565,232	\$184,315,623
Capital Assets	454,520,910	431,203,715
Total Assets	<u>\$706,086,142</u>	<u>\$615,519,338</u>
Long-Term Debt Outstanding	\$301,560,238	\$236,116,201
Other Liabilities	14,969,544	12,862,373
Total Liabilities	<u>\$316,529,782</u>	<u>\$248,978,574</u>
Net Assets:		
Invest in Cap. Assets, Net of Debt	\$169,285,910	\$207,268,715
Restricted	194,425,424	134,006,849
Unrestricted	25,845,026	25,265,200
Total Net Assets	<u>\$389,556,360</u>	<u>\$366,540,764</u>

The 2007-2008 revenues of \$255 million exceeded expenditures of \$232 million by \$23 million. The net assets of the district's governmental activities increased by \$23 million, which is a 6% increase during the year.

Table 2
Changes in Net Assets

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2007-2008</u>	<u>2006-2007</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 13,803,701	\$ 13,395,973
Operating Grants and Contributions	43,564,432	36,136,979
Capital Grants and Contributions	3,511,953	1,540,065
General Revenues:		
Property Taxes	83,772,100	80,584,032
Interest and Investment Earnings	3,999,298	6,921,510
Other Revenues	106,280,270	109,268,184
Total Revenues	<u>\$254,931,754</u>	<u>\$247,846,743</u>
Program Expenses:		
Regular Instruction	\$120,771,002	\$119,489,542
Special Instruction	24,979,165	20,426,763
Vocational Instruction	4,277,103	4,402,554
Compensatory Education	15,505,691	14,665,353
Other Instructional Programs	4,234,265	3,479,942
Community Services	2,302,659	2,091,058
Support Services	45,017,344	44,760,891
Extracurricular Activities(ASB)	2,935,646	3,135,145
Debt Payment		
	11,893,283	10,111,737
Total Expenses	<u>\$231,916,158</u>	<u>\$222,562,985</u>
Excess (Deficiency) Before Special Items	\$23,015,596	\$25,283,758
Special Items	0	0
Increase (Decrease) In Net Assets	\$23,015,596	\$25,283,758
Net Assets, Beginning of Year	366,540,764	341,257,006
Net Assets, End of Year	<u>\$389,556,360</u>	<u>\$366,540,764</u>

Governmental Activities

The cost of each of the district's largest programs – basic instruction, special instruction, vocational instruction, compensatory instruction, other instructional programs, and support services, as well as, each program's net cost (total cost less revenues generated by the activities) is illustrated in Table 3. The net cost shows the financial impact upon each of these functions.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007-2008	2006-2007	2007-2008	2006-2007
Regular Instruction	\$120,771,002	\$119,489,542	\$116,980,592	\$116,947,440
Special Instruction	24,979,165	20,426,763	5,231,301	5,487,113
Vocational Instruction	4,277,103	4,402,554	3,993,024	4,155,186
Compensatory Instruction	15,505,691	14,665,353	16,833	1,387,987
Other Instructional Programs	4,234,265	3,479,942	-235,261	- 407,329
Support Services	45,017,344	44,760,891	32,338,875	32,839,489
All Others	\$ 17,131,588	\$ 15,337,940	\$ 12,710,708	\$ 11,080,082
Totals	<u>\$231,916,158</u>	<u>\$222,562,985</u>	<u>\$171,036,072</u>	<u>\$171,489,968</u>

THE DISTRICT FUNDS

As the district completed the fiscal year, its governmental funds (as presented in the balance sheets under the governmental financial statement section) reported a combined fund balance of \$190.4 million, which is higher than last year's total by \$63.3 million. This increase is primarily due to an increase in capital spending and an \$80 million bond sale during the year. The fund balance in the general fund increased by 3 million.

Table 4 presents a summary of the governmental fund's revenues and expenditures for 2007-08 and the percentage increases/decreases in relation to the prior year.

Table 4
Government Fund Revenues and Expenditures

	2007-08 Amounts	Percent of Total	Increase (Decrease) Over 2006-07	Percent Increase (Decrease)
Revenues:				
Local Tax/Non-Tax	\$101,525,862	40.14%	\$ 3,166,158	3.22%
State Revenues	139,534,466	55.17%	4,150,966	3.07%
Federal Revenues	9,078,427	3.59%	424,883	4.91%
Other Revenues	2,783,215	1.10%	25,763	.93%
Total Revenues	<u>\$252,921,970</u>	<u>100.00%</u>	<u>\$ 7,767,770</u>	<u>3.17%</u>
Expenditures:				
Regular Instruction	\$112,170,361	40.78%	\$ 1,107,193	1.00%
Special Instruction	23,200,287	8.43%	4,214,015	22.20%
Vocational Instruction	3,972,511	1.44%	-119,576	-2.92%
Compensatory Instruct.	14,401,461	5.24%	770,305	5.65%
Other Instructional Prog.	3,932,724	1.43%	698,186	21.59%
Community Services	2,144,722	.78%	195,275	10.02%
Support Services	42,151,543	15.32%	172,788	.41%
Student Services	2,734,294	.99%	-188,532	-6.45%
Capital Outlay	38,488,769	13.99%	17,338,033	81.97%
Debt Service	31,882,696	11.60%	6,243,965	24.35%
Total Expenditures	<u>\$275,079,368</u>	<u>100.00%</u>	<u>\$30,431,652</u>	<u>12.44%</u>

General Fund

Expenditures in the general fund amounted to \$196,205,569 for the fiscal year ended August 31, 2008, which was an increase of 4.36% percent. This small increase in expenditures and actual fund balance exceeding budgeted fund balance by \$4,979,143 is due primarily to wage increases and tight budgetary controls by management.

Special Revenue Fund (ASB)

The ASB (Associated Student Body) fund is established for the purpose of supporting extra-curricular student activities. The funds are generated through students' fund raising events, student fees, and donations.

Changes in the ASB fund balance for the fiscal year ended August 31, 2008 is detailed in Table 5.

Table 5
ASB Recap

	08/31/07 Fund Balance	Revenues	Transfers	Expenditures	08/31/08 Fund Balance
General	\$ 780,215	\$1,786,189	\$- 510,836	\$1,316,325	\$ 739,243
Athletics	14,828	259,947	462,190	729,090	7,875
Classes	93,551	221,206	- 54,297	203,316	57,144
Clubs	193,865	343,857	102,249	448,215	191,756
Private	2,332	35,810	694	37,348	1,488
	<u>\$1,084,791</u>	<u>\$2,647,009</u>	<u>\$ 0</u>	<u>\$2,734,294</u>	<u>\$ 997,506</u>

Capital Projects Fund

The proceeds from the sales of unlimited general obligation bonds, capital levies, and state matching monies for construction of major capital facilities are accounted for in the Capital Projects Fund. Capital assets are capitalized and depreciated in the government-wide statement of net assets and statement of activities. The district continues to build and modernize schools to meet the needs of its students.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the payment of general long-term debt principal, interest, and related expenditures. This fund receives its revenues from property tax levies, interest earnings, and bond sale proceeds.

