

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

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**Lake Washington School District No. 414**  
**King County**

Audit Period  
**September 1, 2009 through August 31, 2010**

**Report No. 1005661**

Issue Date  
**May 23, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

May 23, 2011

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.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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

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# Federal Summary

## Lake Washington School District No. 414 King County September 1, 2009 through August 31, 2010

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 deficiencies that we consider to be material weaknesses.

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

### **FEDERAL AWARDS**

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

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I Part A
84.027	Special Education Cluster - Grants to States (IDEA, Part B)
84.173	Special Education Cluster - Preschool Grants (IDEA Preschool)
84.389	ARRA - Title I Cluster, Part A (Recovery Act)
84.391	ARRA - Special Education Cluster, IDEA Part B (Recovery Act)
84.392	ARRA - Special Education Cluster, Preschool Grants (Recovery Act)
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants (Recovery Act)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$494,079.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

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

Lake Washington School District No. 414  
King County  
September 1, 2009 through August 31, 2010

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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 6, 2011. During the year ended August 31, 2010, the District implemented Governmental Accounting Standards Board *Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

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

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**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 6, 2011

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

Lake Washington School District No. 414  
King County  
September 1, 2009 through August 31, 2010

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 could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.



## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 6, 2011

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

**Lake Washington School District No. 414  
King County  
September 1, 2009 through August 31, 2010**

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, 2010, which collectively comprise the District's basic financial statements as listed on page 9. 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, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Associated Student Body (ASB) Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7, during the year ended August 31, 2010, the District implemented Governmental Accounting Standards Board *Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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 10 through 16 and the Schedule of Funding Progress on page 46 are not a required part of the basic financial statements but are 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 opinions 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", with a stylized, cursive script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 6, 2011

# **Financial Section**

**Lake Washington School District No. 414  
King County  
September 1, 2009 through August 31, 2010**

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2010

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2010

Statement of Activities – 2010

Balance Sheet – Governmental Funds – 2010

Reconciliation – Balance Sheet/Statement of Net Assets – 2010

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental  
Funds – 2010

Reconciliation – Statement of Revenues, Expenditures, and Changes in Fund  
Balance/Statement of Activities – 2010

Budgetary Comparison Statement – General Fund – 2010

Budgetary Comparison Statement – Special Revenue Fund (ASB) – 2010

Statement of Fiduciary Net Assets – 2010

Statement of Changes in Fiduciary Net Asset – 2010

Notes to the Financial Statements – 2010

## ***SUPPLEMENTAL INFORMATION***

Schedule of Funding Progress – 2010

Schedule of Expenditures of Federal Awards – 2010

Notes to the Schedule of Expenditures of Federal Awards – 2010

## 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, 2010.

### FINANCIAL HIGHLIGHTS

- The district's Statement of Net Assets reports net assets of \$416 million as of August 31, 2010.
- During the year, the district had revenues that were \$13 million higher (before special items) than the \$262 million in expenses incurred for all governmental activities.
- The general fund reported an increase in fund balance of \$5,155,702 for the fiscal year.
- The average student enrollment increased by 315 full time equivalent students (FTE's) over the previous year.
- The district sold Unlimited Tax General Obligation Bonds and Build America Bonds totaling \$120,000,000 on September 17, 2010.
- The district had an initial accrual for an Other Postemployment Benefit Obligation of \$6,569,340 during the current fiscal year.

### 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 \$416,232,309 at the end of the 2009-2010 fiscal year.

A large portion (39%) 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-four 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>2009-2010</u>	<u>2008-2009</u>
Current and Other Assets	\$293,531,937	\$298,259,467
Capital Assets	<u>529,743,028</u>	<u>488,899,326</u>
Total Assets	<u>\$823,274,965</u>	<u>\$787,158,793</u>
Long-Term Debt Outstanding	\$388,275,548	\$364,929,841
Other Liabilities	<u>18,767,108</u>	<u>19,232,148</u>
Total Liabilities	<u>\$407,042,656</u>	<u>\$384,161,989</u>
Net Assets:		
Invest in Cap. Assets, Net of Debt	\$163,268,028	\$140,724,326
Restricted	225,806,958	236,591,409
Unrestricted	<u>27,157,323</u>	<u>25,681,069</u>
Total Net Assets	<u>\$416,232,309</u>	<u>\$402,996,804</u>

The 2009-2010 revenues of \$275 million exceeded expenditures of \$262 million by \$13 million. The net assets of the district's governmental activities increased by \$13 million, which is a 3% increase during the year.

Table 2  
Changes in Net Assets

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2009-2010</u>	<u>2008-2009</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 15,242,567	\$ 14,229,860
Operating Grants and Contributions	44,690,569	55,140,201
Capital Grants and Contributions	711,733	1,925,446
General Revenues:		
Property Taxes	100,062,212	91,189,171
Interest and Investment Earnings	2,982,081	4,522,152
Other Revenues	<u>111,173,808</u>	<u>101,638,095</u>
Total Revenues	<u>\$274,862,970</u>	<u>\$268,644,925</u>
Program Expenses:		
Regular Instruction	\$142,370,555	\$128,631,625
Federal Stimulus	6,499,095	9,057,804
Special Instruction	27,208,902	26,976,106
Vocational Instruction	4,202,095	4,450,751
Skills Center	125,897	
Compensatory Education	7,643,725	14,420,778
Other Instructional Programs	4,578,097	4,540,176
Community Services	1,850,862	2,243,753
Support Services	47,766,792	47,664,589
Extracurricular Activities(ASB)	2,772,309	3,017,494
Debt Payment	<u>16,609,136</u>	<u>14,201,405</u>
Total Expenses	<u>\$261,627,465</u>	<u>\$255,204,481</u>
Excess (Deficiency) Before Special Items	\$13,235,505	\$13,440,444
Special Items	<u>0</u>	<u>0</u>
Increase (Decrease) In Net Assets	\$13,235,505	\$13,440,444
Net Assets, Beginning of Year	<u>402,996,804</u>	<u>389,556,360</u>
Net Assets, End of Year	<u>\$416,232,309</u>	<u>\$402,996,804</u>

