

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

Lake Washington School District No. 414
King County

Audit Period
September 1, 2010 through August 31, 2011

Report No. 1007743

Issued **May 21, 2012**
Reissued **May 31, 2012**



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

May 31, 2012

Superintendent
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, 2010 through August 31, 2011

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Federal Summary

Lake Washington School District No. 414
King County
September 1, 2010 through August 31, 2011

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>
84.410	Education Jobs Fund
84.010	Title I Part A
93.600	Head Start

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$526,998.

The District qualified as a low-risk auditee under OMB Circular A-133.

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

Lake Washington School District No. 414
King County
September 1, 2010 through August 31, 2011

Superintendent
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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2012. During the year ended August 31, 2011, the District implemented Governmental Accounting Standards Board *Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 9, 2012

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, 2010 through August 31, 2011**

Superintendent
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, 2011. 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 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, 2011.

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



BRIAN SONNTAG, CGFM
STATE AUDITOR

March 9, 2012

Independent Auditor's Report on Financial Statements

**Lake Washington School District No. 414
King County
September 1, 2010 through August 31, 2011**

Superintendent
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, 2011, 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, 2011, and the respective changes in financial position, and the respective budgetary comparison for the General and Associated Student Body (ASB) funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended August 31, 2011, the District implemented Governmental Accounting Standards Board *Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 and actuarial valuation of post employment benefits other than pension on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRIAN SONNTAG, CGFM
STATE AUDITOR

March 9, 2012

Financial Section

**Lake Washington School District No. 414
King County
September 1, 2010 through August 31, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2011
Statement of Activities – 2011
Balance Sheet – Governmental Funds – 2011
Reconciliation – Balance Sheet/Statement of Net Assets – 2011
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – 2011
Reconciliation – Statements of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities – 2011
Budgetary Comparison Statement – General Fund – 2011
Budgetary Comparison Statement – Special Revenue Fund (Associated Student Body Fund) – 2011
Statement of Fiduciary Net Assets – Fiduciary Funds – 2011
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2011
Notes to the Financial Statements - 2011

SUPPLEMENTARY INFORMATION

Actuarial Valuation of Post Employment Benefits Other Than Pension – Schedule of Funding Progress – 2011
Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedule of Expenditures of Federal Awards - 2011

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, 2011.

FINANCIAL HIGHLIGHTS

- The district's Statement of Net Assets reports net assets of \$395 million as of August 31, 2011.
- During the year, the district had revenues that were \$21 million lower (before special items) than the \$280 million in expenses incurred for all governmental activities.
- The general fund reported a decrease in fund balance of \$449,002 for the fiscal year.
- The average student enrollment increased by 404 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.

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 \$395,289,648 at the end of the 2010-2011 fiscal year.

A large portion (31%) 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. Sixty- three percent of the net assets represents resources that are subject to external restrictions on their use.

The remaining unrestricted net assets (6%) 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>2010-2011</u>	<u>2009-2010</u>
Current and Other Assets	\$324,659,801	\$293,531,937
Capital Assets	583,230,686	529,743,028
Total Assets	<u>\$907,890,487</u>	<u>\$823,274,965</u>
Long-Term Debt Outstanding	\$487,304,218	\$388,275,548
Other Liabilities	<u>25,296,621</u>	<u>18,767,108</u>
Total Liabilities	<u>\$512,600,839</u>	<u>\$407,042,656</u>
Net Assets:		
Invest in Cap. Assets, Net of Debt	\$124,560,686	\$163,268,028
Restricted	247,860,223	225,806,958
Unrestricted	<u>22,868,739</u>	<u>27,157,323</u>
Total Net Assets	<u>\$395,289,648</u>	<u>\$416,232,309</u>

The 2010-2011 revenues of \$259 million were less than expenditures of \$280 million by \$21 million. The net assets of the district's governmental activities decreased by \$21 million, which is a 5% decrease during the year.

Table 2
Changes in Net Assets

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2010-2011</u>	<u>2009-2010</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 15,265,236	\$ 15,242,567
Operating Grants and Contributions	46,168,228	44,690,569
Capital Grants and Contributions	4,638,273	711,733
General Revenues:		
Property Taxes	102,693,851	100,062,212
Interest and Investment Earnings	2,433,558	2,982,081
Other Revenues	87,977,742	111,173,808
Total Revenues	<u>\$259,176,888</u>	<u>\$274,862,970</u>
Program Expenses:		
Regular Instruction	\$142,412,894	\$142,370,555
Federal Stimulus	7,079,761	6,499,095
Special Instruction	32,643,767	27,208,902
Vocational Instruction	4,258,331	4,202,095
Skills Center	269,841	125,897
Compensatory Education	7,362,940	7,643,725
Other Instructional Programs	4,413,798	4,578,097
Community Services	1,759,318	1,850,862
Support Services	57,584,846	47,766,792
Extracurricular Activities(ASB)	2,875,555	2,772,309
Debt Payment	19,458,498	16,609,136
Total Expenses	<u>\$280,119,549</u>	<u>\$261,627,465</u>
Excess (Deficiency) Before Special Items	\$(20,942,661)	\$13,235,505
Special Items	<u>0</u>	<u>0</u>
Increase (Decrease) In Net Assets	\$(20,942,661)	\$13,235,505
Net Assets, Beginning of Year	416,232,309	402,996,804
Net Assets, End of Year	<u>\$395,289,648</u>	<u>\$416,232,309</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	
	2010-2011	2009-2010	2010-2011	2009-2010
Regular Instruction	\$142,412,894	\$142,370,555	\$138,131,811	\$140,525,425
Federal Stimulus	7,079,761	6,499,095	-943,358	-920,289
Special Instruction	32,643,767	27,208,902	7,837,773	5,445,523
Vocational Instruction	4,258,331	4,202,095	3,963,589	3,954,951
Skills Center	269,841	125,897	257,506	116,830
Compensatory Instruction	7,362,940	7,643,725	3,795,568	673,026
Other Instructional Programs	4,413,798	4,578,097	-2,467,555	- 676,553
Support Services	57,584,846	47,766,792	43,745,298	35,059,447
All Others	24,093,371	21,232,307	19,727,180	16,804,236
Totals	<u>\$280,119,549</u>	<u>\$261,627,465</u>	<u>\$214,047,812</u>	<u>\$200,982,596</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 \$244.3 million, which is higher than last year's total by \$23.1 million. This increase is primarily due to an increase in capital bond proceeds. The fund balance in the general fund decreased by .5 million.