Transportation Vehicle Fund

The transportation vehicle fund is used for the purchase, major repair, rebuilding, and related debt service incurred for pupil transportation equipment. This fund receives its revenues from the state allocation of depreciation on district owned vehicles, special levies, and investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The district has \$603 million invested in land, buildings, transportation equipment, and other equipment as of August 31, 2008. This is an increase from the previous fiscal year of \$37 million.

Table 6 shows the various components of the district's capital assets.

Table 6
Capital Assets – 08/31/08
(In Millions)

	Historical Cost	Accumulated Depreciation	Book Value
Land	\$ 20.4		\$ 20.4
Buildings and Improvements	550.8	\$140.9	409.9
Equipment	15.7	7.5	8.2
Construction in Progress	16.0		16.0
Totals	<u>\$602.9</u>	<u>\$148.4</u>	<u>\$454.5</u>

This year's major construction additions included (in millions):

Carson Elementary (152)	\$ 17.9
Alcott Elementary (153)	1.1
Inglewood Junior (374)	1.0
Lake Washington High (484)	5.3
Frost Elementary (125)	<u>3.0</u>
	<u>\$28.3</u>

Note 6 to the financial statements provides additional capital asset information.

Debt

The district had bonds outstanding totaling \$285.2 million as of August 31, 2008. This is an increase of \$61.3 million from the previous fiscal year. The debt amount outstanding per issue is disclosed in the notes to these financial statements.

The district is rated by two bond rating companies and the district's bonds are rated Aa1 and AA by the respective rating companies.

The Lake Washington School District belongs to the Washington Schools Risk Management Pool which provides property and liability coverages. Other district obligations include unemployment, vision, other reserve benefits, industrial insurance, and compensated absences. More detailed information can be found in the Note 9 to these financial statements.

ECONOMIC FACTORS

The 2008-2009 governmental funds' appropriation for the district was set at \$343 million. The property tax rates are set at \$2.22 per thousand dollars of assessed value.

The Lake Washington School District encompasses an area of 75 square miles and is located on the northeast side of Lake Washington in King County. The District is situated northeast of the city of Seattle and north of the city of Bellevue. Most of the cities of Redmond and Kirkland, approximately half of the city of Sammamish, and small portions of Bellevue, Woodinville, Bothell and Kenmore are encompassed by the District. The remainder of the District lies in the unincorporated King County. This area continues to grow, and includes a portion of the "high-tech corridor" in the northern portion of King County and south Snohomish County.

The economy is diverse and growing. Redmond has the highest concentration of high-technology employers in the State with some of the largest companies in the country. Some of the major employers would include Microsoft, Evergreen Community Health Care, , Cingular Wireless Services, Group Health Eastside Hospital, Honeywell International, Inc., Eddie Bauer, Inc., Nintendo of America, United Parcel Service, Medtronic Physio-Control, Genie Industries, Volt Technical Services LLC, Evergreen Healthcare, Redmond Town Center, Kenworth Trucking, Airojet, PACCAR, Marriott Hotel, Google, Costco, Totem Lake Mall, and the Lake Washington Technical College.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the district's finances. If you have questions about this report or need additional financial information, contact the district's administration office at 16250 N.E. 74th Street, Redmond, Washington.

Lake Washington School District No. 414
Statement of Net Assets
08/31/08

	<u>Primary Governmental Activities</u>
Assets	
Cash & Cash Equivalents	\$205,393,531
Property Tax Receivable	41,459,601
Accounts Receivable, Net	749,130
Due From Other Gov't. Units	936,726
Inventories at Cost	543,132
Prepaid Items	1,392,714
Capital Assets, Net of Accum. Depn.:	
Land	20,397,529
Buildings & Improvements	409,909,336
Equipment	8,205,494
Construction-in-Progress	16,008,551
Unamortized Bond Issue Costs	1,090,398
Total Assets	<u><u>\$706,086,142</u></u>
Liabilities	
Accounts Payable	\$7,552,594
Accrued Wages & Benefits Pay.	5,033,541
Deferred Revenue	2,383,409
Long-Term Liabilities:	
Due Within One Year	19,357,000
Due In More Than One Year	273,447,860
Unamortized Debt Premium/Discount	8,755,378
Total Liabilities	<u><u>\$316,529,782</u></u>
Net Assets	
Invested In Capital Assets, Net of Related Debt	\$169,285,910
Restricted For:	
Capital Projects	167,031,514
Debt Service	26,396,404
Other Purposes (Special Revenue/ASB)	997,506
Unrestricted	25,845,026
Net Assets	<u><u>\$389,556,360</u></u>

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Statement of Activities
08/31/08

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Governmental Activities
Primary Government: Governmental Activities:					
Regular Instruction	\$120,771,002	\$1,482,532	\$274,396	\$2,033,482	(\$116,980,592)
Special Instruction	24,979,165	13	19,327,264	420,587	(5,231,301)
Vocational Instruction	4,277,103	46,658	165,405	72,016	(3,993,024)
Compensatory Education	15,505,691	8,353	15,219,428	261,077	(16,833)
Other Instructional Programs	4,234,265	2,528,476	1,869,756	71,294	235,261
Community Services	2,302,659	1,773,871			(528,788)
Support Services	45,017,344	5,316,789	6,708,183	653,497	(32,338,875)
Extracurricular Activities(ASB)	2,935,646	2,647,009			(288,637)
Int. Paymt. On L/T Debt	11,893,283				(11,893,283)
Total Governmental Activities	\$231,916,158	\$13,803,701	\$43,564,432	\$3,511,953	(\$171,036,072)

General Revenues:

Property Taxes, Levies for Maintenance and Operations	\$38,167,079
Property Taxes, Levies for Debt Service	29,855,858
Property Taxes, Levies for Capital Projects	15,749,323
Property Taxes, Levies for Transportation Vehicle	(160)
Unallocated State Apportionment & Others	105,943,787
Interest and Investment Earnings	3,999,298
Gain (Loss) on Disposition of Property & Equipment	336,483
Total General Revenues & Special Items	\$194,051,668