#### Governmental Activities

The cost of each of the district's largest programs – basic instruction, federal stimulus, special instruction, vocational instruction, skills center, 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	
	2009-2010	2008-2009	2009-2010	2008-2009
Regular Instruction	\$142,370,555	\$128,631,625	\$140,525,425	\$126,088,554
Federal Stimulus	6,499,095	9,057,804	-920,289	-323,059
Special Instruction	27,208,902	26,976,106	5,445,523	4,675,192
Vocational Instruction	4,202,095	4,450,751	3,954,951	4,204,505
Skills Center	125,897		116,830	
Compensatory Instruction	7,643,725	14,420,778	673,026	756,816
Other Instructional Programs	4,578,097	4,540,176	-676,553	- 369,904
Support Services	47,766,792	47,664,589	35,059,447	33,697,003
All Others	21,232,307	19,462,652	16,804,236	15,179,867
Totals	<u>\$261,627,465</u>	<u>\$255,204,481</u>	<u>\$200,982,596</u>	<u>\$183,908,974</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 \$221.2 million, which is lower than last year's total by \$8.1 million. This decrease is primarily due to an increase in capital spending. The fund balance in the general fund increased by 5.2 million.

Table 4 presents a summary of the governmental fund's revenues and expenditures for 2009-10 and the percentage increases/decreases in relation to the prior year.

Table 4  
Government Fund Revenues and Expenditures

	2009-10 Amounts	Percent of Total	Increase (Decrease) Over 2008-09	Percent Increase (Decrease)
Revenues:				
Local Tax/Non-Tax	\$114,219,915	41.65%	\$ 8,763,529	8.31%
State Revenues	140,471,640	51.23%	147,463	.11%
Federal Revenues	16,649,779	6.07%	-2,935,952	-14.99%
Other Revenues	2,875,210	1.05%	232,325	8.79%
Total Revenues	<u>\$274,216,544</u>	<u>100.00%</u>	<u>\$6,207,365</u>	<u>2.32%</u>
Regular Instruction	\$127,987,206	39.66%	\$ 8,762,299	7.35%
Federal Stimulus	6,499,095	2.01%	-2,558,709	-28.25%
Special Instruction	24,457,330	7.58%	-546,037	-2.18%
Vocational Instruction	3,777,147	1.17%	-348,124	-8.44%
Skills Center	113,165	.04%	113,165	100.00%
Compensatory Instruct.	6,870,733	2.13%	-6,495,466	-48.60%
Other Instructional Prog.	4,115,125	1.28%	-93,032	-2.21%
Community Services	1,709,511	.53%	-375,591	-18.01%
Support Services	43,518,455	13.49%	-837,314	-1.89%
Student Services	2,545,947	.79%	-258,188	-9.21%
Capital Outlay	61,564,860	19.08%	7,571,103	14.02%
Debt Service	39,529,994	12.24%	6,564,273	19.91%
Total Expenditures	<u>\$322,688,568</u>	<u>100.00%</u>	<u>\$11,498,379</u>	<u>3.69%</u>



## General Fund

Expenditures in the general fund amounted to \$212,191,057 for the fiscal year ended August 31, 2010, which was a decrease of 1.42% percent. This small decrease in expenditures and actual fund balance exceeding budgeted fund balance by \$8,377,620 is due primarily to tighter 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, 2010 is detailed in Table 5.

Table 5  
ASB Recap

	08/31/09 Fund Balance	Revenues	Transfers	Expenditures	08/31/10 Fund Balance
General	\$ 574,984	\$1,745,123	\$- 455,980	\$1,267,723	\$ 596,404
Athletics	12,838	261,207	364,631	597,292	41,384
Classes	57,820	185,785	- 7,586	182,904	53,115
Clubs	89,347	370,694	98,935	451,387	107,589
Private	2,001	46,654		46,640	2,015
	<u>\$736,990</u>	<u>\$2,609,463</u>	<u>\$ 0</u>	<u>\$2,545,946</u>	<u>\$ 800,507</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 \$706 million invested in land, buildings, transportation equipment, and other equipment as of August 31, 2010. This is an increase from the previous fiscal year of \$57 million. Table 6 shows the various components of the district's capital assets.

Table 6  
Capital Assets – 08/31/10

	(In Millions)		
	Historical Cost	Accumulated Depreciation	Book Value
Land	\$ 20.4		\$ 20.4
Buildings and Improvements	592.8	\$169.4	423.4
Equipment	16.4	6.6	9.8
Construction in Progress	76.1		76.1
Totals	<u>\$705.7</u>	<u>\$176.0</u>	<u>\$529.7</u>

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

Keller Elementary	\$ .5
Lake Washington High	62.9
Finn Hill Junior High	8.0
Sandburg Elementary	.3
Redmond High Track	1.1
Muir Elementary	2.1
Bell Elementary	.2
Rush Elementary	.1
Rose Hill Junior/Stella Schola	.3
Evergreen Junior Lighting	.2
New Choice School	.1
ICS/Community School	.1
Redmond High Addition	.1
Eastlake High Addition	.1
	<u>\$76.1</u>

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

## Debt

The district had bonds outstanding totaling \$366.5 million as of August 31, 2010. This is an increase of \$18.3 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 Aaa 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 2010-2011 governmental funds' appropriation for the district was set at \$418 million. The property tax rates are set at \$2.81 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 a high concentration of high-technology employers with some of the largest companies in the country. Some of the major employers would include Microsoft, Evergreen Community Health Care, AT&T, Group Health, Honeywell International, Inc., Eddie Bauer, Inc., Nintendo of America, United Parcel Service, Medtronic Physio-Control, Genie Industries, Volt Technical Services LLC, Evergreen Healthcare, Puget Sound Energy, Carillon Properties, Verizon Northwest, Redmond Town Center, Kenworth Trucking, Airojet, PACCAR, Marriott Hotel, Google, Costco, 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. 74<sup>th</sup> Street, Redmond, Washington.