Table 4 presents a summary of the governmental fund's revenues and expenditures for 2010-11 and the percentage increases/decreases in relation to the prior year.

Table 4
Government Fund Revenues and Expenditures

	2010-11 Amounts	Percent of Total	Increase (Decrease)	Percent Increase (Decrease)
			Over 2009-10	
Revenues:				
Local Tax/Non-Tax	\$118,780,255	42.68%	\$ 4,560,340	3.99%
State Revenues	137,349,416	49.35%	-3,122,224	-2.22%
Federal Revenues	19,286,892	6.93%	2,637,113	15.84%
Other Revenues	2,890,542	1.04%	15,332	.53%
Total Revenues	<u>\$278,307,105</u>	<u>100.00%</u>	<u>\$4,090,561</u>	<u>1.49%</u>
Regular Instruction	\$128,767,736	33.83%	\$ 780,530	.61%
Federal Stimulus	7,079,761	1.86%	580,666	8.93%
Special Instruction	29,516,036	7.75%	5,058,706	20.68%
Vocational Instruction	3,850,323	1.01%	73,176	1.94%
Skills Center	243,987	.06%	130,822	115.60%
Compensatory Instruct.	6,657,467	1.75%	-213,266	-3.10%
Other Instructional Prog.	3,990,894	1.05%	-124,231	-3.02%
Community Services	1,636,087	.43%	-73,424	-4.30%
Support Services	52,426,038	13.77%	8,907,583	20.47%
Student Services	2,674,138	.70%	128,191	5.04%
Capital Outlay	95,032,460	24.96%	33,467,600	54.36%
Debt Service	48,845,798	12.83%	9,315,804	23.57%
Total Expenditures	<u>\$380,720,725</u>	<u>100.00%</u>	<u>\$58,032,157</u>	<u>17.98%</u>

General Fund

Expenditures in the general fund amounted to \$218,728,210 for the fiscal year ended August 31, 2011, which was an increase of 3.08% percent. This small increase in expenditures and actual fund balance exceeding budgeted fund balance by \$5,817,773 is due primarily to tight budgetary controls by management.

Special Revenue Fund (ASB)

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

Changes in the ASB fund balance for the fiscal year ended August 31, 2011 is detailed in Table 5.

Table 5
ASB Recap

	08/31/10 Fund Balance	Revenues	Transfers	Expenditures	08/31/11 Fund Balance
General	\$ 596,403	\$1,766,298	\$- 478,734	\$1,223,462	\$ 660,505
Athletics	41,384	294,228	387,884	700,643	22,853
Classes	53,115	164,804	- 6,303	154,086	57,530
Clubs	107,589	489,511	97,069	565,860	128,309
Private	2,015	39,358	84	39,474	1,983
	<u>\$800,506</u>	<u>\$2,754,199</u>	<u>\$ 0</u>	<u>\$2,683,525</u>	<u>\$ 871,180</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 \$768 million invested in land, buildings, transportation equipment, and other equipment as of August 31, 2011. This is an increase from the previous fiscal year of \$62 million. Table 6 shows the various components of the district's capital assets.

Table 6
Capital Assets – 08/31/11

	(In Millions)		
	Historical Cost	Accumulated Depreciation	Book Value
Land	\$ 20.4		\$ 20.4
Buildings and Improvements	577.7	\$179.0	398.7
Equipment	16.3	5.9	10.4
Construction in Progress	153.7		153.7
Totals	<u>\$768.1</u>	<u>\$184.9</u>	<u>\$583.2</u>

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

Keller Elementary	\$ 3.4
Lake Washington High	19.5
Finn Hill Junior High	27.8
Sandburg Elementary	2.1
Juanita High	.5
Muir Elementary	14.1
Bell Elementary	2.2
Rush Elementary	1.8
Rose Hill Junior/Stella Schola	2.9
Rockwell Elementary	1.2
Evergreen Junior	1.0
Support Services	1.1
ICS/Community School	.9
Redmond High Addition	2.7
Eastlake High Addition	2.8
Smith Elementary	.9
McAuliffe Elementary	.8
Alcott Elementary	1.1
Mead Elementary	1.0
Kamiakin Junior High	1.4
Inglewood Junior High	.7
STEM School	<u>2.5</u>
	<u>\$92.4</u>

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

Debt

The district had bonds outstanding totaling \$458.7 million as of August 31, 2011. This is an increase of \$92.2 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 2011-2012 governmental funds' appropriation for the district was set at \$530 million. The property tax rates are set at \$3.53 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. 74th Street, Redmond, Washington.