Changes in Net Assets	\$23,015,596
Beginning Net Assets	366,540,764
Ending Net Assets	\$389,556,360

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
 Balance Sheet
 Government Funds
 08/31/08

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Project Fund	Transportation Vehicle Fund	Total Government Funds
Assets						
Cash and Cash Equivalents	\$25,057,839	\$1,540,458	\$11,559,407	\$164,644,131	\$2,591,696	\$205,393,531
Property Taxes Receivable	18,832,670		14,809,454	7,816,856	621	41,459,601
Accounts Receivable, Net	274,988	2,967	27,543	437,449	6,183	749,130
Due From Other Funds	458,486	2,996		62,783		524,265
Due From Other Gov't Units	911,755			24,971		936,726
Inventories at Cost	543,132					543,132
Prepaid Items	803,699	39,925		549,090		1,392,714
Total Assets	\$46,882,569	\$1,586,346	\$26,396,404	\$173,535,280	\$2,598,500	\$250,999,099
Liabilities						
Accounts Payable	\$1,601,420	\$31,032		\$5,920,142		\$7,552,594
Accrued Wages & Benefits Pay.	8,673,605					8,673,605
Due To Other Funds	65,778	765		457,722		524,265
Deferred Revenue	20,533,135	557,042	\$14,809,454	7,942,758	\$621	43,843,010
Total Liabilities	\$30,873,938	\$588,839	\$14,809,454	\$14,320,622	\$621	\$60,593,474
Fund Balances						
Reserve for Inventory	\$950,000					\$950,000
Reserve for Other Items	3,640,660					3,640,660
Unreserved Fund Balance	11,417,971	\$997,507	\$11,586,950	\$159,214,658	\$2,597,879	185,814,965
Total Fund Balances	\$16,008,631	\$997,507	\$11,586,950	\$159,214,658	\$2,597,879	\$190,405,625
Total Liab. & Fund Balances	\$46,882,569	\$1,586,346	\$26,396,404	\$173,535,280	\$2,598,500	\$250,999,099

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Reconciliation
Balance Sheet/Statement of Net Assets
08/31/08

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash and Cash Equivalents	\$205,393,531			\$205,393,531
Property Taxes Receivable	41,459,601			41,459,601
Accounts Receivable, Net	749,130			749,130
Due From Other Funds	524,265		(\$524,265)	0
Due From Other Gov't Units	936,726			936,726
Inventories at Cost	543,132			543,132
Prepaid Items	1,392,714			1,392,714
Capital Assets, Net		\$454,520,910		454,520,910
Unamortized Bond Issue Costs		1,090,398		1,090,398
Total Assets	\$250,999,099	\$455,611,308	(\$524,265)	\$706,086,142
Liabilities				
Accounts Payable	\$7,552,594			\$7,552,594
Accrued Wages & Benefits Pay.	8,673,605	(\$3,640,064)		5,033,541
Due To Other Funds	524,265		(\$524,265)	0
Deferred Revenue	43,843,010	(41,459,601)		2,383,409
Long-Term Liabilities		301,560,238		301,560,238
Total Liabilities	\$60,593,474	\$256,460,573	(\$524,265)	\$316,529,782
Fund Balances/Net Assets	\$190,405,625	\$199,150,735		\$389,556,360
Total Liab & Fund Bal./Net Assets	\$250,999,099	\$455,611,308	(\$524,265)	\$706,086,142

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Statement of Revenues, Expenditures, and Changes in Fund Balances
Government Funds
08/31/08

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Revenues						
Local	\$51,243,125		\$29,549,965	\$20,685,124	\$47,648	\$101,525,862
State	138,787,060			59,534	687,872	139,534,466
Federal	9,078,427					9,078,427
Miscellaneous	136,206	\$2,647,009				2,783,215
Total Revenues	\$199,244,818	\$2,647,009	\$29,549,965	\$20,744,658	\$735,520	\$252,921,970
Expenditures						
Regular Instruction	\$112,170,361					\$112,170,361
Special Instruction	23,200,287					23,200,287
Vocational Instruction	3,972,511					3,972,511
Compensatory Instruction	14,401,461					14,401,461
Other Instructional Programs	3,932,724					3,932,724
Community Services	2,144,722					2,144,722
Support Services	36,048,022			\$6,103,521		42,151,543
Student Services		\$2,734,294				2,734,294
Capital Outlay	335,481			38,153,288		38,488,769
Debt Service-Principal			\$18,700,000			18,700,000
Debt Service-Interest & Other			12,582,634	600,062		13,182,696
Total Expenditures	\$196,205,569	\$2,734,294	\$31,282,634	\$44,856,871	\$0	\$275,079,368
Revenues Over (Under) Exp.	\$3,039,249	(\$87,285)	(\$1,732,669)	(\$24,112,213)	\$735,520	(\$22,157,398)
Other Financing Sources (Uses)						
Sale of Real Property				\$1,000		\$1,000
Sale of Equipment	\$104,096			11,136		115,232
Compensated Loss Of Cap. Assets				766,651		766,651
Sale of Bonds			\$3,944,053	80,600,097		84,544,150
Total Other Financing Sources(Uses)	\$104,096	\$0	\$3,944,053	\$81,378,884	\$0	\$85,427,033
Net Change in Fund Balance	\$3,143,345	(\$87,285)	\$2,211,384	\$57,266,671	\$735,520	\$63,269,635
Beginning Fund Balance	12,865,286	1,084,792	9,375,566	101,947,987	1,862,359	127,135,990
Ending Fund Balance	\$16,008,631	\$997,507	\$11,586,950	\$159,214,658	\$2,597,879	\$190,405,625

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Reconciliation
Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities
08/31/08