Lake Washington School District No. 414  
Statement of Net Assets  
08/31/10

	Primary Government <u>Governmental Activities</u>
<b>Assets</b>	
Cash & Cash Equivalents	\$238,851,491
Property Tax Receivable	49,623,464
Accounts Receivable, Net	428,657
Due From Other Gov't. Units	2,038,805
Inventories at Cost	363,569
Prepaid Items	1,410,359
Capital Assets, Net of Accum. Depn.:	
Land	20,414,002
Buildings & Improvements	423,494,796
Equipment	9,758,444
Construction-in-Progress	76,075,786
Unamortized Bond Issue Costs	815,592
Total Assets	<u>\$823,274,965</u>
<b>Liabilities</b>	
Accounts Payable	\$10,634,987
Accrued Wages & Benefits Pay.	5,253,675
Deferred Revenue	2,878,446
Long-Term Liabilities:	
Due Within One Year	30,620,000
Due In More Than One Year	349,514,576
Unamortized Debt Premium/Discount	8,140,972
Total Liabilities	<u>\$407,042,656</u>
<b>Net Assets</b>	
Invested In Capital Assets, Net of Related Debt	\$163,268,028
Restricted For:	
Capital Projects	192,426,702
Debt Service	32,579,749
Other Purposes (Special Revenue/ASB)	800,507
Unrestricted	27,157,323
Net Assets	<u>\$416,232,309</u>

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

Lake Washington School District No. 414  
Statement of Activities  
For the Year Ended 08/31/10

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
<b>Primary Government: Governmental Activities:</b>					
Regular Instruction	\$142,370,555	\$1,262,247	\$222,585	\$360,298	(\$140,525,425)
Federal Stimulus	6,499,095	920,289	6,499,095		920,289
Special Instruction	27,208,902	100	21,694,429	68,850	(5,445,523)
Vocational Instruction	4,202,095	49,484	187,027	10,633	(3,954,951)
Skills Center	125,897	8,748		319	(116,830)
Compensatory Education	7,643,725	(187)	6,951,544	19,342	(673,026)
Other Instructional Programs	4,578,097	3,432,543	1,810,522	11,585	676,553
Community Services	1,850,862	1,680,726			(170,136)
Support Services	47,766,792	5,279,154	7,325,367	102,824	(35,059,447)
Extracurricular Activities(ASB)	2,772,309	2,609,463			(162,846)
Int. Paymt. On L/T Debt	16,609,136			137,882	(16,471,254)
Total Governmental Activities	<u>\$261,627,465</u>	<u>\$15,242,567</u>	<u>\$44,690,569</u>	<u>\$711,733</u>	<u>(\$200,982,596)</u>

General Revenues:

Property Taxes, Levies for Maintenance and Operations	\$42,996,015
Property Taxes, Levies for Debt Service	39,582,167
Property Taxes, Levies for Capital Projects	17,484,030
Unallocated State Apportionment & Others	114,540,388
Interest and Investment Earnings	2,982,081
Gain (Loss) on Disposition of Property & Equipment	(3,366,580)
Total General Revenues & Special Items	<u>\$214,218,101</u>

Changes in Net Assets	\$13,235,505
Beginning Net Assets	402,996,804
Ending Net Assets	<u><u>\$416,232,309</u></u>

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

Lake Washington School District No. 414  
Balance Sheet  
Government Funds  
08/31/10

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Project Fund	Transportation Vehicle Fund	Total Government Funds
<b>Assets</b>						
Cash and Cash Equivalents	\$29,807,417	\$1,512,079	\$12,102,369	\$193,262,572	\$2,167,054	\$238,851,491
Property Taxes Receivable	20,723,703		20,468,469	8,431,292		49,623,464
Accounts Receivable, Net	252,533					252,533
Accrued Interest	19,049	703	8,911	145,849	1,612	176,124
Due From Other Funds	968,948	83,151		5,950		1,058,049
Due From Other Gov't Units	2,038,805					2,038,805
Inventories at Cost	363,569					363,569
Prepaid Items	556,665	63,656		790,038		1,410,359
Total Assets	<u>\$54,730,689</u>	<u>\$1,659,589</u>	<u>\$32,579,749</u>	<u>\$202,635,701</u>	<u>\$2,168,666</u>	<u>\$293,774,394</u>
<b>Liabilities</b>						
Accounts Payable	\$1,328,428	\$53,386		\$9,253,173		\$10,634,987
Accrued Wages & Benefits Pay.	8,331,518					8,331,518
Due To Other Funds	89,101	13,122		955,826		1,058,049
Deferred Revenue	22,809,574	792,575	\$20,468,469	8,431,292		52,501,910
Total Liabilities	<u>\$32,558,621</u>	<u>\$859,083</u>	<u>\$20,468,469</u>	<u>\$18,640,291</u>	<u>\$0</u>	<u>\$72,526,464</u>
<b>Fund Balances</b>						
Reserve for Inventory	\$950,000					\$950,000
Reserve for Other Items	3,914,038					3,914,038
Unreserved Fund Balance	17,308,030	\$800,506	\$12,111,280	\$183,995,410	\$2,168,666	216,383,892
Total Fund Balances	<u>\$22,172,068</u>	<u>\$800,506</u>	<u>\$12,111,280</u>	<u>\$183,995,410</u>	<u>\$2,168,666</u>	<u>\$221,247,930</u>
Total Liab. & Fund Balances	<u>\$54,730,689</u>	<u>\$1,659,589</u>	<u>\$32,579,749</u>	<u>\$202,635,701</u>	<u>\$2,168,666</u>	<u>\$293,774,394</u>