Lake Washington School District No. 414
Statement of Net Assets
August 31, 2011

	Primary Governmental Activities
Assets	
Cash & Cash Equivalents	\$269,107,555
Property Tax Receivable	50,869,781
Accounts Receivable, Net	369,156
Due From Other Gov't. Units	1,480,274
Inventories at Cost	483,149
Prepaid Items	1,487,631
Capital Assets, Net of Accum. Depn.:	
Land	20,430,536
Buildings & Improvements	398,717,999
Equipment	10,389,835
Construction-in-Progress	153,692,316
Unamortized Bond Issue Costs	862,255
Total Assets	\$907,890,487
Liabilities	
Accounts Payable	\$17,755,713
Accrued Wages & Benefits Pay.	4,787,891
Deferred Revenue	2,753,017
Long-Term Liabilities:	
Due Within One Year	15,215,000
Due In More Than One Year	463,786,426
Unamortized Debt Premium/Discount	8,302,792
Total Liabilities	\$512,600,839
Net Assets	
Invested In Capital Assets, Net of Related Debt	\$124,560,686
Restricted For:	
Capital Projects	225,172,290
Debt Service	21,816,753
Other Purposes (Special Revenue/ASB)	871,180
Unrestricted	22,868,739
Net Assets	\$395,289,648

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

Lake Washington School District No. 414
Statement of Activities
For the Fiscal Year Ended August 31, 2011

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Governmental Activities
Primary Government: Governmental Activities:					
Regular Instruction	\$142,412,894	\$1,369,764	\$262,158	\$2,649,161	(\$138,131,811)
Federal Stimulus	7,079,761	943,358	7,079,761		943,358
Special Instruction	32,643,767	100	24,198,655	607,239	(7,837,773)
Vocational Instruction	4,258,331	50,301	165,228	79,213	(3,963,589)
Skills Center	269,841	7,315		5,020	(257,506)
Compensatory Education	7,362,940		3,430,407	136,965	(3,795,568)
Other Instructional Programs	4,413,798	3,207,301	3,591,947	82,105	2,467,555
Community Services	1,759,318	1,611,992			(147,326)
Support Services	57,584,846	5,320,906	7,440,072	1,078,570	(43,745,298)
Extracurricular Activities(ASB)	2,875,555	2,754,199			(121,356)
Int. Paymt. On L/T Debt	19,458,498				(19,458,498)
Total Governmental Activities	\$280,119,549	\$15,265,236	\$46,168,228	\$4,638,273	(\$214,047,812)
General Revenues:					
Property Taxes, Levies for Maintenance and Operations					\$46,176,210
Property Taxes, Levies for Debt Service					38,838,138
Property Taxes, Levies for Capital Projects					17,679,503
Unallocated State Apportionment & Others					108,354,276
Interest and Investment Earnings					2,433,558
Gain (Loss) on Disposition of Property & Equipment					(20,376,534)
Total General Revenues & Special Items					\$193,105,151
Changes in Net Assets					(\$20,942,661)
Beginning Net Assets					416,232,309
Ending Net Assets					<u><u>\$395,289,648</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
 August 31, 2011

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Project Fund	Transportation Vehicle Fund	Total Government Funds
Assets						
Cash and Cash Equivalents	\$29,052,492	\$1,619,601	\$4,084,389	\$233,001,876	\$1,349,197	\$269,107,555
Property Taxes Receivable	24,252,614		17,730,017	8,887,150		50,869,781
Accounts Receivable, Net	207,799	700				208,499
Accrued Interest	14,365	654	2,347	142,493	798	160,657
Due From Other Funds	2,004,058	18,816		864,915		2,887,789
Due From Other Gov't Units	1,480,274					1,480,274
Inventories at Cost	483,149					483,149
Prepaid Items	948,770	76,635		462,226		1,487,631
Total Assets	\$58,443,521	\$1,716,406	\$21,816,753	\$243,358,660	\$1,349,995	\$326,685,335
Liabilities						
Accounts Payable	\$1,416,229	\$154,257		\$16,185,227		\$17,755,713
Accrued Wages & Benefits Pay.	8,102,918					8,102,918
Due To Other Funds	883,731	2,915		2,001,143		2,887,789
Deferred Revenue	26,317,577	688,054	\$17,730,017	8,887,150		53,622,798
Total Liabilities	\$36,720,455	\$845,226	\$17,730,017	\$27,073,520	\$0	\$82,369,218
Fund Balances						
Nonspendable Fund Balance	\$950,000					\$950,000
Restricted Fund Balance		\$871,180	\$4,086,736	\$216,285,140	\$1,349,995	222,593,051
Committed Fund Balance	10,926,523					10,926,523
Assigned Fund Balance	3,866,548					3,866,548
Unassigned Fund Balance	5,979,995					5,979,995
Total Fund Balances	\$21,723,066	\$871,180	\$4,086,736	\$216,285,140	\$1,349,995	\$244,316,117
Total Liab. & Fund Balances	\$58,443,521	\$1,716,406	\$21,816,753	\$243,358,660	\$1,349,995	\$326,685,335

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
August 31, 2011

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash and Cash Equivalents	\$269,107,555			\$269,107,555
Property Taxes Receivable	50,869,781			50,869,781
Accounts Receivable, Net	369,156			369,156
Due From Other Funds	2,887,789		(\$2,887,789)	0
Due From Other Gov't Units	1,480,274			1,480,274
Inventories at Cost	483,149			483,149
Prepaid Items	1,487,631			1,487,631
Capital Assets, Net		\$583,230,686		583,230,686
Unamortized Bond Issue Costs		862,255		862,255
Total Assets	\$326,685,335	\$584,092,941	(\$2,887,789)	\$907,890,487
Liabilities				
Accounts Payable	\$17,755,713			\$17,755,713
Accrued Wages & Benefits Pay.	8,102,918	(\$3,315,027)		4,787,891
Due To Other Funds	2,887,789		(\$2,887,789)	0
Deferred Revenue	53,622,798	(50,869,781)		2,753,017
Long-Term Liabilities		487,304,218		487,304,218
Total Liabilities	\$82,369,218	\$433,119,410	(\$2,887,789)	\$512,600,839
Fund Balances/Net Assets	\$244,316,117	\$150,973,531		\$395,289,648
Total Liab & Fund Bal./Net Assets	\$326,685,335	\$584,092,941	(\$2,887,789)	\$907,890,487

