

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

Lake Washington School District No. 414
King County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1011956

Issue Date
May 27, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

May 27, 2014

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on Lake Washington School District No. 414's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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King County
September 1, 2012 through August 31, 2013**

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Federal Summary

Lake Washington School District No. 414 King County September 1, 2012 through August 31, 2013

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$328,527.

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
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**Lake Washington School District No. 414
King County
September 1, 2012 through August 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 19, 2014. As discussed in Note 1C to the financial statements, during the year ended August 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated May 19, 2014.

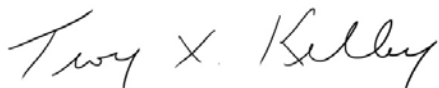
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

May 19, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Lake Washington School District No. 414
King County
September 1, 2012 through August 31, 2013**

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

May 19, 2014

Independent Auditor's Report on Financial Statements

**Lake Washington School District No. 414
King County
September 1, 2012 through August 31, 2013**

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

REPORT ON THE FINANCIAL STATEMENTS

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the general and special revenue (Associated Student Body) funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1C to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 18 and information on postemployment benefits other than pensions on page 49 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 our 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.

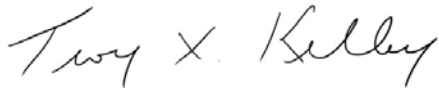
Supplementary and Other Information

Our audit was conducted 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 basic 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 basic financial statements or to the basic 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

May 19, 2014

Financial Section

**Lake Washington School District No. 414
King County
September 1, 2012 through August 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation – Balance Sheet/Statement of Net Position – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2013

Reconciliation – Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities – 2013

Budgetary Comparison Statement – General Fund – 2013

Budgetary Comparison Statement – Special Revenue Fund (Associated Student Body Fund) – 2013

Statement of Fiduciary Net Position – Fiduciary Funds – 2013

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation of Post Employment Benefits Other Than Pension – Schedule of Funding Progress – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

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, 2013.

FINANCIAL HIGHLIGHTS

- The district's Statement of Net Position reports net assets of \$452 million as of August 31, 2013.
- During the year, the district had revenues that were \$44 million higher (before special items) than the \$291 million in expenses incurred for all governmental activities, resulting in a corresponding increase in the district's net position.
- The general fund reported a decrease in fund balance of \$451,112 for the fiscal year.
- The average student enrollment increased by 488 full time equivalent students (FTE's) over the previous year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position and the Statement of Activities

Our analysis of the district as a whole begins with the government-wide financial statements. The Statement of Net Position 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 position and changes in them. The district's net position (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 position is 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 Position 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 Position 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 position (Table 1) and changes in net position (Table 2) of the district's governmental activities.

Net position serves as a useful indicator of a government's financial position. The Lake Washington School District's assets exceeded liabilities by \$451,605,921 at the end of the 2012-2013 fiscal year.

A large portion (81%) of net position 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. Fourteen percent of the net assets represents resources that are subject to external restrictions on their use.

The remaining unrestricted net assets (5%) 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 Position

	<u>2012-2013</u>	<u>2011-2012</u>
Current and Other Assets	\$177,233,294	\$282,657,273
Capital Assets	<u>823,687,386</u>	<u>701,987,328</u>
Total Assets	<u>\$1,000,920,680</u>	<u>\$984,644,601</u>
Long-Term Debt Outstanding	\$524,289,946	\$536,129,878
Other Liabilities	<u>25,024,813</u>	<u>41,206,185</u>
Total Liabilities	<u>\$549,314,759</u>	<u>\$577,336,063</u>
Net Position:		
Invest in Cap. Assets, Net of Debt	\$364,078,059	\$248,361,494
Restricted	62,572,781	129,169,912
Unrestricted	<u>24,955,081</u>	<u>29,777,132</u>
Total Net Position	<u>\$451,605,921</u>	<u>\$407,308,538</u>

The 2012-2013 revenues of \$335 million were more than expenditures of \$291 million by \$44 million. The net position of the district's governmental activities increased by \$44 million, which is a 11% increase during the year.

Table 2
Changes in Net Position

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2012-2013</u>	<u>2011-2012</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 17,857,291	\$ 16,053,780
Operating Grants and Contributions	38,411,569	36,820,347
Capital Grants and Contributions	15,992,766	13,715,645
General Revenues:		
Property Taxes	124,714,628	118,313,355
Interest and Investment Earnings	2,414,562	1,508,869
Other Revenues	<u>135,927,236</u>	<u>106,888,702</u>
Total Revenues	<u>\$335,318,052</u>	<u>\$293,300,698</u>
Program Expenses:		
Regular Instruction	\$157,501,607	\$152,127,010
Federal Stimulus	0	116,119
Special Instruction	33,613,530	33,092,713
Vocational Instruction	5,062,158	4,398,251
Skills Center	783,265	599,607
Compensatory Education	8,916,371	8,153,916
Other Instructional Programs	5,198,304	4,541,022
Community Services	1,976,468	1,912,511
Support Services	54,024,715	52,478,796
Extracurricular Activities(ASB)	2,994,831	3,189,396
Debt Payment	<u>20,949,420</u>	<u>20,672,467</u>
Total Expenses	<u>\$291,020,669</u>	<u>\$281,281,808</u>
Excess (Deficiency) Before Special Items	\$44,297,383	\$ 12,018,890
Special Items	0	0
Increase (Decrease) In Net Position	\$44,297,383	\$ 12,018,890
Net Position, Beginning of Year	<u>407,308,538</u>	<u>395,289,648</u>
Net Position, End of Year	<u>\$451,605,921</u>	<u>\$407,308,538</u>

Governmental Activities

The cost of each of the district's largest programs – basic instruction, 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	
	2012-2013	2011-2012	2012-2013	2011-2012
Regular Instruction	\$157,501,607	\$152,127,010	\$144,992,811	\$141,450,816
Federal Stimulus	0	116,119	0	-1
Special Instruction	33,613,530	33,092,713	9,397,232	9,468,339
Vocational Instruction	5,062,158	4,398,251	4,565,336	3,980,951
Skills Center	783,265	599,607	672,035	455,358
Compensatory Instruction	8,916,371	8,153,916	4,033,627	4,072,497
Other Instructional Programs	5,198,304	4,541,022	-3,481,237	-2,885,528
Support Services	54,024,715	52,478,796	37,393,670	36,859,994
All Others	25,920,719	25,774,374	21,185,569	21,289,610
Totals	<u>\$291,020,669</u>	<u>\$281,281,808</u>	<u>\$218,759,043</u>	<u>\$214,692,036</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 \$87.5 million, which is lower than last year's total by \$92.3 million. This decrease is primarily due to an increase in capital spending. 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 2012-2013 and the percentage increases/decreases in relation to the prior year.