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  
08/31/10

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
<b>Assets</b>				
Cash and Cash Equivalents	\$238,851,491			\$238,851,491
Property Taxes Receivable	49,623,464			49,623,464
Accounts Receivable, Net	428,657			428,657
Due From Other Funds	1,058,049		(\$1,058,049)	0
Due From Other Gov't Units	2,038,805			2,038,805
Inventories at Cost	363,569			363,569
Prepaid Items	1,410,359			1,410,359
Capital Assets, Net		\$529,743,028		529,743,028
Unamortized Bond Issue Costs		815,592		815,592
<b>Total Assets</b>	<b>\$293,774,394</b>	<b>\$530,558,620</b>	<b>(\$1,058,049)</b>	<b>\$823,274,965</b>
<b>Liabilities</b>				
Accounts Payable	\$10,634,987			\$10,634,987
Accrued Wages & Benefits Pay.	8,331,518	(\$3,077,843)		5,253,675
Due To Other Funds	1,058,049		(\$1,058,049)	0
Deferred Revenue	52,501,910	(49,623,464)		2,878,446
Long-Term Liabilities		388,275,548		388,275,548
<b>Total Liabilities</b>	<b>\$72,526,464</b>	<b>\$335,574,241</b>	<b>(\$1,058,049)</b>	<b>\$407,042,656</b>
<b>Fund Balances/Net Assets</b>	<b>\$221,247,930</b>	<b>\$194,984,379</b>		<b>\$416,232,309</b>
<b>Total Liab &amp; Fund Bal./Net Assets</b>	<b>\$293,774,394</b>	<b>\$530,558,620</b>	<b>(\$1,058,049)</b>	<b>\$823,274,965</b>

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  
For the Year Ended 08/31/10

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
<b>Revenues</b>						
Local	\$57,011,164		\$38,137,612	\$19,045,152	\$25,987	\$114,219,915
State	139,253,575				1,218,065	140,471,640
Federal	16,511,897		137,882			16,649,779
Miscellaneous	265,747	\$2,609,463				2,875,210
<b>Total Revenues</b>	<b>\$213,042,383</b>	<b>\$2,609,463</b>	<b>\$38,275,494</b>	<b>\$19,045,152</b>	<b>\$1,244,052</b>	<b>\$274,216,544</b>
<b>Expenditures</b>						
Regular Instruction	\$127,987,206					\$127,987,206
Federal Stimulus	6,499,095					6,499,095
Special Instruction	24,457,330					24,457,330
Vocational Instruction	3,777,147					3,777,147
Skills Center	113,165					113,165
Compensatory Instruction	6,870,733					6,870,733
Other Instructional Programs	4,115,125					4,115,125
Community Services	1,709,511					1,709,511
Support Services	36,525,982			\$6,992,473		43,518,455
Student Services		\$2,545,947				2,545,947
Capital Outlay	135,763			61,055,729	\$373,368	61,564,860
Debt Service-Principal			\$21,700,000			21,700,000
Debt Service-Interest & Other			17,198,554	631,440		17,829,994
<b>Total Expenditures</b>	<b>\$212,191,057</b>	<b>\$2,545,947</b>	<b>\$38,898,554</b>	<b>\$68,679,642</b>	<b>\$373,368</b>	<b>\$322,688,568</b>
<b>Revenues Over (Under) Exp.</b>	<b>\$851,326</b>	<b>\$63,516</b>	<b>(\$623,060)</b>	<b>(\$49,634,490)</b>	<b>\$870,684</b>	<b>(\$48,472,024)</b>
<b>Other Financing Sources (Uses)</b>						
Sale of Real Property				\$30,117		\$30,117
Sale of Equipment					\$15,000	15,000
Compensated Loss Of Cap. Assets					102,444	102,444
Sale of Bonds				40,204,379		40,204,379
Transfers In	\$4,304,376					4,304,376
Transfers Out				(4,304,376)		(4,304,376)
<b>Total Other Financing Sources(Uses)</b>	<b>\$4,304,376</b>	<b>\$0</b>	<b>\$0</b>	<b>\$35,930,120</b>	<b>\$117,444</b>	<b>\$40,351,940</b>
<b>Net Change in Fund Balance</b>	<b>\$5,155,702</b>	<b>\$63,516</b>	<b>(\$623,060)</b>	<b>(\$13,704,370)</b>	<b>\$988,128</b>	<b>(\$8,120,084)</b>
<b>Beginning Fund Balance</b>	<b>17,016,366</b>	<b>736,990</b>	<b>12,734,340</b>	<b>197,699,780</b>	<b>1,180,538</b>	<b>229,368,014</b>
<b>Ending Fund Balance</b>	<b>\$22,172,068</b>	<b>\$800,506</b>	<b>\$12,111,280</b>	<b>\$183,995,410</b>	<b>\$2,168,666</b>	<b>\$221,247,930</b>

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  
For the Year Ended 08/31/10

	Total Governmental Funds	Long-Term Revenue, Expenditures	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
<b>Revenues &amp; Other Sources</b>					
Property Taxes	\$114,219,915	\$4,013,026			\$118,232,941
State	140,471,640				140,471,640
Federal	16,649,779				16,649,779
Miscellaneous	2,875,210				2,875,210
Loss in Disposition of Fixed Assets			(\$3,514,161)		(3,514,161)
Sale or Comp. of Fixed Assets	147,561				147,561
Sale of Bonds	40,204,379			(\$40,204,379)	0
Other Financial Sources	4,304,376	(4,304,376)			0
<b>Total Revenues &amp; Other Sources</b>	<b>\$318,872,860</b>	<b>(\$291,350)</b>	<b>(\$3,514,161)</b>	<b>(\$40,204,379)</b>	<b>\$274,862,970</b>
<b>Expenditures</b>					
Current:					
Regular Instruction	\$127,987,206	\$3,816,533	\$10,566,816		\$142,370,555
Federal Stimulus	6,499,095				6,499,095
Special Education	24,457,330	729,309	2,022,263		27,208,902
Vocational Instruction	3,777,147	112,633	312,315		4,202,095
Skills Center	113,165	3,375	9,357		125,897
Compensatory Education	6,870,733	204,883	568,109		7,643,725
Other Instructional Programs	4,115,125	122,712	340,260		4,578,097
Community Services	1,709,511		141,351		1,850,862
Support Services	43,518,455	1,089,192	3,020,163	\$138,982	47,766,792
Student Activities	2,545,947		226,362		2,772,309
Capital Outlay	61,564,860		(61,564,860)		0
Debt Service-Principal	21,700,000			(21,700,000)	0
Debt Service-Interest & Other	17,829,994			(1,220,858)	16,609,136
Other Financial Uses	4,304,376	(4,304,376)			0
<b>Total Expenditures</b>	<b>\$326,992,944</b>	<b>\$1,774,261</b>	<b>(\$44,357,864)</b>	<b>(\$22,781,876)</b>	<b>\$261,627,465</b>
<b>Net Change for the Year</b>	<b>(\$8,120,084)</b>	<b>(\$2,065,611)</b>	<b>\$40,843,703</b>	<b>(\$17,422,503)</b>	<b>\$13,235,505</b>