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 Fiscal Year Ended August 31, 2011

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Revenues						
Local	\$61,082,335		\$38,448,950	\$19,234,237	\$14,733	\$118,780,255
State	134,173,014			2,531,410	644,992	137,349,416
Federal	17,656,583		1,630,309			19,286,892
Miscellaneous	136,343	\$2,754,199				2,890,542
Total Revenues	\$213,048,275	\$2,754,199	\$40,079,259	\$21,765,647	\$659,725	\$278,307,105
Expenditures						
Regular Instruction	\$128,767,736					\$128,767,736
Federal Stimulus	7,079,761					7,079,761
Special Instruction	29,516,036					29,516,036
Vocational Instruction	3,850,323					3,850,323
Skills Center	243,987					243,987
Compensatory Instruction	6,657,467					6,657,467
Other Instructional Programs	3,990,894					3,990,894
Community Services	1,636,087					1,636,087
Support Services	36,935,970	\$2,674,138		\$15,490,068		52,426,038
Student Services						2,674,138
Capital Outlay	49,949	9,387		93,436,046	\$1,537,078	95,032,460
Debt Service-Principal			\$27,805,000			27,805,000
Debt Service-Interest & Other			21,040,798			21,040,798
Total Expenditures	\$218,728,210	\$2,683,525	\$48,845,798	\$108,926,114	\$1,537,078	\$380,720,725
Revenues Over (Under) Exp.	(\$5,679,935)	\$70,674	(\$8,766,539)	(\$87,160,467)	(\$877,353)	(\$102,413,620)
Other Financing Sources (Uses)						
Sale of Real Property				\$52,500		\$52,500
Sale of Equipment	\$13,255				\$58,682	71,937
Compensated Loss Of Cap. Assets				3,738,000		3,738,000
Sale of Bonds			\$741,995	120,877,375		121,619,370
Transfers In	5,217,678					5,217,678
Transfers Out				(5,217,678)		(5,217,678)
Total Other Financing Sources(Uses)	\$5,230,933	\$0	\$741,995	\$119,450,197	\$58,682	\$125,481,807
Net Change in Fund Balance	(\$449,002)	\$70,674	(\$8,024,544)	\$32,289,730	(\$818,671)	\$23,068,187
Beginning Fund Balance	22,172,068	800,506	12,111,280	183,995,410	2,168,666	221,247,930
Ending Fund Balance	\$21,723,066	\$871,180	\$4,086,736	\$216,285,140	\$1,349,995	\$244,316,117

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
August 31, 2011

	Total Governmental Funds	Long-Term Revenue, Expenditures	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
Revenues & Other Sources					
Local	\$118,780,255	\$1,246,317			\$120,026,572
State	137,349,416				137,349,416
Federal	19,286,892				19,286,892
Miscellaneous	2,890,542				2,890,542
Loss in Disposition of Fixed Assets			(\$24,238,971)		(24,238,971)
Sale or Comp. of Fixed Assets	3,862,437				3,862,437
Sale of Bonds	121,619,370			(\$121,619,370)	0
Other Financial Sources	5,217,678	(\$5,217,678)			0
Total Revenues & Other Sources	\$409,006,590	(\$3,971,361)	(\$24,238,971)	(\$121,619,370)	\$259,176,888
Expenditures					
Current:					
Regular Instruction	\$128,767,736	\$3,946,311	\$9,698,847		\$142,412,894
Federal Stimulus	7,079,761				7,079,761
Special Education	29,516,036	904,570	2,223,161		32,643,767
Vocational Instruction	3,850,323	118,000	290,008		4,258,331
Skills Center	243,987	7,477	18,377		269,841
Compensatory Education	6,657,467	204,030	501,443		7,362,940
Other Instructional Programs	3,990,894	122,308	300,596		4,413,798
Community Services	1,636,087		123,231		1,759,318
Support Services	52,426,038	1,131,967	3,948,753	\$78,088	57,584,846
Student Activities	2,674,138		201,417		2,875,555
Capital Outlay	95,032,460		(95,032,460)		0
Debt Service-Principal	27,805,000			(27,805,000)	0
Debt Service-Interest & Other	21,040,798			(1,582,300)	19,458,498
Other Financial Uses	5,217,678	(5,217,678)			0
Total Expenditures	\$385,938,403	\$1,216,985	(\$77,726,627)	(\$29,309,212)	\$280,119,549
Net Change for the Year	\$23,068,187	(\$5,188,346)	\$53,487,656	(\$92,310,158)	(\$20,942,661)

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 Fiscal Year Ended August 31, 2011