	Total Governmental Funds	Long-Term Revenue, Expenditures	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
Revenues & Other Sources					
Property Taxes	\$101,525,862	\$1,673,302			\$103,199,164
State	139,534,466				139,534,466
Federal	9,078,427				9,078,427
Miscellaneous	2,783,215				2,783,215
Loss in Disposition of Fixed Assets			(\$546,400)		(546,400)
Sale or Comp. of Fixed Assets	882,883				882,883
Sale of Bonds	84,544,150			(\$84,544,150)	0
Total Revenues & Other Sources	\$338,349,003	\$1,673,302	(\$546,400)	(\$84,544,150)	\$254,931,755
Expenditures					
Current:					
Regular Instruction	\$112,170,361	\$340,445	\$8,260,196		\$120,771,002
Special Education	23,200,287	70,415	1,708,463		24,979,165
Vocational Instruction	3,972,511	12,057	292,535		4,277,103
Compensatory Education	14,401,461	43,710	1,060,520		15,505,691
Other Instructional Programs	3,932,724	11,936	289,605		4,234,265
Community Services	2,144,722		157,937		2,302,659
Support Services	42,151,543	109,408	2,654,567	\$101,826	45,017,344
Student Activities	2,734,294		201,352		2,935,646
Capital Outlay	38,488,769		(38,488,769)		0
Debt Service-Principal	18,700,000			(18,700,000)	0
Debt Service-Interest & Other	13,182,696			(1,289,413)	11,893,283
Other Financial Uses					0
Total Expenditures	\$275,079,368	\$587,971	(\$23,863,594)	(\$19,887,587)	\$231,916,158
Net Change for the Year	\$63,269,635	\$1,085,331	\$23,317,194	(\$64,656,563)	\$23,015,597

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
 Budgetary Comparison Statement
 General Fund
 For the Year Ended August 31, 2008

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
Local	\$49,217,056	\$49,217,056	\$51,243,125	\$2,026,069
State	141,297,840	141,297,840	138,787,060	(2,510,780)
Federal	11,485,947	11,485,947	9,078,427	(2,407,520)
Other	38,439	38,439	136,206	97,767
Total Revenues	\$202,039,282	\$202,039,282	\$199,244,818	(\$2,794,464)
Expenditures:				
Regular Instruction	\$117,234,532	\$117,234,532	\$112,170,361	(\$5,064,171)
Special Education	20,864,729	20,864,729	23,200,287	2,335,558
Vocational Education	3,958,417	3,958,417	3,972,511	14,094
Compensatory Education	16,035,285	16,035,285	14,401,461	(1,633,824)
Other Instructional Programs	5,186,827	5,186,827	3,932,724	(1,254,103)
Community Services	2,089,345	2,089,345	2,144,722	55,377
Support Services	35,691,730	35,691,730	36,044,753	353,023
Capital Outlay:				
Other			338,750	338,750
Debt Service:				
Principal				
Interest				
Total Expenditures	\$201,060,865	\$201,060,865	\$196,205,569	(\$4,855,296)
Excess of Revenues Over (Under) Expenditures	\$978,417	\$978,417	\$3,039,249	\$2,060,832
Other Financing Sources (Uses):				
Sale of Equipment			\$104,096	\$104,096
Total Other Financing Sources (Uses)	\$0	\$0	\$104,096	\$104,096
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	\$978,417	\$978,417	\$3,143,345	\$2,164,928
Beginning Fund Balance	10,051,071	10,051,071	12,865,286	2,814,215
Ending Fund Balance	\$11,029,488	\$11,029,488	\$16,008,631	\$4,979,143

Note: There was no budget revision during the fiscal year 2007-08. The notes to the financial statements are an integral part of this statement.

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

Lake Washington School District No. 414
 Budgetary Comparison Statement
 Special Revenue Fund (Associated Student Body Fund)
 For the Year Ended August 31, 2008

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
General	\$2,501,685	\$2,501,685	\$1,791,594	(\$710,091)
Athletics	256,100	256,100	259,948	3,848
Classes	210,700	210,700	215,801	5,101
Clubs	399,015	399,015	343,856	(55,159)
Private Monies	97,500	97,500	35,810	(61,690)
Total Revenues	\$3,465,000	\$3,465,000	\$2,647,009	(\$817,991)
Expenditures:				
General	\$2,093,727	\$2,093,727	\$1,316,325	(\$777,402)
Athletics	789,384	789,384	729,090	(60,294)
Classes	231,000	231,000	203,316	(27,684)
Clubs	533,957	533,957	448,215	(85,742)
Private Monies	98,500	98,500	37,348	(61,152)
Total Expenditures	\$3,746,568	\$3,746,568	\$2,734,294	(\$1,012,274)
Excess of Revenues Over (Under) Expenditures	(\$281,568)	(\$281,568)	(\$87,285)	\$194,283
Beginning Fund Balance	1,033,222	1,033,222	1,084,792	51,570
Ending Fund Balance	\$751,654	\$751,654	\$997,507	\$245,853

Note: There was no budget revision during the fiscal year 2007-08. The notes to the financial statements are an integral part of this statement.

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

Lake Washington School District No. 414
Statement of Fiduciary Net Assets
Fiduciary Funds
August 31, 2008

	<u>Private- Purpose Trust</u>
Assets	
Cash and Cash Equivalents	\$183,683
Accounts Receivable, Net	<u>238</u>
Total Assets	<u><u>\$183,921</u></u>
Liabilities	
Accounts Payable	<u>\$0</u>
Total Liabilities	<u>\$0</u>
Fund Balance/Net Assets	\$183,921
Total Liab. & Fund Balance/Net Assets	<u><u>\$183,921</u></u>

The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended August 31, 2008

	Private- Purpose Trust
Additions	
Donations	\$107,082
Investment Earnings	1,227
Total Additions	\$108,309
Deductions	
Scholarships	\$11,083
Fees and Materials	
Total Deductions	\$11,083
Change in Net Assets	\$97,226
Net Assets, Beginning of Year	86,695
Net Assets, End of Year	\$183,921

The notes to the financial statements are an integral part of this statement.

LAKE WASHINGTON SCHOOL DISTRICT NO. 414
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 1, 2007 THROUGH AUGUST 31, 2008

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Districtwide and Fund Financial Statements

Information on all of the non-fiduciary activities of the district is reported on the district-wide Statement of Net Assets and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of specific programs or functions are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include 1) charges to individuals or groups who purchase, use, or directly benefit from goods, services, or privileges provided by a program or function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the district receives cash.

In the process of aggregating data for the district-wide Statement of Net Assets and Statement of Activities, the inter-fund receivables and payables within governmental funds were eliminated.

The district reports the following major governmental funds:

General fund

This fund is the district's primary operating fund. It accounts for all financial resources of the district, 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.

Special Revenue Fund (Associated Student Body Fund)

This fund is used to account for the extracurricular fees and resources collected in fund-raising events for students. Disbursements require the joint approval of the appropriate student body organization and the district's board of directors. This fund is accounted for as a special revenue fund since the financial resources legally belong to the Lake Washington School District.

Debt Service Fund

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

Capital Projects Fund

These funds account for financial resources to be used for the acquisition of major capital assets. The district has two capital projects funds, both are reported as major funds.

Capital Projects Fund – This fund is used to account for the 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.

Fiduciary Funds

Trust funds are used to account for assets held by the district in a trustee capacity.