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, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amount	Final Budget Over (Under)
Revenues:				
Local	\$55,156,716	\$55,156,716	\$57,011,164	\$1,854,448
State	138,710,828	138,710,828	139,253,575	542,747
Federal	18,868,419	18,868,419	16,511,897	(2,356,522)
Other	38,936	38,936	265,747	226,811
Total Revenues	<u>\$212,774,899</u>	<u>\$212,774,899</u>	<u>\$213,042,383</u>	<u>\$267,484</u>
Expenditures:				
Regular Instruction	\$131,459,875	\$131,459,875	\$127,985,712	\$3,474,163
Federal Stimulus	\$6,036,374	\$6,036,374	6,499,095	(462,721)
Special Education	23,280,851	23,280,851	24,457,330	(1,176,479)
Vocational Education	3,850,898	3,850,898	3,780,867	70,031
Skills Center			113,165	(113,165)
Compensatory Education	6,646,317	6,646,317	6,870,732	(224,415)
Other Instructional Programs	5,563,512	5,563,512	4,218,589	1,344,923
Community Services	1,860,813	1,860,813	1,711,005	149,808
Support Services	38,050,646	38,050,646	36,554,562	1,496,084
Total Expenditures	<u>\$216,749,286</u>	<u>\$216,749,286</u>	<u>\$212,191,057</u>	<u>\$4,558,229</u>
Excess of Revenues Over (Under) Expenditures	<u>(\$3,974,387)</u>	<u>(\$3,974,387)</u>	<u>\$851,326</u>	<u>\$4,825,713</u>
Other Financing Sources (Uses):				
Other Financial Sources	\$4,758,542	\$4,758,542	\$4,304,376	(\$454,166)
Total Other Financing Sources (Uses)	<u>\$4,758,542</u>	<u>\$4,758,542</u>	<u>\$4,304,376</u>	<u>(\$454,166)</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	<u>\$784,155</u>	<u>\$784,155</u>	<u>\$5,155,702</u>	<u>\$4,371,547</u>
Beginning Fund Balance	13,010,293	13,010,293	17,016,366	4,006,073
Ending Fund Balance	<u>\$13,794,448</u>	<u>\$13,794,448</u>	<u>\$22,172,068</u>	<u>\$8,377,620</u>

Note: There was no budget revision during the fiscal year 2009-10. The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414  
 Budgetary Comparison Statement  
 Special Revenue Fund (Associated Student Body Fund)  
 For the Year Ended August 31, 2010

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
General	\$2,518,522	\$2,518,522	\$1,745,123	(\$773,399)
Athletics	295,700	295,700	261,207	(34,493)
Classes	237,700	237,700	185,785	(51,915)
Clubs	455,700	455,700	370,694	(85,006)
Private Monies	122,500	122,500	46,654	(75,846)
Total Revenues	<u>\$3,630,122</u>	<u>\$3,630,122</u>	<u>\$2,609,463</u>	<u>(\$1,020,659)</u>
Expenditures:				
General	\$2,065,523	\$2,065,523	\$1,267,723	\$797,800
Athletics	793,600	793,600	597,292	196,308
Classes	251,250	251,250	182,904	68,346
Clubs	571,871	571,871	451,387	120,484
Private Monies	122,500	122,500	46,640	75,860
Total Expenditures	<u>\$3,804,744</u>	<u>\$3,804,744</u>	<u>\$2,545,946</u>	<u>\$1,258,798</u>
Excess of Revenues Over (Under) Expenditures	(\$174,622)	(\$174,622)	\$63,517	\$238,139
Beginning Fund Balance	758,281	758,281	736,990	(21,291)
Ending Fund Balance	<u>\$583,659</u>	<u>\$583,659</u>	<u>\$800,507</u>	<u>\$216,848</u>

Note: There was no budget revision during the fiscal year 2009-10. The notes to the financial

Lake Washington School District No. 414  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
August 31, 2010

	Private- Purpose Trust
<b>Assets</b>	
Cash and Cash Equivalents	\$201,780
Accounts Receivable, Net	147
Prepays	40
Total Assets	<u>\$201,967</u>
<b>Liabilities</b>	
Deposits	<u>\$5,426</u>
Total Liabilities	<u>\$5,426</u>
<b>Fund Balance/Net Assets</b>	\$196,541
<b>Total Liab. &amp; Fund Balance/Net Assets</b>	<u>\$201,967</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, 2010

	<u>Private- Purpose Trust</u>
<b>Additions</b>	
Donations	\$36,659
Investment Earnings	<u>3,206</u>
Total Additions	<u>\$39,865</u>
<b>Deductions</b>	
Scholarships	\$35,470
Fees and Materials	
Total Deductions	<u>\$35,470</u>
<b>Change in Net Assets</b>	\$4,395
<b>Net Assets, Beginning of Year</b>	192,146
<b>Net Assets, End of Year</b>	<u><u>\$196,541</u></u>

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, 2009 THROUGH AUGUST 31, 2010

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, 2010 was \$3,668,290.99 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, 2010 was \$344,101.98 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, 2010 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	\$239,053,271	\$240,200,726	0.72 Years

**Impaired Investments.** As of September 1, 2010 all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. All expected investment losses from the impaired investments were fully provided for by the District which resulted in a loss allocation of \$4.9 million.