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
Local	\$59,359,486	\$59,359,486	\$61,082,335	\$1,722,849
State	143,760,200	143,760,200	134,173,014	(9,587,186)
Federal	16,338,026	16,338,026	17,656,583	1,318,557
Other	132,380	132,380	136,343	3,963
Total Revenues	\$219,590,092	\$219,590,092	\$213,048,275	(\$6,541,817)
Expenditures:				
Regular Instruction	\$137,828,586	\$137,828,586	\$128,767,736	\$9,060,850
Federal Stimulus	\$2,326,286	\$2,326,286	7,079,761	(4,753,475)
Special Education	26,215,069	26,215,069	29,516,036	(3,300,967)
Vocational Education	3,566,676	3,566,676	3,850,323	(283,647)
Skills Center	274,159	274,159	243,987	30,172
Compensatory Education	7,250,244	7,250,244	6,657,467	592,777
Other Instructional Programs	7,313,459	7,313,459	4,034,748	3,278,711
Community Services	1,705,609	1,705,609	1,636,087	69,522
Support Services	39,402,336	39,402,336	36,942,066	2,460,270
Total Expenditures	\$225,882,424	\$225,882,424	\$218,728,211	\$7,154,213
Excess of Revenues Over (Under) Expenditures	(\$6,292,332)	(\$6,292,332)	(\$5,679,936)	\$612,396
Other Financing Sources (Uses):				
Other Financial Sources	\$5,435,883	\$5,435,883	\$5,230,933	(\$204,950)
Total Other Financing Sources (Uses)	\$5,435,883	\$5,435,883	\$5,230,933	(\$204,950)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	(\$856,449)	(\$856,449)	(\$449,003)	\$407,446
Beginning Fund Balance	16,761,771	16,761,741	22,172,068	5,410,327
Ending Fund Balance	\$15,905,322	\$15,905,292	\$21,723,065	\$5,817,773

Note: There was no budget revision during the fiscal year 2010-11. 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 Fiscal Year Ended August 31, 2011

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
General	\$2,733,585	\$2,733,585	\$1,766,298	(\$967,287)
Athletics	273,500	273,500	294,228	20,728
Classes	217,800	217,800	164,804	(52,996)
Clubs	470,635	470,635	489,512	18,877
Private Monies	117,700	117,700	39,357	(78,343)
Total Revenues	\$3,813,220	\$3,813,220	\$2,754,199	(\$1,059,021)
Expenditures:				
General	\$2,262,878	\$2,262,878	\$1,223,462	\$1,039,416
Athletics	763,881	763,881	700,643	63,238
Classes	243,398	243,398	154,086	89,312
Clubs	559,199	559,199	565,860	(6,661)
Private Monies	117,900	117,900	39,474	78,426
Total Expenditures	\$3,947,256	\$3,947,256	\$2,683,525	\$1,263,731
Excess of Revenues Over (Under) Expenditures	(\$134,036)	(\$134,036)	\$70,674	\$204,710
Beginning Fund Balance	595,035	595,035	800,506	205,471
Ending Fund Balance	\$460,999	\$460,999	\$871,180	\$410,181

Note: There was no budget revision during the fiscal year 2010-11. The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Statement of Fiduciary Net Assets
Fiduciary Funds
August 31, 2011

	<u>Private- Purpose Trust</u>
Assets	
Cash and Cash Equivalents	\$202,646
Accounts Receivable, Net	<u>120</u>
Total Assets	<u><u>\$202,766</u></u>
Liabilities	
Accounts Payable	<u>\$700</u>
Total Liabilities	<u>\$700</u>
Net Assets	\$202,066
Total Net Assets	<u><u>\$202,766</u></u>

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

Lake Washington School District No. 414
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended August 31, 2011

	Private- Purpose Trust
Additions	
Donations	\$47,958
Investment Earnings	1,601
Total Additions	\$49,559
Deductions	
Scholarships	\$44,034
Total Deductions	\$44,034
Change in Net Assets	\$5,525
Net Assets, Beginning of Year	196,541
Net Assets, End of Year	\$202,066

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, 2010 THROUGH AUGUST 31, 2011

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, 2011 was \$3,700,901.58 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, 2011 was \$361,377.05 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)

The district has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition. Following are the fund balance designations for the governmental funds financial statements:

- a. **Nonspendable** accounts represent those portions of fund balance that cannot be spent either because they are not in a spendable form (inventories and prepaids), or are legally required to be maintained intact (trust principal).
- b. **Restricted** fund balances are those amounts that are restricted for specific purposes. These restrictions may either be (1) Externally imposed by creditors, grantors, contributors, laws, or regulations of other governments, or (2) Imposed by law through constitutional provisions or enabling legislation. Included in this fund balance category are the carryovers of restricted state revenues, uninsured risk, construction and technology projects, debt service, and federal arbitrage rebate.
- c. **Committed** accounts are those that can only be used for specific purposes pursuant to constraints imposed by resolution of the board of directors. These committed fund balances cannot be used for any other purposes unless the board takes action to change or remove the original limitation. Reserves for debt and fiscal management, encumbrances, and contingencies are reported here.
- d. **Assigned** fund balances comprise amounts a district intends to use for a specific purpose. Authority for making these assignments rests with senior administration of the district. For funds other than the General Fund, the amount of residual fund balance that is spendable after all restrictions, commitments, and other assignments have been made is classified as assigned. Budgeted carryover, contingencies for future operations, set-asides for specific programs such as special education and curriculum and instruction, and ending reserves for fund purposes in all governmental funds except the General Fund are reported in this category.
- e. **Unassigned** fund balance includes all resources not reported in the other four classifications and reported only in the General Fund. These resources are the only ones on the balance sheet that are truly available for any purpose.