Private-Purpose Trust Fund – This fund is used to account for resources legally held in trust to benefit individuals or private organizations. All resources of the fund, including any earnings on invested resources, may be used to support the trust arrangements.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The district's cash is held and controlled by the King County Treasurer as prescribed by Washington State law. The district uses the Bank of New York as its fiscal agent for bond principal and coupon redemption.

The district's cash and cash equivalents are considered to be cash on hand, funds invested in the King County Investment Pool, and warrants outstanding.

2. Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. The Revised Code of Washington 84.60.020 fixes the tax assessment date of January 1 of the calendar year of collection. 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. In governmental fund financial statements, property tax revenue, which is measurable but not available (taxes that are not expected to be collected within 60 days after the end of the period ended August 31), is recorded as a receivable and a deferred revenue. In district-wide financial statements, property tax revenue is accrued at year-end.

3. Accounts Receivable

This account represents amounts due for services rendered by the district, net of allowance for doubtful accounts.

4. Due From/To Other Funds

Interfund receivables and payables and the associated revenues and expenditures/expenses are recorded in the respective funds in governmental fund financial statements. Interfund receivables and payables are eliminated in government-wide financial statements, except for fiduciary funds.

5. Due From Other Governments

This account represents receivables for federal, state, and local grants. Grant revenues are recorded in the year in which the related expenditures are incurred.

6. Inventories and Prepaid Items

Inventories are valued at cost either using the weighted average method perpetual inventory system or first-in, first-out (FIFO) method for other inventory items. District

inventories are recorded when consumed rather than when purchased. Physical inventories are conducted annually in August. An inventory reserve is established to indicate a portion of the fund balance is not available for future expenditures.

7. Bond Discounts, Premiums, and Issuance Costs

In governmental fund types, bond discounts, premiums, and issuance costs are recognized in the period of issuance. In government-wide financial statements, they are amortized over the life of the bonds.

8. Deferred Revenue

In governmental fund financial statements, deferred revenues consist of receivables such as uncollected property taxes, which are measurable but not yet available. In district-wide financial statements, property taxes are accrued as revenues.

9. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental activity columns in the district-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of \$5,000 or more for equipment and vehicles and an estimated useful life in excess of one year. Buildings and improvements are capitalized. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. In governmental fund financial statements, there is no depreciation for fixed assets. However, depreciation is charged to expenses and allocated to various functions/programs in district-wide financial statements.

Donated capital assets are valued at their estimated fair value on the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Building & Improvements	50 Years
Portables	25 Years
Vehicles	20 Years
Equipment	10 Years

10. Long-Term Liabilities

Long-term liabilities consist of scheduled debt payments and compensated absences.

Debt Payments

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities (in the applicable district activities) on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, district fund types recognize bond premiums and discounts, as well as, bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt expenditures.

Compensated Absences

a. Sick Leave

Full-time employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year. For buy-back purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

Under the provisions of the Revised Code of Washington, sick leave accumulated by district employees is paid at death or retirement at the rate of 25% of each day of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulation of twelve days. To qualify for annual sick buy-back, the employee must have accumulated an excess of 60 days of sick leave as of January 1. Sick leave is reported under long-term liabilities in the Statement of Net Assets. For reporting purposes, 25% of the sick leave liability (up to 180 days) for those eligible for retirement is considered accruable. The amount of accrued sick leave as of August 31, 2008 was \$3,175,211.72 and reported as long-term liabilities in the district-wide financial statements.

b. Vacation Leave

For the employees that receive vacation leave, vacation leave is accrued according to the particular bargaining agreement. Employees are allowed to accrue up to a maximum of 33 days of vacation leave. Vacation pay is recorded as an expenditure at the time of payment which occurs upon usage or upon employee termination. The liability is computed at 100%. The amount accrued for vacation leave as of August 31, 2008 was \$754,583.11 and reported as long-term liabilities in the district-wide financial statements.

11. Net Assets (District-wide Financial Statements)

The “Invested in capital assets, net of related debt” component consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The “Restricted” component reports the assets where constraints are placed on net assets by external laws, regulations, or legislation. Therefore, they are available for disbursements only for specific purposes (i.e., debt service, capital projects, and others). The “Unrestricted” component are assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

12. Fund Balance Reserves (Government Fund Financial Statements)

Reserves represent those portions of the fund balance not appropriate for expenditures or legally segregated for a specific use.

- a. Not appropriate for expenditure. Reserve for Inventory.
- b. Legally segregated for specific future use. Reserves for Gifts & Scholarships (fiduciary funds).
- c. Designated reserves. Self-insurance, budget carryovers, and other cash items that represent tentative plans for future use of financial resources. These plans are subject to changes and may never be legally authorized or result in expenditures.

Note 2: Stewardship, Compliance, and Accountability

Budgetary Information

General Budgetary Policies

Chapter 28A.505 RCW and chapter 392-123 Washington Administrative Code (WAC) mandate school district 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 can not be negative.

Encumbrance accounting is used in the governmental funds. Encumbrances (such as purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be appropriated and honored during the subsequent year.

Note 3: Deposits and Investments

In accordance with state investment laws, the district's governing body has entered into a formal interlocal

Agreement with the district's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of August 31, 2008, the district had the following investments:

<u>Investment Type</u>	<u>Financial Amount</u>	<u>Fair Value Amount</u>	<u>Effective Duration</u>
King County Investment Pool	\$205,577,254	\$202,884,192	0.44 Years

Impaired Investments. As of August 31, 2008, the King County Investment Pool held three commercial paper assets that are impaired and part of enforcement events where a trustee or receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio; and the residual investments in two commercial paper assets that were part of completed enforcement events. The District's share of the pool's impaired assets is \$4,851,186 and the district's unrealized loss for these investments is \$1,218,366.

Interest Rate Risk. As of August 31, 2008, the Pool's average duration was 0.44 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, of no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of August 31, 2008, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Standard & Poor's took this action because they were not able to receive timely information about the impaired investments due to the confidential nature of the various enforcement events and related restructuring proceedings. In compliance with state statutes, Pool policies authorize investments in U. S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSRO's), commercial paper (rated at least the equivalent of "A-1" by two NRSRO's), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Note 4: Receivables

Receivables as of year-end for the district's governmental and fiduciary funds are as follows:

	<u>General</u>	<u>ASB</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Transpor. Vehicle</u>	<u>Private Purpose Trust</u>
Receivables:						
Taxes	\$18,832,670		\$14,809,454	\$7,816,856	\$ 621	
Governmental	911,755			24,971		
Accounts	274,988	\$2,967	27,543	437,449	6,184	\$ 238
Total	<u>\$20,019,413</u>	<u>\$2,967</u>	<u>\$14,836,997</u>	<u>\$8,279,276</u>	<u>\$ 6,805</u>	<u>\$ 238</u>

Government funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

Note 5: Interfund Transactions

As of August 31, 2008, short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in governmental fund financial statements were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 458,486	\$ 65,778
Capital Projects Fund	62,783	457,722
Special Revenue Fund	2,996	765
Total	<u>\$ 524,265</u>	<u>\$ 524,265</u>

The interfund balances are liquidated on a monthly basis.