Table 4
Government Fund Revenues and Expenditures

	2012-2013 Amounts	Percent of Total	Increase (Decrease) Over 2011-2012	Percent Increase (Decrease)
Revenues:				
Local Tax/Non-Tax	\$143,329,267	45.24%	\$ 14,135,814	10.94%
State Revenues	156,979,271	49.55%	4,879,011	3.21%
Federal Revenues	13,092,503	4.13%	-339,292	-2.53%
Other Revenues	3,430,928	1.08%	468,419	15.81%
Total Revenues	<u>\$316,831,969</u>	<u>100.00%</u>	<u>\$19,143,952</u>	<u>6.43%</u>
Regular Instruction	\$142,347,262	34.80%	\$ 5,619,453	4.11%
Federal Stimulus	0	.00%	-116,119	-100.00%
Special Instruction	30,379,334	7.42%	636,463	2.14%
Vocational Instruction	4,575,092	1.12%	622,058	15.74%
Skills Center	707,901	.17%	168,989	31.36%
Compensatory Instruct.	8,058,464	1.97%	729,936	9.96%
Other Instructional Prog.	4,698,138	1.15%	616,785	15.11%
Community Services	1,817,505	.44%	76,272	4.38%
Support Services	49,534,152	12.10%	1,611,273	3.36%
Student Services	2,753,963	.67%	-149,802	-5.16%
Capital Outlay	127,102,294	31.06%	-25,135,061	-16.51%
Debt Service	37,235,424	9.10%	2,889,725	8.41%
Total Expenditures	<u>\$409,209,529</u>	<u>100.00%</u>	<u>\$-12,430,028</u>	<u>-2.95%</u>

General Fund

Expenditures in the general fund amounted to \$233,561,591 for the fiscal year ended August 31, 2013, which was an increase of 4.64% percent. This small increase in expenditures and actual fund balance exceeding budgeted fund balance by \$3,997,054 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, 2013 is detailed in Table 5.

Table 5
ASB Recap

	08/31/12 Fund Balance	Revenues	Transfers	Expenditures	08/31/13 Fund Balance
General	\$ 638,982	\$1,916,889	\$- 523,375	\$1,265,223	\$ 767,273
Athletics	43,841	304,592	436,102	739,230	45,305
Classes	30,342	124,826	35,689	128,248	62,609
Clubs	94,281	558,587	51,584	573,862	130,590
Private	0	47,400	0	47,400	0
	<u>\$807,446</u>	<u>\$2,952,294</u>	<u>\$ 0</u>	<u>\$2,753,963</u>	<u>\$ 1,005,777</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 \$1,006 million invested in land, buildings, transportation equipment, and other equipment as of August 31, 2013. This is an increase from the previous fiscal year of \$103 million. Table 6 shows the various components of the district's capital assets.

Table 6
Capital Assets – 08/31/12

	(In Millions)		
	Historical Cost	Accumulated Depreciation	Book Value
Land	\$ 23.6		\$ 23.6
Buildings and Improvements	844.7	\$175.0	669.7
Equipment	16.8	7.3	9.5
Construction in Progress	<u>120.9</u>		<u>120.9</u>
Totals	<u>\$1,006.0</u>	<u>\$182.3</u>	<u>\$823.7</u>

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

Keller Elementary	\$ 1.6
Lake Washington High	1.5
Finn Hill Junior High	1.1
Sandburg Elementary	2.6
Muir Elementary	3.0
Bell Elementary	18.4
Rush Elementary	17.8
Rose Hill Middle	37.8
ICS	18.9
Eastlake High Addition	1.5
STEM School	<u>13.9</u>
	<u>\$118.1</u>

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

Debt

The district had bonds outstanding totaling \$486.1 million as of August 31, 2013. This is a decrease of \$14.3 million from the previous fiscal year. No bonds were issued during this fiscal year.

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 2013-2014 governmental funds' appropriation for the district was set at \$426 million. The property tax rates are set at \$3.92 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 Position
08/31/13

	<u>Primary Government Governmental Activities</u>
Assets	
Cash & Cash Equivalents	\$111,641,790
Property Tax Receivable	60,787,613
Accounts Receivable, Net	103,379
Due From Other Gov't. Units	1,438,140
Inventories at Cost	447,723
Prepaid Items	2,188,513
Capital Assets, Net of Accum. Depn.:	
Land	23,550,666
Buildings & Improvements	669,697,702
Equipment	9,523,758
Construction-in-Progress	120,915,260
Unamortized Bond Issue Costs	626,136
Total Assets	<u><u>\$1,000,920,680</u></u>
Liabilities	
Accounts Payable	\$16,124,153
Accrued Wages & Benefits Pay.	5,591,474
Deferred Revenue	3,309,186
Long-Term Liabilities:	
Due Within One Year	27,825,000
Due In More Than One Year	486,087,639
Unamortized Debt Premium/Discount	10,377,307
Total Liabilities	<u><u>\$549,314,759</u></u>
Net Position	
Invested In Capital Assets, Net of Related Debt	\$364,078,059
Restricted For:	
Capital Projects	28,821,217
Debt Service	30,832,380
Other Purposes	2,919,184
Unrestricted	24,955,081
Net Position	<u><u>\$451,605,921</u></u>