**Interest Rate Risk.** As of August 31, 2010 the Pool's average duration was 0.72 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, 2010 the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, 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 depositaries, 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:

	General	ASB	Debt Service	Capital Projects	Transpor. Vehicle	Private Purpose Trust
Receivables:						
Taxes	\$20,723,703		\$20,468,469	\$8,431,292		
Governmental	2,038,805					
Accounts	271,582	\$ 703	8,911	145,849	\$ 1,612	\$ 147
Total	<u>\$23,034,090</u>	<u>\$ 703</u>	<u>\$20,477,380</u>	<u>\$8,577,141</u>	<u>\$ 1,612</u>	<u>\$ 147</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, 2010 short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in governmental fund financial statements were as follows:

	Due From <u>Other Funds</u>	Due To <u>Other Funds</u>
General Fund	\$ 968,948	\$ 89,101
Capital Projects Fund	5,950	955,826
Special Revenue Fund	<u>83,151</u>	<u>13,122</u>
Total	<u>\$ 1,058,049</u>	<u>\$1,058,049</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	\$20,399,880	\$ 14,122		\$ 20,414,002
Construction in Progress	47,467,628	28,608,158		76,075,786
Total	<u>\$67,867,508</u>	<u>\$28,622,280</u>		<u>\$ 96,489,788</u>
Capital Assets, being depreciated:				
Building and Improvements	\$565,499,284	\$32,027,599	\$ 4,704,425	\$592,822,458
Transportation Equipment	12,597,972	373,368	354,954	12,616,386
Other Equipment	3,534,279	541,613	287,201	3,788,691
Total	<u>\$581,631,535</u>	<u>\$32,942,580</u>	<u>\$ 5,346,580</u>	<u>\$609,227,535</u>
Less: Accumulated Depreciation:				
Buildings and Improvements				\$ 169,327,662
Transportation Equipment				4,622,623
Other Equipment				<u>2,024,010</u>
Total				<u>\$175,974,295</u>
Net Depreciated Assets				<u>\$433,253,240</u>
Net Total Assets				<u>\$529,743,028</u>

Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$10,566,816
Special Instruction	2,022,263
Vocational Instruction	312,315
Skills Center	9,357
Compensatory Instruction	568,109
Other Instruction Programs	340,260
Community Services	141,351
Student Services	226,362
Support Service	<u>3,020,163</u>
Total	<u>\$17,206,996</u>

Construction in Progress is composed of:

	<u>Project Authorization</u>	<u>Construction In Process 08/31/10</u>	<u>Additional Local Funds Committed</u>	<u>Additional State Funds Committed</u>
Keller Elementary	\$ 29,242,500	\$ 461,406	\$28,781,094	
Lake Washington High	88,878,000	62,843,341	19,737,492	\$ 6,297,167
Finn Hill Junior	46,600,000	7,970,240	34,277,116	4,352,644
Sandburg Elementary	30,555,000	318,633	30,236,367	
Redmond High Track	1,265,000	1,082,159	182,841	
Muir Elementary	27,825,000	2,138,119	25,686,881	
Bell Elementary	33,285,000	161,928	33,123,072	
Rush Elementary	31,920,000	144,145	31,775,855	
Rose Hill Jr/Stella Schola	69,195,000	308,436	68,886,564	
Evergreen Jr Lighting	1,100,000	229,120	870,880	
New Choice School	28,200,000	132,939	28,067,061	
ICS/Community School	15,277,500	100,686	15,176,814	
Redmond High Addition	18,388,000	87,864	18,300,136	
Eastlake High Addition	18,439,000	96,770	18,342,230	0
Total	<u>\$440,170,000</u>	<u>\$76,075,786</u>	<u>\$353,444,403</u>	<u>\$10,649,811</u>

The district's property valuation of buildings and equipment for insurance purposes is \$510,896,272 on August 31, 2010.

#### 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, 2009 it includes 76,048 active and inactive vested members.

The Public Employers' Retirement System (PERS) includes noncertified staff of 296 public school district employers and other public employers. As of June 30, 2009 it includes 187,309 active and inactive vested members.

The School Employers' Retirement System (SERS) includes noncertified staff of 296 public school district employers. As of June 30, 2009 it includes 61,667 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, 2010:

Plan 1 TRS 6.00%	Plan 1 PERS 6.00%
Plan 2 TRS 3.36%	Plan 2 SERS 3.14%
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, 2010:

Plan 1 TRS 6.14%	Plan 1 PERS 5.31%
Plan 2 TRS 6.14%	Plan 2 SERS 5.44%
Plan 3 TRS 6.14%	Plan 3 SERS 5.44%

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 09-10	FY 08-09	FY 07-08
Plan 1 TRS	\$ 569,182	\$ 767,109	\$ 592,498
Plan 2 TRS	823,948	945,481	531,228
Plan 3 TRS	5,209,750	6,230,217	3,951,309
Plan 1 PERS	74,592	83,129	77,528
Plan 2 SERS	770,801	621,927	434,638
Plan 3 SERS	1,270,942	1,188,743	960,977

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, 2010 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

### OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The state, through the Health Care Authority (HCA), administers an agent multiple-employer other post-employment benefit plan. The Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life and long-term disability. The Lake Washington School District's retirees are eligible to participate in this plan.

#### **Plan Description**

##### **Eligibility**

District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2/3 of TRS or SERS.

