

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

Issaquah School District No. 411
King County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1012005

Issue Date
May 29, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

May 29, 2014

Board of Directors
Issaquah School District No. 411
Issaquah, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Issaquah School District No. 411'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

Issaquah School District No. 411 King County September 1, 2012 through August 31, 2013

The results of our audit of Issaquah School District No. 411 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.

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>
10.555	Child Nutrition Cluster - National School Lunch Program
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

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

**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***

**Issaquah School District No. 411
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Issaquah School District No. 411
Issaquah, 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 Issaquah School District No. 411, 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 financial statements, and have issued our report thereon dated May 22, 2014.

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 opinion 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.

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 22, 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

**Issaquah School District No. 411
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Issaquah School District No. 411
Issaquah, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Issaquah School District No. 411, 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 22, 2014

Independent Auditor's Report on Financial Statements

Issaquah School District No. 411 King County September 1, 2012 through August 31, 2013

Board of Directors
Issaquah School District No. 411
Issaquah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Issaquah School District No. 411, 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 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 the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 account 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.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Issaquah School District No. 411, as of August 31, 2013, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project and Transportation Vehicle funds as of August 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

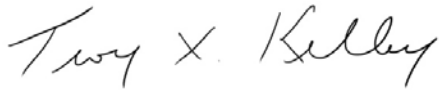
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Liabilities is also presented for purposes of additional analysis as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 22, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

May 22, 2014

Financial Section

**Issaquah School District No. 411
King County
September 1, 2012 through August 31, 2013**

FINANCIAL STATEMENTS

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Issaquah School District No. 411

Balance Sheet

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	22,425,079.27	3,189,419.99	25,914,510.37	85,852,895.69	4,412,679.57	0.00	141,794,584.89
Minus Warrants Outstanding	-3,651,721.65	-23,796.78	0.00	-1,724,405.23	0.00	0.00	-5,399,923.66
Taxes Receivable	18,192,885.30		16,225,357.09	5,435,660.09	5,020.61	0.00	39,858,923.09
Due From Other Funds	2,968,017.99	0.00	0.00	0.00	10,941.00	0.00	2,978,958.99
Due From Other Governmental Units	732,120.22	0.00	0.00	0.00	0.00	0.00	732,120.22
Accounts Receivable	345,441.29	0.00	0.00	0.00	0.00	0.00	345,441.29
Interfund Loans Receivable	0.00						0.00
Accrued Interest Receivable	7,771.40	0.00	9,421.91	31,822.69	1,193.63	0.00	50,209.63
Inventory	256,425.37	0.00					256,425.37
Prepaid Items	1,902,509.22	164,440.97		75,626.87	0.00	0.00	2,142,577.06
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00						0.00
Investments-Deferred Compensation	0.00						0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	43,178,528.41	3,330,064.18	42,149,289.37	89,671,600.11	4,429,834.81	0.00	182,759,316.88
LIABILITIES:							
Accounts Payable	1,947,537.31	22,990.92	0.00	7,674,334.20	0.00	0.00	9,644,862.43
Contracts Payable Current	0.00	0.00					0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	1,184,318.83	0.00		0.00			1,184,318.83
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	180,724.93	0.00		0.00			180,724.93
Due To Other Governmental Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	545,547.91	0.00	2,433,411.08	0.00	0.00	2,978,958.99

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

Issaquah School District No. 411

Balance Sheet

Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		2,000.00			2,000.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
Deferred Revenue	21,015,332.12	722,834.53	16,225,357.09	5,435,660.09	5,020.61	0.00	43,404,204.44
TOTAL LIABILITIES	24,327,913.19	1,291,373.36	16,225,357.09	15,545,405.37	5,020.61	0.00	57,395,069.62
FUND BALANCE:							
Nonspendable Fund Balance	150,000.00	0.00	0.00	0.00	0.00	0.00	150,000.00
Restricted Fund Balance	1,301,192.00	2,038,690.82	25,923,932.28	8,262,109.00	0.00	0.00	37,525,924.10
Committed Fund Balance	1,088,220.00	0.00	0.00	0.00	0.00	0.00	1,088,220.00
Assigned Fund Balance	4,500,000.00	0.00	0.00	65,864,085.74	4,424,814.20	0.00	74,788,899.94
Unassigned Fund Balance	11,811,203.22	0.00	0.00	0.00	0.00	0.00	11,811,203.22
TOTAL FUND BALANCE	18,850,615.22	2,038,690.82	25,923,932.28	74,126,194.74	4,424,814.20	0.00	125,364,247.26
TOTAL LIABILITIES AND FUND BALANCE	43,178,528.41	3,330,064.18	42,149,289.37	89,671,600.11	4,429,834.81	0.00	182,759,316.88