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

Lake Washington School District No. 414
Statement of Activities
08/31/13

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Regular Instruction	\$157,501,607	\$2,875,240	\$159,885	\$9,473,671	(\$144,992,811)
Special Instruction	33,613,530		22,194,455	2,021,843	(9,397,232)
Vocational Instruction	5,062,158	62,409	129,926	304,487	(4,565,336)
Skills Center	783,265	39,466	24,651	47,113	(672,035)
Compensatory Education	8,916,371		4,346,427	536,317	(4,033,627)
Other Instructional Programs	5,198,304	4,056,696	4,310,169	312,676	3,481,237
Community Services	1,976,468	1,782,856			(193,612)
Support Services	54,024,715	6,088,330	7,246,056	3,296,659	(37,393,670)
Extracurricular Activities(ASB)	2,994,831	2,952,294			(42,537)
Int. Paymt. On L/T Debt	20,949,420				(20,949,420)
Total Governmental Activities	\$291,020,669	\$17,857,291	\$38,411,569	\$15,992,766	(\$218,759,043)

General Revenues:

Property Taxes, Levies for Maintenance and Operations	\$55,271,563
Property Taxes, Levies for Debt Service	36,980,716
Property Taxes, Levies for Capital Projects	32,462,349
Unallocated State Apportionment & Others	120,560,694
Interest and Investment Earnings	2,414,562
Gain (Loss) on Disposition of Property & Equipment	15,366,542
Total General Revenues & Special Items	\$263,056,426

Changes in Net Position	\$44,297,383
Beginning Net Position	407,308,538
Ending Net Position	\$451,605,921

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

Lake Washington School District No. 414
Balance Sheet
Government Funds
08/31/13

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Project Fund	Transportation Vehicle Fund	Total Government Funds
Assets						
Cash and Cash Equivalents	\$33,455,660	\$1,662,469	\$12,766,590	\$61,536,479	\$2,220,592	\$111,641,790
Property Taxes Receivable	26,945,748		18,061,082	15,780,783		60,787,613
Accounts Receivable, Net	62,270					62,270
Accrued Interest	10,696	465	4,708	24,692	548	41,109
Due From Other Funds	998,859	317,856		4,370		1,321,085
Due From Other Gov't Units	1,424,233			13,907		1,438,140
Inventories at Cost	447,723					447,723
Prepaid Items	1,991,981	105,378		91,154		2,188,513
Total Assets	\$65,337,170	\$2,086,168	\$30,832,380	\$77,451,385	\$2,221,140	\$177,928,243
Liabilities						
Accounts Payable	\$4,668,258	\$86,393		\$11,369,502		\$16,124,153
Accrued Wages & Benefits Pay.	8,869,559					8,869,559
Due To Other Funds	322,226	10,123		988,736		1,321,085
Deferred Revenue	29,257,152	983,875	\$18,061,082	15,794,690		64,096,799
Total Liabilities	\$43,117,195	\$1,080,391	\$18,061,082	\$28,152,928	\$0	\$90,411,596
Fund Balances						
Nonspendable Fund Balance	\$2,439,704	\$105,378		\$91,154		\$2,636,236
Restricted Fund Balance	3,427,558	900,399	\$12,771,298	48,153,481	\$2,221,140	67,473,876
Assigned Fund Balance				1,053,822		1,053,822
Unassigned Fund Balance	16,352,713					16,352,713
Total Fund Balances	\$22,219,975	\$1,005,777	\$12,771,298	\$49,298,457	\$2,221,140	\$87,516,647
Total Liab. & Fund Balances	\$65,337,170	\$2,086,168	\$30,832,380	\$77,451,385	\$2,221,140	\$177,928,243

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 Position
08/31/13

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash and Cash Equivalents	\$111,641,790			\$111,641,790
Property Taxes Receivable	60,787,613			60,787,613
Accounts Receivable, Net	103,379			103,379
Due From Other Funds	1,321,085		(\$1,321,085)	0
Due From Other Gov't Units	1,438,140			1,438,140
Inventories at Cost	447,723			447,723
Prepaid Items	2,188,513			2,188,513
Capital Assets, Net		\$823,687,386		823,687,386
Unamortized Bond Issue Costs		626,136		626,136
Total Assets	\$177,928,243	\$824,313,522	(\$1,321,085)	\$1,000,920,680
Liabilities				
Accounts Payable	\$16,124,153			\$16,124,153
Accrued Wages & Benefits Pay.	8,869,559	(\$3,278,085)		5,591,474
Due To Other Funds	1,321,085		(\$1,321,085)	0
Deferred Revenue	64,096,799	(60,787,613)		3,309,186
Long-Term Liabilities		524,289,946		524,289,946
Total Liabilities	\$90,411,596	\$460,224,248	(\$1,321,085)	\$549,314,759
Fund Balances/Net Position	\$87,516,647	\$364,089,274		\$451,605,921
Total Liab & Fund Bal./Position	\$177,928,243	\$824,313,522	(\$1,321,085)	\$1,000,920,680

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
Governmental Funds
08/31/13