Note 6: Capital Assets

Purchases of items over \$5,000 for equipment and machinery are capitalized and depreciated in the district-wide financial statements. Buildings and Improvements are capitalized. The capital assets reported on the Statement of Net Assets are reported net of accumulated depreciation.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$16,975,802	\$ 3,421,727		\$ 20,397,529
Construction in Progress	<u>18,146,003</u>		<u>\$2,137,452</u>	<u>16,008,551</u>
Total	<u>\$35,121,805</u>	<u>\$ 3,421,727</u>	<u>\$2,137,452</u>	<u>\$ 36,406,080</u>
Capital Assets, being depreciated:				
Building and Improvements	\$514,628,057	\$36,727,192	\$ 605,090	\$550,750,159
Transportation Equipment	12,704,151		462,550	12,241,601
Other Equipment	<u>3,306,240</u>	<u>477,302</u>	<u>259,397</u>	<u>3,524,145</u>
Total	<u>\$530,638,448</u>	<u>\$37,204,494</u>	<u>\$ 1,327,037</u>	<u>\$566,515,905</u>
Less: Accumulated Depreciation:				
Buildings and Improvements				\$ 140,840,823
Transportation Equipment				5,792,228
Other Equipment				<u>1,768,024</u>
Total				<u>\$148,401,075</u>
Net Depreciated Assets				<u>\$418,114,830</u>
Net Total Assets				<u>\$454,520,910</u>

Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$8,260,196
Special Instruction	1,708,463
Vocational Instruction	292,535
Compensatory Instruction	1,060,520
Other Instruction Programs	289,605
Community Services	157,937
Student Services	201,352
Support Service	<u>2,654,567</u>
Total	<u>\$14,625,175</u>

Construction in Progress is composed of:

	<u>Project Authorization</u>	<u>Construction In Process 08/31/08</u>	<u>Additional Local Funds Committed</u>	<u>Additional State Funds Committed</u>
Frost Elementary	\$ 25,600,000	\$3,909,818	20,185,575	\$ 1,504,607
Lake Washington High	99,000,000	5,695,159	93,042,453	262,388
Finn Hill Junior	53,300,000	165,531	49,487,806	3,646,663
Muir Elementary	26,500,000		24,802,120	1,697,880
WAN Project	<u>9,600,000</u>	<u>6,238,043</u>	<u>3,361,957</u>	<u>0</u>
Total	<u>\$ 214,000,000</u>	<u>\$16,008,551</u>	<u>\$190,879,911</u>	<u>\$ 7,111,538</u>

The district's property valuation of buildings and equipment for insurance purposes is \$533,836,272 on August 31, 2008.

Note 7: Pensions

A. General Information

Substantially all Lake Washington School District full-time and qualifying part-time employees participate in one of the following two contributory, multi-employer, cost-sharing statewide retirement systems managed by The Washington State Department of Retirement Systems (DRS).

The Teachers' Retirement System (TRS) includes certificated staff of 296 public school district employers and other public employers. As of June 30, 2007, it includes 74,367 active and inactive vested members.

The Public Employers' Retirement System (PERS) includes noncertificated staff of 296 public school district employers and other public employers. As of June 30, 2007, it includes 184,605 active and inactive vested members.

The School Employers' Retirement System (SERS) includes noncertificated staff of 296 public school district employers. As of June 30, 2007, it includes 58,499 active and inactive vested members.

The employer contribution rates for PERS, TRS, and SERS are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan 2 in each system is also 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 the system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.35, and 41.32 RCW for PERS, SERS, and TRS respectively.

Plan 3 for TRS was established effective July 1, 1996. This plan is a combination defined benefit, defined contribution plan. The Pension Funding Council establishes employer contribution rates each biennium. The state actuary calculates the rates and the Pension Funding Council adopts the rates for the defined benefit portion of the plan. Employee rates are established each biennium by the Legislature as well. These rates fund the defined contribution portion of the plan.

The new retirement system for school employees, SERS, was established effective September 1, 2000 and includes a Plan 3. This plan is a combination defined benefit, defined contribution plan. The Pension Funding Council establishes employer contribution rates each biennium. The state actuary calculates the rates and the Pension Funding Council adopts the rates, for the defined benefit portion of the plan. The Employee Retirement Benefits Board (ERBB) establishes employee rate choices. These rates fund the defined contribution portion of the plan.

Employee contribution rates for Plans 1, 2, and 3 of each system have been set at rates reflective of amounts that have been appropriated by the state legislature.

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

B. General System Information by Internal Benefit Plans

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

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after five years of credited service and attainment of age 60, or after twenty five years of credited service and attainment of age 55, or after thirty years of credited service.

Plan 2 (employment on or after October 1, 1977) 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 twenty years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Plan 3 (employment on or after July 1, 1996) members of TRS are eligible to retire with full benefits after ten years of credited service and attainment of age 65 or after ten years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Plan 3 (employment on or after September 1, 2000) members of SERS are eligible to retire with full benefits after ten years of credited service and attainment of age 65 or after ten years of credited service and attainment of age 55 with 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 3 TRS and SERS members, it is the greatest 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 provision for 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.

C. 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% (Max.)	

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

Employer contribution rates 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%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (TRS: July 1-June 30, PERS: January 1 – December 31):

Plan	FY 07-08	FY 06-07	FY 05-06
Plan 1 TRS	\$ 592,498	\$ 535,383	\$ 357,849
Plan 2 TRS	531,228	352,661	210,029
Plan 3 TRS	3,951,309	2,986,430	1,655,964
Plan 1 PERS	77,528	43,150	29,437
Plan 2 SERS	434,638	301,163	141,608
Plan 3 SERS	960,977	620,541	265,024

Historical trend information showing TRS and PERS 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
P.O. Box 43113
Olympia, WA. 98504-3113

Note 8: Participation in Interlocal Cooperative

The Lake Washington School District is a member of the King County Director's Association which is an organization formed and owned by school districts in Washington State. The purpose of the cooperative is to purchase supplies, equipment, food and other merchandise at lower prices through volume purchasing.