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	54,988,641.07	4,015,923.04	37,485,551.69	12,655,889.21	44,488.60		109,190,493.61
State	101,013,151.05		117,000.34	145,000.53	1,219,719.05		102,494,870.97
Federal	5,337,614.20		0.00	554,647.68	0.00		5,892,261.88
Federal Stimulus	0.00						0.00
Other	222,872.54			0.00	0.00	0.00	222,872.54
TOTAL REVENUES	161,562,278.86	4,015,923.04	37,602,552.03	13,355,537.42	1,264,207.65	0.00	217,800,499.00
EXPENDITURES:							
CURRENT:							
Regular Instruction	95,761,871.40						95,761,871.40
Federal Stimulus	0.00						0.00
Special Education	15,597,226.53						15,597,226.53
Vocational Education	3,928,544.01						3,928,544.01
Skills Center	45,448.67						45,448.67
Compensatory Programs	5,167,908.39						5,167,908.39
Other Instructional Programs	3,889,563.21						3,889,563.21
Community Services	5,107,889.48						5,107,889.48
Support Services	30,242,461.42						30,242,461.42
Student Activities/Other		4,006,053.23				0.00	4,006,053.23
CAPITAL OUTLAY:							
Sites				7,994.65			7,994.65
Building				49,564,595.84			49,564,595.84
Equipment				8,102,470.59			8,102,470.59
Instructional Technology				0.00		0.00	0.00
Energy				0.00		0.00	0.00
Transportation Equipment					1,217,880.69		1,217,880.69
Sales and Lease				0.00			0.00
Other	949,641.59						949,641.59
DEBT SERVICE:							
Principal	0.00		25,664,999.98	0.00	0.00		25,664,999.98
Interest and Other Charges	0.00		14,463,792.27	0.00	0.00		14,463,792.27
Bond/Levy Issuance				6,605.52	0.00		6,605.52
TOTAL EXPENDITURES	160,690,554.70	4,006,053.23	40,128,792.25	57,681,666.60	1,217,880.69	0.00	263,724,947.47

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

Issaquah School District No. 411

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	871,724.16	9,869.81	-2,526,240.22	-44,326,129.18	46,326.96	0.00	-45,924,448.47
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		21,172,780.81	55,006,605.52	0.00		76,179,386.33
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00		0.00
Other Financing Uses (GL 535)	0.00		-21,042,120.13	0.00	0.00		-21,042,120.13
Other	0.00		0.00	0.00	10,941.00		10,941.00
TOTAL OTHER FINANCING SOURCES (USES)	0.00		130,660.68	55,006,605.52	10,941.00	0.00	55,148,207.20
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	871,724.16	9,869.81	-2,395,579.54	10,680,476.34	57,267.96	0.00	9,223,758.73
BEGINNING TOTAL FUND BALANCE	17,978,891.06	2,028,821.01	28,319,511.82	63,445,718.40	4,367,546.24	0.00	116,140,488.53
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	18,850,615.22	2,038,690.82	25,923,932.28	74,126,194.74	4,424,814.20	0.00	125,364,247.26

The accompanying notes are an integral part of this financial statement

ISSAQUAH SCHOOL DISTRICT 411
NOTES TO THE FINANCIAL STATEMENTS
September 1, 2012 through August 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(SSAP)

Description of the government-wide financial statements.

The Issaquah School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes 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.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP) and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. The District's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual allows for a practice that differs from generally accepted accounting principles in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Liabilities. The Schedule of Long-Term Liabilities is required supplemental information.
- (4) The budgetary comparison schedule compares the district's actual results with the final budgeted amounts. The original budget document is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is optional.
- (6) The financial statements do not report a liability for Other Post-Employment Benefits (GASB Statement 45).
- (7) Other departures from GAAP that are material in nature are indicated throughout the Notes.

Description of the activities accounted for in each of the following funds presented in the basic financial statements.

The District presents financial information on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (orexponses) as appropriate.

The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

Governmental Funds

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principle and interest.

Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual.