	General Fund	Special Revenue Fund (ASB)	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Revenues						
Local	\$71,208,548		\$36,507,686	\$35,583,364	\$29,669	\$143,329,267
State	145,042,519			11,138,232	798,520	156,979,271
Federal	10,991,914		2,100,589			13,092,503
Miscellaneous	478,634	\$2,952,294				3,430,928
Total Revenues	\$227,721,615	\$2,952,294	\$38,608,275	\$46,721,596	\$828,189	\$316,831,969
Expenditures						
Regular Instruction	\$142,347,262					\$142,347,262
Special Instruction	30,379,334					30,379,334
Vocational Instruction	4,575,092					4,575,092
Skills Center	707,901					707,901
Compensatory Instruction	8,058,464					8,058,464
Other Instructional Programs	4,698,138					4,698,138
Community Services	1,817,505					1,817,505
Support Services	40,779,827			\$8,754,325		49,534,152
Student Services		\$2,753,963				2,753,963
Capital Outlay	198,088			126,259,165	\$645,061	127,102,294
Debt Service-Principal			\$14,315,000			14,315,000
Debt Service-Interest & Other			22,920,424			22,920,424
Total Expenditures	\$233,561,591	\$2,753,963	\$37,235,424	\$135,013,490	\$645,061	\$409,209,529
Revenues Over (Under) Exp.	(\$5,839,976)	\$198,331	\$1,372,851	(\$88,291,894)	\$183,128	(\$92,377,560)
Other Financing Sources (Uses)						
Sale of Equipment	\$36,456				\$30,963	\$67,419
Compensated Loss Of Cap. Assets				\$50,000		50,000
Transfers In	5,352,408		\$3,497,828			8,850,236
Transfers Out				(8,850,236)		(8,850,236)
Total Other Financing Sources(Uses)	\$5,388,864	\$0	\$3,497,828	(\$8,800,236)	\$30,963	\$117,419
Net Change in Fund Balance	(\$451,112)	\$198,331	\$4,870,679	(\$97,092,130)	\$214,091	(\$92,260,141)
Beginning Fund Balance	22,671,087	807,446	7,900,619	146,390,587	2,007,049	179,776,788
Ending Fund Balance	\$22,219,975	\$1,005,777	\$12,771,298	\$49,298,457	\$2,221,140	\$87,516,647

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

Lake Washington School District No. 414
Reconciliation
Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities
08/31/13

	Total Governmental Funds	Long-Term Revenue, Expenditures	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
Revenues & Other Sources					
Local	\$143,329,267	\$3,119,542			\$146,448,809
State	156,979,271				156,979,271
Federal	13,092,503				13,092,503
Miscellaneous	3,430,928				3,430,928
Gain in Disposition of Fixed Assets			\$15,249,122		15,249,122
Sale or Comp. of Fixed Assets	117,419				117,419
Other Financial Sources	8,850,236	(8,850,236)			0
Total Revenues & Other Sources	\$325,799,624	(\$5,730,694)	\$15,249,122	\$0	\$335,318,052
Expenditures					
Current:					
Regular Instruction	\$142,347,262	\$2,704,341	\$12,450,004		\$157,501,607
Special Education	30,379,334	577,152	2,657,044		33,613,530
Vocational Instruction	4,575,092	86,918	400,148		5,062,158
Skills Center	707,901	13,449	61,915		783,265
Compensatory Education	8,058,464	153,096	704,811		8,916,371
Other Instructional Programs	4,698,138	89,256	410,910		5,198,304
Community Services	1,817,505		158,963		1,976,468
Support Services	49,534,152	774,743	3,566,694	\$149,126	54,024,715
Student Activities	2,753,963		240,868		2,994,831
Capital Outlay	127,102,294		(127,102,294)		0
Debt Service-Principal	14,315,000			(14,315,000)	0
Debt Service-Interest & Other	22,920,424			(1,971,004)	20,949,420
Other Financial Uses	8,850,236	(8,850,236)			0
Total Expenditures	\$418,059,765	(\$4,451,281)	(\$106,450,937)	(\$16,136,878)	\$291,020,669
Net Change for the Year	(\$92,260,141)	(\$1,279,413)	\$121,700,059	\$16,136,878	\$44,297,383

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

Lake Washington School District No. 414
 Budgetary Comparison Statement
 General Fund
 For the Year Ended August 31, 2013

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
Local	\$68,786,123	\$68,786,123	\$71,208,548	\$2,422,425
State	146,831,640	146,831,640	145,042,519	(1,789,121)
Federal	14,918,854	14,918,854	10,991,914	(3,926,940)
Other	48,111	48,111	478,634	430,523
Total Revenues	\$230,584,728	\$230,584,728	\$227,721,615	(\$2,863,113)
Expenditures:				
Regular Instruction	\$145,051,683	\$145,051,683	\$142,365,609	\$2,686,074
Special Education	29,645,075	29,645,075	30,379,333	(734,258)
Vocational Education	4,299,352	4,299,352	4,575,093	(275,741)
Skills Center	859,777	859,777	707,901	151,876
Compensatory Education	8,811,112	8,811,112	8,058,464	752,648
Other Instructional Programs	6,105,481	6,105,481	4,816,651	1,288,830
Community Services	1,925,899	1,925,899	1,831,879	94,020
Support Services	42,110,197	42,110,197	40,826,662	1,283,535
Total Expenditures	\$238,808,576	\$238,808,576	\$233,561,592	\$5,246,984
Excess of Revenues Over (Under) Expenditures	(\$8,223,848)	(\$8,223,848)	(\$5,839,977)	\$2,383,871
Other Financing Sources (Uses):				
Other Financial Sources	\$6,617,098	\$6,617,098	\$5,388,865	(\$1,228,233)
Total Other Financing Sources (Uses)	\$6,617,098	\$6,617,098	\$5,388,865	(\$1,228,233)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	(\$1,606,750)	(\$1,606,750)	(\$451,112)	\$1,155,638
Beginning Fund Balance	19,829,671	19,829,671	22,671,087	2,841,416
Ending Fund Balance	\$18,222,921	\$18,222,921	\$22,219,975	\$3,997,054

Note: There was no budget revision during the fiscal year 2012-2013.
 The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
 Budgetary Comparison Statement
 Special Revenue Fund (Associated Student Body Fund)
 For the Year Ended August 31, 2013