The members of the cooperative are billed for items purchased at association cost plus an administrative charge. Profits are allocated annually to the member districts based upon comparative administrative charges. No profit distributions have been paid. The Lake Washington School District's accrued ownership at December 31, 2007 was \$355,254.

Note 9: Long-Term Debt

A. Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2008, the following changes occurred in liabilities reported in the district-wide financial statements:

Bonds Payable	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
1998 G.O. Bonds	\$ 13,340,000		\$ 6,835,000	\$ 6,505,000	\$ 2,505,000
1998 G.O. Bonds	4,340,000			4,340,000	4,340,000
2000 G.O. Bonds	3,385,000		270,000	3,115,000	1,050,000
2001 G.O. Bonds	15,015,000		1,115,000	13,900,000	1,500,000
2004 G.O. Bonds	67,775,000		330,000	67,445,000	660,000
2004 G.O. Bonds	23,240,000		2,520,000	20,720,000	1,095,000
2006 G.O. Bonds	96,840,000		1,130,000	95,710,000	910,000
2007 G.O. Bonds		\$80,000,000	6,500,000	73,500,000	5,000,000
Total Bonds Payable	<u>\$ 223,935,000</u>	<u>\$80,000,000</u>	<u>\$18,700,000</u>	<u>\$285,235,000</u>	<u>\$17,060,000</u>
Other Liabilities:					
Unemployment Pay.	\$ 586,962	\$ 97,225	\$ 47,626	\$ 636,561	\$ 52,000
Other Empl. Ins. Pay.	1,698,123	533,176	629,798	1,601,501	693,000
Industrial Insurance	1,271,348	953,799	823,144	1,402,003	905,000
Comp. Absences	3,341,824	587,971		3,929,795	647,000
Total Other Liab.	<u>\$ 6,898,257</u>	<u>\$ 2,172,171</u>	<u>\$ 1,500,568</u>	<u>\$ 7,569,860</u>	<u>\$ 2,297,000</u>
Grand Total	<u>\$230,833,257</u>	<u>\$82,172,171</u>	<u>\$20,200,568</u>	<u>\$292,804,860</u>	<u>\$19,357,000</u>

B. Unamortized Bond Issuance Costs

The unamortized bond issuance costs for the following general obligation bonds are as follows:

	Beginning Balance	Debit	Credit	Ending Balance
1998 G. O. Bonds	\$ 101,190		\$ 16,865	\$ 84,325
1998 G. O. Bonds	248,721		22,611	226,110
2000 G. O. Bonds	175,175		13,475	161,700
2001 G. O. Bonds	212,274		23,586	188,688
2006 G. O. Bonds	237,167		12,483	224,684
2007 G. O. Bonds	0	\$ 217,697	12,806	204,891
	<u>\$ 974,527</u>	<u>\$ 217,697</u>	<u>\$ 101,826</u>	<u>\$1,090,398</u>

C. Bond Premiums

The amortization schedule of bond premiums is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
1998 G. O. Bonds	\$ 332,646	\$ 55,441		\$ 277,205
1998 G. O. Bonds	560,428	50,948		509,480
2000 G. O. Bonds	214,201	16,477		197,724
2001 G. O. Bonds	1,741,959	193,551		1,548,408
2006 G. O. Bonds	2,813,710	148,090		2,665,620
2007 G. O. Bonds		267,303	\$4,544,150	4,276,847
	<u>\$5,662,944</u>	<u>\$731,810</u>	<u>\$4,544,150</u>	<u>\$9,475,284</u>

D. Unamortized Discount Costs

The amortization schedule of bond discount costs is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2006 Bonds	\$ 380,000		\$ 20,000	\$360,000
2007 Bonds		\$382,400	22,494	359,906
	<u>\$ 380,000</u>	<u>\$382,400</u>	<u>\$ 42,494</u>	<u>\$719,906</u>

E. General Obligation Debt

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

	Interest Rates	Issue Date	Maturity Date	Amount Issued	Outstanding Amount
1998 Bonds	5.00	03/01/98	12/01/09	\$ 51,615,000	\$ 6,505,000
1998 Bonds	4.30	12/01/98	12/01/08	67,055,000	4,340,000
2000 Bonds	5.00	12/15/00	12/01/10	27,500,000	3,115,000
2001 Bonds	4.10-5.75	12/15/01	12/01/15	40,000,000	13,900,000
2004 Bonds	2.50-5.00	03/30/04	12/01/17	70,100,000	67,445,000
2004 Bonds	3.25-5.00	09/02/04	06/01/19	34,655,000	20,720,000
2006 Bonds	4.00-5.00	09/06/06	12/01/25	97,115,000	95,710,000
2007 Bonds	4.00-5.50	11/07/07	12/01/23	80,000,000	73,500,000
				<u>\$468,040,000</u>	<u>\$285,235,000</u>

F. Debt Service Requirements to Maturity

Fiscal Year Ended	Principal	Interest	Total
08/31/09	\$ 17,060,000	\$ 13,505,187	\$ 30,565,187
08/31/10	15,200,000	12,807,465	28,007,465
08/31/11	16,100,000	12,081,340	28,181,340
08/31/12	12,510,000	11,303,090	23,813,090
08/31/13	11,840,000	10,666,340	22,506,340
08/31/14	14,375,000	10,062,188	24,437,188
08/31/15	14,790,000	9,466,313	24,256,313
08/31/16	14,255,000	8,797,250	23,052,250
08/31/17	14,920,000	8,068,125	22,988,125
08/31/18	14,225,000	7,255,875	21,480,875
08/31/19	12,860,000	6,590,875	19,450,875
08/31/20	10,400,000	5,922,875	16,322,875
08/31/21	14,400,000	5,302,875	19,702,875
08/31/22	16,400,000	4,532,875	20,932,875
08/31/23	20,000,000	3,660,375	23,660,375
08/31/24	25,900,000	2,598,937	28,498,937
08/31/25	20,000,000	1,500,000	21,500,000
08/31/26	20,000,000	500,000	20,500,000
Totals	<u>\$285,235,000</u>	<u>\$134,621,985</u>	<u>\$419,856,985</u>

G. Bonds Authorized but Unissued

The District was authorized to issue \$436,000,000 of unlimited tax general obligation bonds for the capital projects of the District in the February 7, 2006 election.

The district issued \$80,000,000 principal amount of Unlimited Tax General Obligation Bonds on November 18, 2008.