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, 2011 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	\$269,310,201	\$270,279,718	0.66 Years

Impaired Investments. As of August 31, 2011 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. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events. 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, 2011 the Pool's average duration was 0.66 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, 2011 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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Note 4: Receivables

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

	<u>General</u>	<u>ASB</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Transpor. Vehicle</u>	<u>Private Purpose Trust</u>
Receivables:						
Taxes	\$24,252,614		\$17,730,017	\$8,887,150		
Governmental	1,480,274					
Accounts	222,163	\$ 1,354	2,347	142,493	\$ 798	\$ 120
Total	<u>\$25,955,051</u>	<u>\$1,354</u>	<u>\$17,732,364</u>	<u>\$9,029,643</u>	<u>\$ 798</u>	<u>\$ 120</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, 2011 short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in governmental fund financial statements were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 2,004,058	\$ 883,731
Capital Projects Fund	864,915	2,001,143
Special Revenue Fund	<u>18,816</u>	<u>2,915</u>
Total	<u>\$ 2,887,789</u>	<u>\$2,887,789</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	\$20,414,002	\$ 16,534		\$ 20,430,536
Construction in Progress	<u>76,075,786</u>	<u>77,616,530</u>		<u>153,692,316</u>
Total	<u>\$96,489,788</u>	<u>\$77,633,064</u>		<u>\$ 174,122,852</u>
Capital Assets, being depreciated:				
Building and Improvements	\$592,822,458	\$15,543,667	\$ 30,646,134	\$577,719,991
Transportation Equipment	12,616,386	1,543,174	1,640,491	12,519,069
Other Equipment	<u>3,788,691</u>	<u>312,556</u>	<u>323,902</u>	<u>3,777,345</u>
Total	<u>\$609,227,535</u>	<u>\$17,399,397</u>	<u>\$ 32,610,527</u>	<u>\$594,016,405</u>
Less: Accumulated Depreciation:				
Buildings and Improvements				\$ 179,001,992
Transportation Equipment				3,883,076
Other Equipment				<u>2,023,503</u>
Total				<u>\$184,908,571</u>
Net Depreciated Assets				<u>\$409,107,834</u>
Net Total Assets				<u>\$583,230,686</u>

Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$ 9,698,847
Special Instruction	2,223,161
Vocational Instruction	290,008
Skills Center	18,377
Compensatory Instruction	501,443
Other Instruction Programs	300,596
Community Services	123,231
Student Services	201,417
Support Service	<u>3,948,753</u>
Total	<u>\$17,305,833</u>

Construction in Progress is composed of:

	<u>Project Authorization</u>	<u>Construction In Process 08/31/11</u>	<u>Additional Local Funds Committed</u>	<u>Additional State Funds Committed</u>
Keller Elementary	\$ 26,343,000	\$ 2,648,444	\$23,694,556	
Lake Washington High	87,178,000	77,908,075	9,269,925	
Finn Hill Junior	47,142,602	36,032,541	11,110,061	
Sandburg Elementary	30,575,000	2,330,387	28,244,613	
STEM	27,040,677	2,468,829	24,571,848	
Muir Elementary	29,639,422	15,994,103	13,645,319	
Bell Elementary	32,531,000	2,330,387	30,200,613	
Rush Elementary	33,051,000	1,857,709	31,193,291	
Rose Hill Jr/Stella Schola	62,139,000	2,974,002	59,164,998	
Evergreen Jr Lighting	1,100,000	1,084,137	15,863	
Rockwell El Univents	1,190,000	958,654	231,346	
Alcott El Univents	1,190,000	961,672	228,328	
Smith El Univents	1,045,000	814,898	230,102	
Mead El Univents	1,190,000	115,473	1,074,527	
Kamiakin Jr. Vent.	1,668,000	187,611	1,480,389	
ICS/Community School	26,648,990	847,227	25,801,763	
Redmond High Addition	16,392,507	2,024,490	14,368,017	
Eastlake High Addition	<u>18,574,816</u>	<u>2,153,676</u>	<u>16,421,140</u>	<u>\$ 0</u>
Total	<u>\$444,639,014</u>	<u>\$153,692,315</u>	<u>\$290,946,699</u>	<u>\$ 0</u>

The district's property valuation of buildings and equipment for insurance purposes is \$510,896,272 on August 31, 2011.

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, 2010 it includes 75,275 active and inactive vested members.

The Public Employers' Retirement System (PERS) includes noncertificated staff of 296 public school district employers and other public employers. As of June 30, 2010 it includes 185,386 active and inactive vested members.

The School Employers' Retirement System (SERS) includes noncertificated staff of 296 public school district employers. As of June 30, 2010 it includes 62,039 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, 2011:

Plan 1 TRS 6.00%	Plan 1 PERS 6.00%
Plan 2 TRS 3.36%	Plan 2 SERS 3.15%
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, 2011:

Plan 1 TRS 6.14%	Plan 1 PERS 7.07%
Plan 2 TRS 6.14%	Plan 2 SERS 5.45%
Plan 3 TRS 6.14%	Plan 3 SERS 5.45%

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 10-11	FY 09-10	FY 08-09
Plan 1 TRS	\$ 457,172	\$ 569,182	\$ 767,109
Plan 2 TRS	892,351	823,948	945,481
Plan 3 TRS	4,995,228	5,209,750	6,230,217
Plan 1 PERS	50,690	74,592	83,129
Plan 2 SERS	607,960	770,801	621,927
Plan 3 SERS	1,029,559	1,270,972	1,188,743

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, 2011 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 2011:

	<u>Type of Coverage</u>		
	<u>Employee Only</u>	<u>Employee & Spouse</u>	<u>Full Family</u>
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 2011, after age 65 retired members receive a subsidy of 50% of their monthly premiums up to \$182.89 per Medicare covered person.

For 2011, 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.