	Budgeted Amounts		Actual Amount	Variance With Final Budget Over (Under)
	Original	Final		
Revenues:				
General	\$3,302,365	\$3,302,365	\$1,916,890	(\$1,385,475)
Athletics	335,725	335,725	304,592	(31,133)
Classes	167,321	167,321	124,825	(42,496)
Clubs	622,509	622,509	558,588	(63,921)
Private Monies	108,900	108,900	47,399	(61,501)
Total Revenues	\$4,536,820	\$4,536,820	\$2,952,294	(\$1,584,526)
Expenditures:				
General	\$2,731,641	\$2,731,641	\$1,265,223	\$1,466,418
Athletics	843,966	843,966	739,230	104,736
Classes	162,956	162,956	128,248	34,708
Clubs	708,764	708,764	573,862	134,902
Private Monies	108,900	108,900	47,400	61,500
Total Expenditures	\$4,556,227	\$4,556,227	\$2,753,963	\$1,802,264
Excess of Revenues Over (Under) Expenditures	(\$19,407)	(\$19,407)	\$198,331	\$217,738
Beginning Fund Balance	609,937	609,937	807,446	197,509
Ending Fund Balance	\$590,530	\$590,530	\$1,005,777	\$415,247

Note: There was no budget revision during the fiscal year 2012-2013.
 The notes to the financial statements are an integral part of this statement.

Lake Washington School District No. 414
Statement of Fiduciary Net Position
August 31, 2013

	Private- Purpose Trust
Assets	
Cash and Cash Equivalents	\$195,299
Accounts Receivable, Net	73
Total Assets	\$195,372
 Liabilities	
Accounts Payable	\$842
Total Liabilities	\$842
 Fund Balance/Net Position	 \$194,530
Total Liab. & Fund Balance/Net Position	\$195,372

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 Position
Fiduciary Funds
For the Fiscal Year Ended August 31, 2013

	Private- Purpose Trust
Additions	
Donations	\$45,741
Investment Earnings	2,022
Total Additions	\$47,763
Deductions	
Scholarships	\$46,243
Total Deductions	\$46,243
Change in Net Position	\$1,520
Net Position, Beginning of Year	193,010
Net Position, End of Year	\$194,530

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, 2012 THROUGH AUGUST 31, 2013

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 Position 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 implemented the Governmental Accounting Standards Board (GASB) Statement No. 63 in the current year. This statement establishes standards for external reporting for all state and local government entities.

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, 2013 was \$4,194,745.46 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 36 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, 2013 was \$627,160.47 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)

Fund Balances are segregated under the following categories and presented on the face of the financial statements in the aggregate.

Nonspendable: This fund balance category includes amounts not available to be spent because they are not in spendable form or are legally required to be maintained intact.

Restricted: Fund balance constrained externally, such as those resulting from federal and state legislation, grant awards, bond covenants, and inter-local service agreements.

Committed: Fund balance constrained by District code, ordinance or resolution as adopted by the Board.

Assigned: Fund balance in special revenue funds are intended to be used for specific purposes, but are neither restricted or committed, include transfers from other funds, investment interest not constrained by contract or covenant, fees for services, and rents.

Unassigned: Unrestricted fund balance not committed or assigned in the General fund is considered unassigned. Also, negative fund balance in any other governmental fund is unassigned.

Minimum General Fund Balance – The District’s financial plan ensures that the District’s financial position is fiscally sound and that it is derived from a multi-year plan. As a result, the District plans to maintain a projected year-end Fund Balance of not less than five percent of the projected revenue in the General Fund. This will ensure that the District can continue to provide quality education to its students in the event of an economic downturn.

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, 2013 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	\$114,847,000	\$114,422,066	1.45 Years

Impaired Investments. As of August 31, 2013 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, where the Impaired Pool accepted the cash-out option. All expected investment losses from the impaired investments were fully provided for by the District which resulted in a loss allocation of \$4.9 million.

Interest Rate Risk. As of August 31, 2013 the Pool’s average duration was 1.45 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, 2013 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	\$26,945,748		\$18,061,082	\$15,780,783		
Governmental Accounts	1,424,233			13,907		
	72,967	\$ 465	4,708	24,692	\$ 548	\$ 73
Total	<u>\$28,442,948</u>	<u>\$ 465</u>	<u>\$18,065,790</u>	<u>\$15,819,382</u>	<u>\$ 548</u>	<u>\$ 73</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, 2013 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	\$ 998,859	\$ 322,226
Capital Projects Fund	4,370	988,736
Special Revenue Fund	317,856	10,123
Total	<u>\$ 1,321,085</u>	<u>\$1,321,085</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	\$23,539,238	\$ 13,752	\$ 2,324	\$23,550,666
Construction in Progress	300,319,867	120,915,260	300,319,867	120,915,260
Total	<u>\$323,859,105</u>	<u>\$ 120,929,012</u>	<u>\$ 300,322,191</u>	<u>\$ 144,465,926</u>
Capital Assets, being depreciated:				
Building and Improvements	\$562,349,987	\$305,647,199	\$ 23,293,438	\$844,703,748
Transportation Equipment	12,510,345	666,955	448,490	12,728,810
Other Equipment	4,047,534	178,993	136,037	4,090,490
Total	<u>\$578,907,866</u>	<u>\$ 306,493,147</u>	<u>\$ 23,877,965</u>	<u>\$861,523,048</u>
Less: Accumulated Depreciation:				
Buildings and Improvements				\$ 175,006,046
Transportation Equipment				4,827,410
Other Equipment				<u>2,468,132</u>
Total				<u>\$182,301,588</u>
Net Depreciated Assets				<u>\$679,221,460</u>
Net Total Assets				<u>\$823,687,386</u>

Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$ 12,450,004
Special Instruction	2,657,044
Vocational Instruction	400,148
Skills Center	61,915
Compensatory Instruction	704,811
Other Instruction Programs	410,910
Community Services	158,963
Student Services	240,868
Support Service	<u>3,566,694</u>
Total	<u>\$20,651,357</u>

Construction in Progress is composed of:

	Project Authorization	Exp. Prior to 08/31/12	Expended 2012-2013 Constr. In Prog.	Additional Local Funds Committed	Additional State Funds Committed
Keller Elementary	\$ 25,993,000	\$ 22,895,938	\$1,626,287	\$ 1,470,775	\$ 0
Lake Washington High	85,178,000	83,565,047	1,488,311	124,642	0
Finn Hill Middle	44,347,602	40,799,391	1,139,946	2,408,265	0
Sandburg Elementary	30,145,000	26,151,290	2,636,453	1,357,257	0
STEM	35,551,922	18,380,651	13,922,613	3,248,658	0
Muir Elementary	29,289,422	26,063,718	3,002,990	222,714	0
Bell Elementary	32,131,000	9,452,586	18,418,389	4,260,025	0
Rush Elementary	33,637,269	13,684,112	17,813,187	2,139,970	0
Rose Hill Middle	58,929,000	13,778,544	37,784,264	7,366,192	0
Renaissance	1,103,998	420,688	610,089	0	73,221
Northstar	2,182,024	471,700	757,641	0	952,683
Smith El Univents	1,045,000	989,754	1,302	53,944	0
Rockwell El Univents	1,190,000	1,002,459	1,302	186,239	0
Alcott El Univents	1,190,000	999,367	4,664	185,969	0
Mead El Univents	1,190,000	1,005,261	3,014	181,725	0
Support Service Roof	\$ 1,372,000		\$ 616,723	\$ 755,277	\$ 0
ICS	26,298,990	\$ 5,101,291	18,916,837	2,280,862	0
Lake Washington Field	1,173,750		358,071	815,679	0
Redmond High Addition	15,630,380	14,242,497	273,879	1,114,004	0
Eastlake High Addition	17,969,620	15,647,966	1,539,298	782,356	0
Total	\$445,547,977	\$294,652,260	\$120,915,260	\$28,954,553	\$ 1,025,904

The district's property valuation of buildings and equipment for insurance purposes is \$560,374,147 on August 31, 2013.

Note 7: Pensions

A. General Information

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

The Teachers' Retirement System (TRS) includes certificated staff of 296 public school district employers and other public employers. As of June 30, 2012 it includes 74,902 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, 2012 it includes 181,105 active and inactive vested members.

The School Employers' Retirement System (SERS) includes noncertificated staff of 296 public school district employers. As of June 30, 2012 it includes 62,478 active and inactive vested members.

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

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after

five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectfully. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

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

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with 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.

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

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

C. Contributions

Employee contribution rates effective September 1, 2012 through August 31, 2013:

Plan 1 TRS 6.00%	Plan 1 PERS 6.00%
Plan 2 TRS 4.69%	Plan 2 SERS 4.09%
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 effective September 1, 2012 through August 31, 2013:

9/1/12-08/31/13		9/1/12-6/31/13	7/1/13-8/31/13
Plan 1 TRS 8.05%	Plan 1 PERS	7.21%	9.19%
Plan 2 TRS 8.05%	Plan 2 SERS	7.59%	7.59%
Plan 3 TRS 8.05%	Plan 3 SERS	7.59%	7.59%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

Plan	FY 12-13	FY 11-12	FY 10-11
Plan 1 TRS	\$ 414,659	\$ 541,570	\$ 457,172
Plan 2 TRS	1,318,947	1,215,216	892,351
Plan 3 TRS	7,146,015	7,515,563	4,995,228
Plan 1 PERS	52,229	51,729	50,690
Plan 2 SERS	812,902	647,247	607,960
Plan 3 SERS	1,500,994	1,197,266	1,029,559

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, 2013 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.

- 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 2013:

	<u>Type of Coverage</u>		
	<u>Employee Only</u>	<u>Employee & Spouse</u>	<u>Full Family</u>
Group Health Classic	550.48	1,095.43	1,504.14
Group Health CHDP	482.92	957.35	1,269.42
Group Health Value	501.58	997.63	1,369.67
Kaiser Permanente Classic	538.18	1,070.83	1,470.32
Uniform Medical Plan	531.11	1,056.69	1,450.88
Uniform Medical Plan CDHP	485.22	961.45	1,274.87

For calendar year 2013, after age 65 retired members receive a subsidy of 50% of their monthly premiums up to \$150.00 per Medicare covered person.

For 2013, retirees also receive an explicit subsidy of \$6.57/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 September 1, 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>	<u>August 31, 2012</u>	<u>August 31, 2013</u>
Determination of Annual Required Contribution			
Normal Cost at year end	\$ 5,262,398	\$ 3,307,036	\$ 3,307,036
Amortization of UAAL	<u>3,577,876</u>	<u>2,564,529</u>	<u>2,564,529</u>
Annual Required Contribution (ARC)	\$ 8,840,274	\$ 5,871,565	\$ 5,871,565
Determination of Net OPEB Obligation			
Annual Required Contribution	\$ 8,840,274	\$ 5,871,565	\$ 5,871,565
Interest on prior year Net OPEB Obligation	246,350	485,779	606,134
Adjustment to ARC	<u>- 226,529</u>	<u>- 462,647</u>	<u>- 598,651</u>
Annual OPEB Cost	\$ 8,860,095	\$ 5,894,697	\$ 5,879,048
Contributions made*	<u>- 2,475,318</u>	<u>- 2,685,235</u>	<u>- 2,294,978</u>
Increase in Net OPEB Obligation	\$ 6,384,777	\$ 3,209,462	\$ 3,584,070
Net OPEB Obligation – end of year	\$ 12,954,117	\$ 16,163,579	\$ 19,747,649

*Estimated based on retiree benefit amounts.

The District's annual OPEB cost, the percentage of OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 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	\$ 8,860,095	27.94%	\$ 12,954,117
08/31/2012	5,894,697	45.55%	16,163,579
08/31/2013	5,879,048	39.04%	19,747,649

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>Fiscal Year Ended</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As A Percentage of Covered Payroll</u>
08/31/2010	\$ -	\$ 107,336,280	\$107,336,280	0%	\$136,759,054	78%
08/31/2012	-	71,806,803	71,806,803	0%	139,587,075	51%

Funded status and Funding Progress

As of August 31, 2013, the most recent actuarial valuation date, the Plan was 0% funded. The accrued liability for benefits was \$71.8 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$71.8 million.