Bonds authorized	\$436,000,000
09/06/06 Issue	(80,000,000)
11/07/07 Issue	(80,000,000)
11/18/08 Issue	<u>(80,000,000)</u>
Unissued Bonds	<u>\$196,000,000</u>

H. Refunded Debt

The district had \$103,540,000 of refunded debt outstanding at August 31, 2008.

Note 10: Operating Leases (Non-Capitalized)

The district is obligated to pay under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the district's financial statements. The following is a schedule by years of future minimum rental payments required under operating leases of one year or more as of August 31, 2008.

<u>Year Ended</u>	<u>Amount</u>
08/31/09	\$ 419,891
08/31/10	413,976
08/31/11	383,025
08/31/12	350,180
08/31/13	<u>900</u>
Total	<u>\$ 1,567,972</u>

All of the \$1,567,972 pertains to the lease of copy machines which are serviced by the General Fund.

Note 11: Self-Insured Employee Benefits

Unemployment – The district provides for unemployment compensation on a self-insured basis, whereby an estimated liability is accrued and actual benefits paid are charged against the accrual. The district paid out claims totaling \$47,626 with an ending accrued balance of \$636,560.

Industrial Insurance – Industrial insurance compensation is provided for by establishing an estimated liability based on past experience. This liability is reviewed continually for adequacy. In addition, the district carries a major risk policy that covers a single claim over \$325,000 to a maximum of \$500,000. The district paid-out claims totaling \$823,144 with an ending accrued balance of \$1,402,003.

Note 12: Risk Management

The District is one of over 70 school districts, educational service districts, and inter-local cooperative members of the Washington Schools Risk Management Pool (WSRMP), which was formed on August 30, 1986 pursuant to Chapter 48.62 of the Revised Code of Washington. The purpose of WSRMP is to join together in a cooperative manner to provide its members the capability and authority to jointly purchase property and liability insurance, establish and maintain a reserve to pay for self-insurance coverage, provide a plan of self-insurance, and provide related services, including a cooperative program of risk management..

The District pays an annual premium contribution to WSRMP for its property and liability insurance coverage. For the period 09/01/2007 to 08/31/2008, WSRMP self-insures the first \$1 million per occurrence for property and purchases excess property insurance to a limit of \$500 million per occurrence. WSRMP self-insures the first \$1 million per occurrence for liability, including errors & omissions and employment practices liability and purchases liability reinsurance to a limit of \$20 million per occurrence.

The WSRMP Executive Board sets rates annually, after consultation with an independent actuarial firm, based on actual loss experience. An independent actuarial firm also performs an annual solvency report, which WSRMP is in excess of a 96% confidence level. Should the assets of the Pool were to be exhausted; members would be responsible for the Pool's liabilities, based on an allocation in proportion to each member's contribution.

The Washington Schools Risk Management Pool is audited independently by the Washington State Auditor's Office and has a completed audit on file on their website.

David K. Hayasaka
Executive Director
Washington Schools Risk Management
P.O. Box 88700
Tukwila, WA. 98138-2700

Note 13: Reconciliation Between Governmental Fund Financial Statements and Government-Wide Financial Statements

A. Balance Sheets/Statement of Net Assets

1. Capital Assets – Capital assets are not reported on governmental fund financial statements. Capital assets are reported on the district-wide Statement of Net Assets at historical cost less accumulated depreciation.

Cost of capital assets	\$602,921,985
Accumulated Depreciation	<u>148,401,075</u>
Net Capital Assets	<u>\$454,520,910</u>

2. Unamortized Bond Issue Costs (\$1,090,398) – In governmental funds, bond issuance costs were charged to expenditures, while the unamortized bond issuance costs are shown as deferred charges on the Statement of Net Assets.

3. Long-term liabilities of \$301,560,238 (\$19,357,000 due within one year; \$273,447,860 due in more than one year; and unamortized debt premium/discount of \$8,755,378), applicable to the district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities – both current and long-term – are reported in the statement of net assets.
 4. Deferred Revenue – Property taxes (\$41,459,601) that do not provide current financial resources are reported as deferred revenue in governmental funds, but as revenues in government-wide financial statements.
 5. Due From and Due To Other Funds (\$524,265) - Internal transfers between governmental funds were eliminated in the governmental-wide statement to avoid the “doubling up” effect.
- B. Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities
1. Property taxes that do not provide current financial resources are reported as deferred revenue in governmental funds, but as revenues in the Statement of Activities (\$1,673,302).
 2. The increase between the beginning and ending balances of the liability for compensated absences (\$587,971) is reported in the Statement of Activities as an expense and is allocated to various applicable programs. This increase is not reported in governmental fund statements.
 3. The proceeds of the sale of property is reported as an increase in other financial resources in governmental funds, while only the gain on sale of property (\$116,232) is reported in the statement of activities.
 4. Capital Assets – Capital assets are expensed when purchased or constructed in the governmental fund statements. Capital assets are expensed as depreciation over the useful life of the asset in the statement of activities (\$14,625,175).
 5. Repayment of bond principal (\$18,700,000) was reported as an expenditure in governmental funds and, thus has the effect of reducing fund balance. For the district as a whole, however, the principal payments reduce the liabilities in the statement of net assets.
 6. Bond premiums, bond discounts, and bond issuance costs are reported as revenues/expenditures in the governmental fund financial statements, but in government-wide financial statements they are amortized over the life of the bonds with the current year's amortization as follows:

Current year bond premium amortization	\$731,810
Current year bond discount amortization	42,494
Current year bond issuance cost amortization	101,826

Note 14: Contingent Liabilities

The district receives federal and state grants for specific programs. Both types of grants are subject to audit by the Washington State Auditor's Office. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, the district believes that such disallowances, if any, will be immaterial.

Note 15: Litigation

Possible losses from suits and claims against the Lake Washington School District are fully covered by the Washington Schools Risk Management Pool. The District is not aware of any claims which are not adequately covered.

Note 16: Subsequent Events

The District sold Unlimited Tax General Obligation Bonds totaling \$80,000,000 on November 18, 2008.

As of September 30, 2008, all expected investment losses from impaired investments have been provided for by the District with a final loss realization of \$1,218,366 (footnote 3). King County expects the pool's rating to be restored during the fourth quarter of 2008 because the impaired investments were removed from the mail pool's investments.

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

Lake Washington School District #414
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2008

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the 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 – UNIT COST CONTRACTS

Under certain programs, the district receives a fixed amount for the activity, regardless of the district's expenditures. Expenditures for these programs are listed as the amount received from the grantor.

NOTE 3 – NON CASH AWARDS – FOOD COMMODITIES

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



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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