	<u>August 31, 2011</u>
Determination of Annual Required Contribution	
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>
Determination of Net OPEB Obligation	
Annual Required Contribution	\$ 8,840,274
Interest on prior year Net OPEB Obligation	246,350
Adjustment to ARC	<u>-226,529</u>
Annual OPEB Cost	\$ 8,860,095
Contributions made*	<u>2,475,318</u>
Increase in Net OPEB Obligation	\$ 6,384,777
OPEB Obligation – Prior Year	<u>6,569,340</u>
Net OPEB Obligation – end of year	<u>\$ 12,954,117</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 2011 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
08/31/2011	\$ 8,840,274	28.00%	\$ 12,954,117

Funded status and Funding Progress

As of August 31, 2011, 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 \$12,954,117 thru August 31, 2011. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status 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. amortization period at August 31, 2011 was 29 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, 2010 was \$352,053.

Note 9: Long-Term Debt

A. Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2011 the following changes occurred in liabilities reported in the district-wide financial statements:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds Payable					
2000 G.O. Bonds	\$ 1,065,000		\$ 1,065,000	\$ 0	
2001 G.O. Bonds	7,400,000		3,000,000	4,400,000	
2004 G.O. Bonds	61,585,000		12,035,000	49,550,000	\$ 10,445,000
2004 G.O. Bonds	19,625,000			19,625,000	2,065,000
2006 G.O. Bonds	94,800,000			94,800,000	
2007 G.O. Bonds	68,500,000			68,500,000	
2008 G.O. Bonds	73,500,000		3,150,000	70,350,000	
2009 Bonds	40,000,000		8,555,000	31,445,000	
2010 Bonds		\$120,000,000		120,000,000	0
Total Bonds Payable	\$ 366,475,000	\$120,000,000	\$27,805,000	\$458,670,000	\$12,510,000
Other Liabilities:					
Unemployment Pay.	\$ 491,178	\$ 257,258	\$ 144,047	\$ 604,389	\$ 200,000
Other Empl. Ins. Pay.	1,469,276	635,932	617,872	1,487,336	775,000
Industrial Insurance	1,117,389	1,071,768	965,852	1,223,305	1,160,000
Net OPEB	6,569,340	8,860,095	2,475,318	12,954,117	
Comp. Absences	4,012,393	49,886		4,062,279	570,000
Total Other Liab.	\$ 13,659,576	\$10,874,939	\$4,203,089	\$20,331,426	\$2,705,000
Grand Total	\$380,134,576	\$130,874,939	\$32,008,089	\$479,001,426	\$15,215,000

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
2000 G. O. Bonds	\$ 134,750		\$ 13,475	\$121,275
2001 G. O. Bonds	141,516		23,586	117,930
2006 G. O. Bonds	199,720		12,482	187,238
2007 G. O. Bonds	179,279		12,806	166,473
2008 G. O. Bonds	81,412		4,789	76,623
2009 Bonds	78,916		4,384	74,532
2010 Bonds	0	\$ 124,750	6,566	118,184
	<u>\$ 815,593</u>	<u>\$ 124,750</u>	<u>\$78,088</u>	<u>\$862,255</u>

C. Bond Premiums

The amortization schedule of bond premiums is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2000 G. O. Bonds	\$ 164,770	\$ 16,477		\$148,293
2001 G. O. Bonds	1,161,306	193,551		967,755
2006 G. O. Bonds	2,369,440	148,090		2,221,350
2007 G. O. Bonds	3,742,241	267,303		3,474,938
2008 G. O. Bonds	1,728,721	101,689		1,627,032
2009 Bonds	193,622	10,757		182,865
2010 Bond		85,230	\$1,619,370	1,534,140
	<u>\$9,360,100</u>	<u>\$823,097</u>	<u>\$1,619,370</u>	<u>\$10,156,373</u>

D. Unamortized Discount Costs

The amortization schedule of bond discount costs is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2006 Bonds	\$ 320,000		\$ 20,000	\$300,000
2007 Bonds	314,918		22,494	292,424
2008 Bonds	343,578		20,211	323,367
2009 Bonds	240,632		13,368	227,264
2010 Bonds		\$750,000	39,474	710,526
	<u>\$ 1,219,128</u>	<u>\$750,000</u>	<u>\$ 115,547</u>	<u>\$1,853,581</u>

E. General Obligation Debt

Bonds payable at August 31, 2011 are comprised of the following:

	Interest Rates	Issue Date	Maturity Date	Amount Issued	Outstanding Amount
2001 Bonds	5.25-5.75	12/15/01	12/01/12	\$ 40,000,000	\$ 4,400,000
2004 Bonds	3.35-5.00	03/30/04	12/01/17	70,100,000	49,550,000
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	70,350,000
2009 Bonds	1.65-5.57	11/03/09	12/01/27	40,000,000	31,445,000
2010 Bonds	4.91-5.06	09/17/10	12/01/29	120,000,000	120,000,000
				<u>\$561,870,000</u>	<u>\$458,670,000</u>

F. Debt Service Requirements to Maturity

Fiscal Year Ended	Principal	Interest	Total
08/31/12	\$ 12,510,000	\$ 21,830,816	\$ 34,340,816
08/31/13	11,840,000	21,194,066	33,034,066
08/31/14	14,375,000	20,589,913	34,964,913
08/31/15	15,540,000	19,979,976	35,519,976
08/31/16	15,755,000	19,266,850	35,021,850
08/31/17	17,320,000	18,459,725	35,779,725
08/31/18	16,875,000	17,533,225	34,408,225
08/31/19	22,810,000	16,553,225	39,363,225
08/31/20	22,900,000	15,325,475	38,225,475
08/31/21	20,800,000	14,234,475	35,034,475
08/31/22	23,500,000	13,126,975	36,626,975
08/31/23	26,100,000	11,924,475	38,024,475
08/31/24	29,500,000	10,620,538	40,120,538
08/31/25	22,000,000	9,381,600	31,381,600
08/31/26	35,900,000	7,916,530	43,816,530
08/31/27	33,945,000	6,445,475	40,390,475
08/31/28	42,000,000	4,831,370	46,831,370
08/31/29	37,500,000	2,834,625	40,334,625
08/31/30	37,500,000	948,000	38,448,000
Totals	<u>\$458,670,000</u>	<u>\$252,997,334</u>	<u>\$711,667,334</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 \$120,000,000 principal amount of Unlimited Tax General Obligation Bonds and Build America Bonds on September 17, 2010.