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

Actuarial Methods and Assumptions

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

In the August 31, 2013 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.

Health and Life Insurance trend rates used were as follows:

Health Care Cost Increase or Trend Rate (1)

Year Ending August 31,	Retiree Premiums and Claims (1)
2013	5.9%
2014	6.7
2015	5.8
2016	5.5
2020	5.5
2030	5.4
2040	5.0
2089+	4.3

(1)Used to project annual increases to:

- Total Cost for Pre-65 medical benefits
- Retiree Contributions for Pre-65 medical benefits
- Explicit subsidy for Post-65 after August 31, 2017. No increase in the Post-65 Explicit subsidy is assumed or first five years after the valuation date.

Life Insurance Trend Rate (2)

Year Ending August 31,	Life Trend
2013	4.0%
2014+	3.5

(2)Used to project annual increases to Explicit Life Insurance Subsidy.

The UAAL is being amortized as a level of percentage of pay on a closed basis at the assumed discount rate. Payroll is assumed to increase at 3.75. The remaining amortization period at August 31, 2013 was 27 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, 2012 was \$321,126.

Note 9: Long-Term Debt

A. Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2013 the following changes occurred in liabilities reported in the district-wide financial statements:

Bonds Payable	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
2001 G.O. Bonds	\$ 4,400,000		\$ 4,400,000	\$ 0	\$ 0
2004 G.O. Bonds	39,105,000		5,405,000	33,700,000	6,250,000
2004 G.O. Bonds	17,560,000		2,035,000	15,525,000	1,995,000
2006 G.O. Bonds	94,800,000			94,800,000	6,130,000
2007 G.O. Bonds	68,500,000			68,500,000	
2008 G.O. Bonds	70,350,000			70,350,000	
2009 Bonds	31,445,000			31,445,000	
2010 Bonds	120,000,000			120,000,000	
2012 Bonds	23,025,000			23,025,000	4,240,000
2012 Bonds	31,195,000	-	2,475,000	28,720,000	5,995,000
Total Bonds Payable	\$ 500,380,000	\$ 0	\$ 14,315,000	\$ 486,065,000	\$ 24,610,000
Other Liabilities:					
Unemployment Pay.	\$ 541,794	\$ 67,924	\$ 92,031	\$ 517,687	\$ 106,000
Other Empl. Ins. Pay.	1,587,209	781,386	681,352	1,687,243	770,000
Industrial Insurance	1,101,964	1,714,978	1,743,788	1,073,154	1,483,000
Net OPEB	16,163,579	5,879,048	2,294,978	19,747,649	
Comp. Absences	4,007,021	814,885		4,821,906	856,000
Total Other Liab.	\$ 23,401,567	\$ 9,258,221	\$ 4,812,149	\$ 27,847,639	\$ 3,215,000
Grand Total	\$ 523,781,567	\$ 9,258,221	\$ 19,127,149	\$ 513,912,639	\$ 27,825,000

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
2001 G. O. Bonds	\$ 94,344		\$ 94,344	\$ 0
2006 G. O. Bonds	174,755		12,483	162,272
2007 G. O. Bonds	153,667		12,806	140,861
2008 G. O. Bonds	71,834		4,789	67,045
2009 Bonds	70,148		4,384	65,764
2010 Bonds	111,964		6,220	105,744
2012 Bonds	41,850		4,650	37,200
2012 Bonds	56,700		9,450	47,250
	<u>\$ 775,262</u>		<u>\$ 149,126</u>	<u>\$ 626,136</u>

C. Bond Premiums

The amortization schedule of bond premiums is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2001 G. O. Bonds	\$ 774,204	\$774,204		\$ 0
2006 G. O. Bonds	2,073,260	148,090		1,925,170
2007 G. O. Bonds	3,207,635	267,303		2,940,332
2008 G. O. Bonds	1,525,343	101,689		1,423,654
2009 Bonds	172,108	10,757		161,351
2010 Bond	1,453,396	80,744		1,372,652
2012 GO Bonds	2,113,781	234,865		1,878,916
2012 LGO Bonds	2,996,420	499,403		2,497,017
	<u>\$14,316,147</u>	<u>\$2,117,055</u>	<u>\$ 0</u>	<u>\$12,199,092</u>

D. Unamortized Discount Costs

The amortization schedule of bond discount costs is as follows:

	Beginning Balance	Debit	Credit	Ending Balance
2006 Bonds	\$ 280,000		\$ 20,000	\$260,000
2007 Bonds	269,930		22,494	247,436
2008 Bonds	303,156		20,211	282,945
2009 Bonds	213,896		13,368	200,528
2010 Bonds	673,130		37,396	635,734
2012 Bonds	96,705		10,745	85,960
2012 Bonds	131,019		21,837	109,182
	<u>\$ 1,967,836</u>	<u>\$ 0</u>	<u>\$ 146,051</u>	<u>\$ 1,821,785</u>

E. General Obligation Debt

Bonds payable at August 31, 2013 are comprised of the following:

	Interest Rates	Issue Date	Maturity Date	Amount Issued	Outstanding Amount
2004 Bonds	3.35-5.00	03/30/04	12/01/17	\$ 70,100,000	\$ 33,700,000
2004 Bonds	3.65-5.00	09/02/04	06/01/19	34,655,000	15,525,000
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	3.75-5.00	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
2012 Bonds	1.00-5.00	07/11/12	12/01/20	23,025,000	23,025,000
2012 Bonds	2.00-5.00	07/12/12	12/01/17	31,195,000	28,720,000
				<u>\$576,090,000</u>	<u>\$486,065,000</u>