- Age 65 with 5 years of service



- Age 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

### **Medical and Life Benefits**

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 Medical coverage for 2010:

	<b><u>Type of Coverage</u></b>		
	<b><u>Employee Only</u></b>	<b><u>Employee &amp; Spouse</u></b>	<b><u>Full Family</u></b>
Aetna Public Employees Plan	\$ 531.44	\$ 1,056.44	\$ 1,450.19
Group Health Classic	470.73	935.02	1,283.24
Group Health Value	421.44	836.44	1,147.69
Kaiser Permanente Classic	471.51	936.58	1,285.38
Uniform Medical Plan	440.20	873.96	1,199.28

For calendar year 2010, after age 65 retired members receive a subsidy of 50% of their monthly premiums up to \$182.89 per Medicare covered person.

For 2010, retirees also receive an explicit subsidy of \$4.84/month toward life insurance premiums.

### **Funding Policy**

The funding policy is based upon the pay-as-you-go financing requirements.

### **Annual OPEB Cost and Net OPEB Obligation**

The District's annual Other Postemployment Benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any UAAL over a period of 30 years as of August 31, 2010. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB.

	<b><u>August 31, 2010</u></b>
<b>Determination of Annual Required Contribution</b>	
Normal Cost at year end	\$ 5,262,398
Amortization of UAAL	<u>3,577,876</u>
Annual Required Contribution (ARC)	<u>\$ 8,840,274</u>
<b>Determination of Net OPEB Obligation</b>	
Annual Required Contribution	\$ 8,840,274
Interest on prior year Net OPEB Obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB Cost	\$ 8,840,274
Contributions made*	<u>2,270,934</u>
Increase in Net OPEB Obligation	<u>\$ 6,569,340</u>
Net OPEB Obligation – end of year	<u>\$ 6,569,340</u>

\*Estimated based on 2010-2011 retiree benefit amounts, adjusted for medical trend.

The District's annual OPEB cost, the percentage of OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 were as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
08/31/2010	\$ 8,840,274	25.69%	\$ 6,569,340

#### **Funded status and Funding Progress**

As of August 31, 2010, the most recent actuarial valuation date, the Plan was 0% funded. The accrued liability for benefits was \$107.3 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$107.3 million. The District accrued the Net OPEB Obligation of \$6,569,340 as of August 31, 2010.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

#### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the August 31, 2010 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions used included a 3.75% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at August 31, 2010 was 30 years.

#### 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, 2009 was \$364,084.

#### Note 9: Long-Term Debt

##### A. Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2010 the following changes occurred in liabilities reported in the district-wide financial statements:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>Bonds Payable</b>					
1998 G.O. Bonds	\$ 4,000,000		\$4,000,000		
2000 G.O. Bonds	2,065,000		1,000,000	\$ 1,065,000	\$1,065,000
2001 G.O. Bonds	12,400,000		5,000,000	7,400,000	3,000,000
2004 G.O. Bonds	66,785,000		5,200,000	61,585,000	12,035,000
2004 G.O. Bonds	19,625,000			19,625,000	0
2006 G.O. Bonds	94,800,000			94,800,000	0
2007 G.O. Bonds	68,500,000			68,500,000	0
2008 G.O. Bonds	80,000,000		6,500,000	73,500,000	3,150,000
2009 Bonds		\$40,000,000		40,000,000	8,555,000
<b>Total Bonds Payable</b>	<b>\$ 348,175,000</b>	<b>\$40,000,000</b>	<b>\$21,700,000</b>	<b>\$366,475,000</b>	<b>\$27,805,000</b>
<b>Other Liabilities:</b>					
Unemployment Pay.	\$ 570,370	\$ 226,461	\$ 305,653	\$ 491,178	\$ 200,000
Other Empl. Ins. Pay.	1,496,076	672,776	699,576	1,469,276	775,000
Industrial Insurance	1,111,147	933,302	927,060	1,117,389	1,275,000
Net OPEB	0	8,840,274	2,270,934	6,569,340	0
Comp. Absences	4,503,096		490,703	4,012,393	565,000
<b>Total Other Liab.</b>	<b>\$ 7,680,689</b>	<b>\$ 10,672,813</b>	<b>\$4,693,926</b>	<b>\$ 13,659,576</b>	<b>\$2,815,000</b>
<b>Grand Total</b>	<b>\$355,855,689</b>	<b>\$50,672,813</b>	<b>\$26,393,926</b>	<b>\$380,134,576</b>	<b>\$30,620,000</b>

##### 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	\$ 67,460		\$ 67,460	
2000 G. O. Bonds	148,225		13,475	\$134,750
2001 G. O. Bonds	165,102		23,586	141,516
2006 G. O. Bonds	212,202		12,482	199,720
2007 G. O. Bonds	192,085		12,806	179,279
2008 G. O. Bonds	86,201		4,789	81,412
2009 Bonds		\$ 83,300	4,384	78,916
	<u>\$ 871,275</u>	<u>\$ 83,300</u>	<u>\$138,982</u>	<u>\$815,593</u>

C. Bond Premiums

The amortization schedule of bond premiums is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
1998 G. O. Bonds	\$221,764	\$ 221,764		
2000 G. O. Bonds	181,247	16,477		\$164,770
2001 G. O. Bonds	1,354,857	193,551		1,161,306
2006 G. O. Bonds	2,517,530	148,090		2,369,440
2007 G. O. Bonds	4,009,544	267,303		3,742,241
2008 G. O. Bonds	1,830,410	101,689		1,728,721
2009 Bonds		10,757	\$ 204,379	193,622
	<u>\$10,115,352</u>	<u>\$959,631</u>	<u>\$204,379</u>	<u>\$9,360,100</u>

D. Unamortized Discount Costs

The amortization schedule of bond discount costs is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2006 Bonds	\$ 340,000		\$ 20,000	\$320,000
2007 Bonds	337,412		22,494	314,918
2008 Bonds	363,789		20,211	343,578
2009 Bonds		\$254,000	13,368	240,632
	<u>\$ 1,041,201</u>	<u>\$254,000</u>	<u>\$ 76,073</u>	<u>\$1,219,128</u>

E. General Obligation Debt

Bonds payable at August 31, 2010 are comprised of the following:

	Interest Rates	Issue Date	Maturity Date	Amount Issued	Outstanding Amount
2000 Bonds	5.00	12/15/00	12/01/10	\$ 27,500,000	\$1,065,000
2001 Bonds	5.25-5.75	12/15/01	12/01/12	40,000,000	7,400,000
2004 Bonds	3.35-5.00	03/30/04	12/01/17	70,100,000	61,585,000
2004 Bonds	3.65-5.00	09/02/04	06/01/19	34,655,000	19,625,000
2006 Bonds	4.00-5.00	09/06/06	12/01/25	97,115,000	94,800,000
2007 Bonds	4.63-5.00	11/07/07	12/01/23	80,000,000	68,500,000
2008 Bonds	3.63-5.00	11/18/08	12/01/26	80,000,000	73,500,000
2009 Bonds	1.65-5.57	11/03/09	12/01/27	40,000,000	40,000,000
				<u>\$469,370,000</u>	<u>\$366,475,000</u>

F. Debt Service Requirements to Maturity

Fiscal Year Ended	Principal	Interest	Total
08/31/11	\$ 27,805,000	\$ 16,810,384	\$ 44,615,384
08/31/12	12,510,000	15,840,465	28,350,465
08/31/13	11,840,000	15,203,715	27,043,715
08/31/14	14,375,000	14,599,563	28,974,563
08/31/15	15,540,000	13,989,626	29,529,626
08/31/16	15,755,000	13,276,500	29,031,500
08/31/17	17,320,000	12,469,375	29,789,375
08/31/18	16,875,000	11,542,875	28,417,875
08/31/19	22,810,000	10,562,875	33,372,875
08/31/20	22,900,000	9,335,126	32,235,126
08/31/21	20,800,000	8,244,125	29,044,125
08/31/22	23,500,000	7,136,625	30,636,625
08/31/23	26,100,000	5,934,125	32,034,125
08/31/24	29,500,000	4,630,188	34,130,188
08/31/25	22,000,000	3,391,250	25,391,250
08/31/26	32,400,000	2,013,681	34,413,681
08/31/27	27,445,000	792,625	28,237,625
08/31/28	7,000,000	199,570	7,199,570
Totals	<u>\$366,475,000</u>	<u>\$165,972,693</u>	<u>\$532,447,693</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 \$40,000,000 principal amount of Unlimited Tax General Obligation Bonds, Build America Bonds, and Qualified School Construction Bonds on November 3, 2009.

Bonds authorized	\$436,000,000
09/06/06 Issue	(80,000,000)
11/07/07 Issue	(80,000,000)
11/18/08 Issue	(80,000,000)
11/03/09 Issue	(40,000,000)
09/17/10 Issue	<u>(120,000,000)</u>
Unissued Bonds	<u>\$ 36,000,000</u>

H. Refunded Debt

The district had \$34,250,000 of refunded debt outstanding at August 31, 2010.

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, 2010.

<u>Year Ended</u>	<u>Amount</u>
08/31/11	\$ 432,682
08/31/12	404,968
08/31/13	0
08/31/14	0
08/31/15	0
Total	<u>\$ 837,650</u>

All of the \$837,650 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 \$305,653 with an ending accrued balance of \$491,178.

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 \$400,000. The district paid-out claims totaling \$927,060 with an ending accrued balance of \$1,117,389.

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 09/01/2009 to 08/31/2010, 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	\$705,717,323
Accumulated Depreciation	<u>175,974,295</u>
Net Capital Assets	<u>\$529,743,028</u>

2. Unamortized Bond Issue Costs (\$815,593 ) – 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 \$388,275,548 (\$30,620,000 due within one year; \$349,514,576 due in more that one year; and unamortized debt premium/discount of \$8,140,972), 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 (\$49,623,464) 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 (\$1,058,049 ) - 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 (\$4,013,026).
2. The decrease between the beginning and ending balances of the liability for compensated absences (\$490,703) is reported in the Statement of Activities as an expense and is allocated to various applicable programs. This decrease is not reported in governmental fund statements.
3. The increase between the beginning and ending balance of the liability for net OPEB obligation (\$6,569,340) 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.
4. 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 (\$45,117) is reported in the statement of activities.

5. 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 (\$17,206,996).
6. Repayment of bond principal (\$21,700,000) 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.
7. 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	\$ 959,631
Current year bond discount amortization	76,073
Current year bond issuance cost amortization	138,982

#### 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 and Build America Bonds totaling \$120,000,000 on September 17, 2010.

As of September 25, 2009 the final Commercial Paper loss restructuring was completed. The investment Pool accepted the exchange offer which provides that the Pool will continue to receive cash flows from the underlying securities.

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 NO. 414  
REQUIRED SUPPLEMENTAL INFORMATION  
Actuarial Valuation of Post Employment Benefits  
Other Than Pension  
Schedule of Funding Progress  
August 31, 2010

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
08/31/10	\$ -	\$107,336,280	\$107,336,280	0%	\$136,759,054	78%

GASB Statement #45 was implemented for the fiscal year ended August 31, 2010. No information prior to August 31, 2009 is available. The fiscal year 09-10 is an evaluation year.

**Lake Washington School District #414**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ending August 31, 2010**

1 Federal Grantor	2 Pass Through Agency	3  Program Title	4  CFDA No.	5  Other I.D. No.	6		7		8		9  Foot- note Ref.
					Expenditures						
					Direct Awards	Pass Through Awards	Total				
U.S. Dept.  											

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

**Lake Washington School District #414**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ending August 31, 2010**

**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.

**NOTE 4 – FEDERAL INDIRECT RATE**

The Lake Washington School District claimed indirect costs under this grant using its federal restricted rate of 2.21%.

**NOTE 5 – FEDERAL INDIRECT RATE**

The Lake Washington School District claimed indirect costs under this grant using its federal restricted rate of 2.00%.

**NOTE 6 – American Recovery and Reinvestment Act (ARRA)**

The funding for this program was provided by the American Recovery and Reinvestment Act (ARRA) of 2009.



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

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

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

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

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

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

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

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
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