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 \$14,555,000 of refunded debt outstanding at August 31, 2011.

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, 2011.

<u>Year Ended</u>	<u>Amount</u>
08/31/12	\$ 347,200
08/31/13	0
08/31/14	0
08/31/15	0
08/31/16	0
Total	<u>\$ 347,200</u>

All of the \$347,200 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 \$144,047 with an ending accrued balance of \$604,389.

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 \$965,852 with an ending accrued balance of \$1,223,305.

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 09/01/2010 to 08/31/2011, WSRMP self-insures the first \$1 million per occurrence for property and purchases excess property insurance to a blanket 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	\$768,139,257
Accumulated Depreciation	<u>184,908,571</u>
Net Capital Assets	<u>\$583,230,686</u>

2. Unamortized Bond Issue Costs (\$862,255) – 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 \$487,304,218 (\$15,215,000 due within one year; \$463,786,426 due in more than one year; and unamortized debt premium/discount of \$8,302,792), 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 (\$50,869,781) 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 (\$2,887,789) - Internal transfers between governmental funds were eliminated in the governmental-wide statement to avoid the “doubling up” effect.

B. Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

1. Property taxes that do not provide current financial resources are reported as deferred revenue in governmental funds, but as revenues in the Statement of Activities (\$1,246,317).
2. The increase between the beginning and ending balances of the liability for compensated absences (\$49,886) is reported in the Statement of Activities as an expense and is allocated to various applicable programs. This increase is not reported in governmental fund statements.
3. The increase between the beginning and ending balance of the liability for net OPEB obligation (\$6,384,777) 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 (\$124,437) 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 (\$17,305,833).
6. Repayment of bond principal (\$27,805,000) 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	\$ 823,097
Current year bond discount amortization	115,547
Current year bond issuance cost amortization	78,088

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

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, 2011

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%
08/31/11	\$ -	\$107,336,280	\$107,336,280	0%	\$139,597,782	77%

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. The actuarial study is performed biennially.

Lake Washington School District #414
Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2011

1 Federal Grantor	2 Pass Through Agency	3 Program Title	4 CFDA No.	5 Other I.D. No.	6 7 8 Expenditures			9 Foot- note Ref.	
					Direct Awards	Pass Through Awards	Total		
U.S. Dept. of Educ.	SPI	ARRA Title I Grants to Local Educational Agencies	84.389	240592		857,093.00	857,093.00	4, 6	
	SPI	Educational Jobs Fund	84.410	960174		4,880,144.00	4,880,144.00		
	SPI	ARRA Special Education - Grants to States	84.391	310381		1,364,156.98	1,364,156.98	4, 6	
	SPI	ARRA Special Education - Preschool Grants	84.392	370552		31,666.60	31,666.60	4, 6	
	SPI	ARRA Education for Homeless Children and Youth	84.387	457219		151.03	151.03	4, 6	
	SPI	Special Ed - Grants to States	84.027	303853		4,180,071.00	4,180,071.00	4	
	SPI	Special Ed - Preschool Grants/Part B	84.173	366517		84,518.00	84,518.00	4	
	SPI	Special Ed - Grants to States	84.027	337318		1,627,100.00	1,627,100.00	4	
	SPI	Career & Technical Ed - Basic Grants to State	84.048	172016		94,100.00	94,100.00	4	
	SPI	Career & Technical Ed - Basic Grants to State	84.048	189037		4,974.70	4,974.70	4	
	SPI	Title I - Grants to Local Ed Agencies	84.010	200627		890,959.42	890,959.42	4	
	SPI	Title I Reallocation	84.010	224310		15,524.61	15,524.61	4	
	SPI	Improving Teacher Quality State Grants	84.367	520116		632,206.00	632,206.00	4	
	SPI	Enhancing Education Through Technology	84.318	721767		5,817.00	5,817.00	4	
	SPI	Safe and Drug Free Schools & Communities	84.186	950622		9,583.00	9,583.00		
	SPI	English Language Acquisition Grant	84.365	401215		156,086.59	156,086.59	5	
DOE	Indian Ed - Grants to Local Ed Agencies		84.060	S060A101113	48,107.00	0.00	48,107.00		
					<u>48,107.00</u>	<u>14,834,151.93</u>	<u>14,882,258.93</u>		
U.S. Dept. of Human Services	PSESD	Prevention & Treatment of Substance Abuse	93.959			28,000.00	28,000.00		
	PSESD	Head Start 09-10	93.600			101,841.84	101,841.84		
	PSESD	Head Start 10-11	93.600			484,222.05	484,222.05		
	DSHS	Medical Assistance Program	93.778			0.00	0.00		
						<u>614,063.89</u>	<u>614,063.89</u>		
U.S. Dept of Educ.	SPI	National School Lunch Program: Cash Assistance	10.555			1,695,580.51	1,695,580.51	2	
		Non Cash Assistance (commodities)				306,604.86	306,604.86	3	
	SPI	State Treasurer	10.665			68,084.15	68,084.15		
						<u>2,070,269.52</u>	<u>2,070,269.52</u>		
Total Federal Awards Expended						48,107.00	17,518,485.34	17,566,592.34	

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, 2011

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 2.43%.

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

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 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 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.

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