F. Debt Service Requirements to Maturity

Fiscal Year Ended	Principal	Interest	Total
08/31/14	\$ 24,610,000	\$22,372,488	\$ 46,982,488
08/31/15	25,210,000	21,480,400	46,690,400
08/31/16	27,025,000	20,398,750	47,423,750
08/31/17	27,560,000	19,164,025	46,724,025
08/31/18	22,715,000	17,808,800	40,523,800
08/31/19	24,500,000	16,672,600	41,172,600
08/31/20	22,900,000	15,411,475	38,311,475
08/31/21	23,600,000	14,277,475	37,877,475
08/31/22	23,500,000	13,126,975	36,626,975
08/31/23	26,100,000	11,924,476	38,024,476
08/31/24	29,500,000	10,620,538	40,120,538
08/31/25	22,000,000	9,381,601	31,381,601
08/31/26	35,900,000	7,916,531	43,816,531
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>\$486,065,000</u>	<u>\$215,615,604</u>	<u>\$701,680,604</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 last issued \$23,025,000 principal amount of Unlimited Tax General Obligation Bonds and \$31,195,000 limited general obligation bonds on July 11, 2012.

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	(120,000,000)
07/11/12 Issue	(23,025,000)
Unissued Bonds	<u>\$ 12,975,000</u>

H. Refunded Debt

The district had no refunded debt outstanding at August 31, 2013.

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, 2013.

<u>Year Ended</u>	<u>Amount</u>
08/31/14	\$ 445,665
08/31/15	445,665
08/31/16	445,665
08/31/17	445,665
08/31/18	<u>148,555</u>
Total	<u>\$ 1,931,215</u>

All of the \$1,931,215 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 \$92,031 with an ending accrued balance of \$517,688.

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 \$1,743,788 with an ending accrued balance of \$1,073,154.

Note 12: Risk Management

The district is a member of the Washington Schools Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still

responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

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

A. Balance Sheets/Statement of Net Positions

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	\$1,005,988,974
Accumulated Depreciation	<u>182,301,588</u>
Net Capital Assets	<u>\$823,687,386</u>

2. Unamortized Bond Issue Costs (\$626,136) – 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 Positions.
3. Long-term liabilities of \$524,289,946 (\$27,825,000 due within one year; \$486,087,639 due in more than one year; and unamortized debt premium/discount of \$10,377,307), 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 positions.
4. Deferred Revenue – Property taxes (\$60,787,613) that do not provide current financial resources are reported as deferred revenue in governmental funds, but as revenues in government-wide financial statements.
5. Due From and Due To Other Funds (\$1,321,085) - 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 (\$3,119,542).
2. The increase between the beginning and ending balances of the liability for compensated absences (\$814,885) is reported in the Statement of Activities as an expense and is allocated to various applicable programs. This decrease is not reported in governmental fund statements.
3. The increase between the beginning and ending balance of the liability for net OPEB obligation (\$3,584,070) 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 (\$67,419) 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 (\$20,651,357).
6. Repayment of bond principal (\$14,315,000) 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 positions.
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	\$ 2,117,055
Current year bond discount amortization	146,051
Current year bond issuance cost amortization	149,126

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.

A four year capital projects levy was approved by the voters on February 11, 2014 totaling \$127,200,000.

A four year Educational Programs & Operations levy was approved by the voters on February 11, 2014 totaling \$263,600,000.

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, 2013

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%
08/31/12	\$ -	\$71,806,803	\$71,806,803	0%	\$139,587,075	51%
08/31/13	\$ -	\$71,806,803	\$71,806,803	0%	\$143,988,551	50%

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, 2013**

1 Federal Grantor	2 Pass Through Agency	3 Program Title	4 CFDA No.	5 Other I.D. No.	6 7 8			9 Foot- note Ref.
					Expenditures			
					Direct Awards	Pass Through Awards	Total	
U.S. Dept of Agriculture	SPI	National School Lunch Program:	10.555					
		Cash Assistance				1,840,800.18	1,840,800.18	2
	Office of State Treasurer	Non Cash Assistance (commodities)	10.665			325,836.16	325,836.16	3
		Schools and Roads - Grants to States				14,564.52	14,564.52	
					<u>\$2,181,200.86</u>	<u>\$2,181,200.86</u>		
U.S. Dept. of Educ.		Indian Ed - Grants to Local Ed Agencies	84.060	S060A111113	53,733.00	0.00	53,733.00	
	SPI	Title I - Grants to Local Ed Agencies	84.010	201090		1,704,199.55	1,704,199.55	4
	SPI	Special Ed - Grants to States	84.027	304459		4,297,989.00	4,297,989.00	4
	SPI	Special Ed - Grants to States	84.027	337512		1,118,449.00	1,118,449.00	4
	SPI	Career & Technical Ed - Basic Grants to State	84.048	172614		100,287.00	100,287.00	4
	SPI	Career & Technical Ed - Basic Grants to State	84.048	172581		25,228.00	25,228.00	4
	SPI	Special Ed - Preschool Grants/Part B	84.173	364458		116,062.00	116,062.00	4
	SPI	Special Ed - Preschool Grants/Part B	84.173A	385333		7,002.00	7,002.00	4
	SPI	English Language Acquisition Grant	84.365	401644		238,016.15	238,016.15	5
	SPI	Improving Teacher Quality State Grants	84.367	523142		512,499.00	512,499.00	4
					<u>\$53,733.00</u>	<u>\$8,119,731.70</u>	<u>\$8,173,464.70</u>	
U.S. Dept. Health & Human Services	PSESD	Head Start 12-13	93.600			585,035.48	585,035.48	
	PSESD	Prevention & Treatment of Substance Abuse	93.959			11,200.00	11,200.00	
						<u>\$596,235.48</u>	<u>\$596,235.48</u>	
Total Federal Awards Expended						<u>\$53,733.00</u>	<u>\$10,897,168.04</u>	<u>\$10,950,901.04</u>

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, 2013

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 2.34%.

NOTE 5 – FEDERAL INDIRECT RATE

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



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.

We 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.

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

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