Proprietary Funds

School districts in the State of Washington are not allowed to utilize proprietary fund types, which is a departure from GAAP.

The measurement focus and basis of accounting used in the government-wide statements.

The District's accounting policies conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction. The District's financial statements are presented in conformity with that publication.

The measurement focus for the District's funds is the modified accrual basis and the current financial resources focus. This basis of accounting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

Revenues are recognized as soon as they are measurable and available. "Measurable" means the amount of the transaction can be readily determined. Revenues are considered "available" if they are collected within 60 days after year-end to pay liabilities of the current period. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. The fund liability is incurred when the goods or services have been received. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures.

The District classifies ending fund balance for its governmental funds into five categories. Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Chief Financial Officer and Board of Directors are the only person(s) who have the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

Assets, Liabilities, and Fund Equity

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

The Issaquah School District has no receivables and payables not expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. *(Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.)* USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

NOTE 2: Cash deposits with financial institutions

The King County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District's investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

The District's investments as of August 31, 2013, are as follows:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	\$141,794,584.89	\$140,870,129.97
Total Investments	\$141,794,584.89	\$140,870,129.97

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. *The District's share of the impaired investment pool principal is \$734,899.78 and the district's fair value of these investments is \$433,958.20*

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, 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 NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), 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 3: Significant contingent liabilities

Litigation

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

Arbitrage Rebate

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the District's 11 bond issue(s) after September 1, 1986, currently totaling \$365,270,000 million as of August 31st. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals. Because of the uncertainty of having to make this payment, the District is contingently liable for an arbitrage rebate currently computed to total \$0.00 as of August 31, 2013.

NOTE 4: SUBSEQUENT EVENTS

Bond Sale and Debt Rating

On May 28, 2014 the District will issue \$55,000,000 in Unlimited Tax General Obligation Bonds. This is the third offering from the \$219,121,500 bond issue authorized by voters in April of 2012. The proceeds of the bonds will be used to finance the costs of capital construction and capital improvements to the District's educational facilities. Additionally, during the bond rating process the District maintained its Aaa Moody's rating, and received an upgrade from Standards and Poor's to AA+.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

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:

Membership by retirement system program as of June 30, 2011:

<u>Program</u>	Active Members	Inactive Vested Members	Retired Members
TRs	66,203	9,204	41,709
PERS	152,417	29,925	79,363
SERS	52,332	10,262	6,428

Membership by retirement system program as of June 30, 2012:

<u>Program</u>	Active Members	Inactive Vested Members	Retired Members
TRs	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

Data is as of last actuarial valuation date of June 30, 2012.

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

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

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, 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 Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon 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 a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

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

B. Contributions

Employee contribution rates 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% (maximum)

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

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

	9/1/12-8/31/13		9/1/12-6/30/13	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):

<u>PLAN</u>	<u>FY 12-13</u>	<u>FY 11-12</u>	<u>FY 10-11</u>
PLAN 1 TRS	\$ 213,357	\$ 227,772	\$ 224,273
PLAN 2 TRS	\$ 1,099,910	\$ 902,434	\$ 676,318
PLAN 3 TRS	\$ 4,331,525	\$ 3,882,330	\$ 3,102,263
PLAN 1 PERS	\$ 42,637	\$ 39,340	\$ 33,510
PLAN 2 SERS	\$ 730,559	\$ 590,853	\$ 534,720
PLAN 3 SERS	\$ 1,161,960	\$ 924,048	\$ 795,086

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2012, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
PO BOX 43113
Olympia, WA 98504-3113

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

The State, through the Health Care Authority (HCA), administers an agent multi-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 insurance and long-term disability insurance)

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2012-13, the District was required to pay the HCA \$65.17 per month per full-time equivalent employee to support the program, for a total payment of \$1,367,384. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

For the fiscal year ended August 31, 2013, the District had incurred additional long-term debt as follows:

(Disclose the following for capital leases:

- a. Cost by major class and fund of capital assets being acquired with capital lease financing.*
- b. Current and non-current obligations.*
- c. Future minimum lease payments in total and yearly for the next five years.*
- d. Portion of future minimum lease payments representing imputed interest and other costs.*
- e. Total future minimum non-cancelable sublease rentals.*
- f. Contingent rentals actually incurred during the year.*

Disclose the following for operating leases:

- a. Future minimum lease payments for each of the next five years and in total for non-cancelable leases extending over one year.*
- b. Rental expenditures for the year with separate disclosures of minimum rental, contingent rental, and sublease rental revenue.)*

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	Balance
Lease Commitments					
IKON/RICHO #1	\$2,382,234	\$478,126	3/31/14	N/A	\$278,907
IKON/RICHO #2	\$357,840	\$74,036	12/31/15	N/A	\$172,750
<i>Total Lease Commitments</i>					\$451,657

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES, IF APPROPRIATE

The district has authorized projects totaling \$559,604,133. Of this total, \$354,958,734 has already been expended by the District. The remaining district commitment amounts to \$197,971,257. Issaquah School District received \$5,199,064 of State-Matching funds for the Creekside Elementary project, \$1,475,078 from OSPI for the Energy Conservation project and does has Local Funding designated to fund its Construction and Other Significant Commitments.

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2013
Major Maintenance/Other	\$156,341,133	\$65,600,551
Portables	\$9,000,000	\$8,820,231
LHS Addition/Remodel	\$24,600,000	\$24,082,472
Liberty HS Phase 2 &3	\$44,585,000	\$25,556,919
OSPI Energy Conservation	\$3,500,000	\$3,400,353
Issaquah H.S. Rebuild	\$96,500,000	\$96,132,289
Maywood Middle School Modernization	\$22,200,000	\$21,733,314
Skyline H.S. Modernization	\$47,910,000	\$47,905,522
Briarwood Elementary Rebuild	\$26,100,000	\$25,775,273
Challenger Elementary Modernization	\$2,900,000	\$2,886,689
Middle School Turf and Track Replacement	\$6,500,000	\$2,248,966
Creekside Elementary	\$23,468,000	\$23,467,424
Clark Rebuild	\$19,500,000	\$133,684
IVE/Apollo Addition	\$14,000,000	\$5,312,607
IMS Rebuild	\$62,500,000	\$1,902,440
Total	\$559,604,133	\$354,958,734

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2013:

Fund	Amount
General	\$632,947
ASB Fund	\$15,024
Capital Projects Fund	\$38,583,612
Transportation Vehicle Fund	\$0

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$500,000,000 for fiscal year 2012-13. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

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

Issue Name	Amount Issued	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2001 UTGO Ref. Bonds	75,255,000	70,000 - 18,270,000	6/1/2015	3.5% - 5.625%	13,640,000
2004A UTGO Ref. Bonds	25,485,000	1,520,000	12/1/2019	5.00%	3,020,000
2004B UTGO Ref. Bonds	16,265,000	1,935,000 - 2,445,000	12/1/2014	5.00%	4,380,000
2007 UTGO Bonds	75,000,000	8,750,000 - 20,000,000	12/1/2023	4.25% - 5.00%	75,000,000
2008 UTGO Bonds	60,000,000	2,500,000 - 17,500,000	12/1/2025	4.00% - 5.00%	40,000,000
2009 UTGO Bonds	30,000,000	750,000 - 10,000,000	12/1/2018	3.00% - 5.00%	20,000,000
2010A UTGO Bonds (BABs)	29,870,000	6,880,000 - 8,080,000	12/1/2029	5.50% - 5.625%	29,870,000
2010B UTGO Ref. Bonds	11,360,000	255,000 - 7,995,000	12/1/2020	3.00%	11,105,000
2012 UTGO & Ref. Bonds	96,370,000	120,000 - 23,615,000	12/1/2027	2.00% - 4.50%	95,850,000
2013B UTGO & Ref. Bonds	21,170,000	395,000 - 4,770,000	12/1/2019	.300% - 1.618%	21,170,000
2013A UTGO & Ref. Bonds	51,235,000	2,435,000 - 16,950,000	12/1/2029	2.00% - 4.00%	51,235,000
Total General Obligation Bonds					\$365,270,000

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2013:

Long-Term Debt Payable at 9/1/2012	\$338,085,000
New Issues	\$72,405,000
Debt Retired	\$45,220,000
Long-Term Debt Payable at 8/31/13	\$365,270,000

The following is a schedule of annual requirements to amortize debt at August 31, 2013:

Years Ending August 31,	Principal	Interest	Total
2014	16,345,000	14,975,695	31,320,695
2015	37,155,000	14,123,613	51,278,613
2016	8,485,000	13,269,092	21,754,092
2017	16,035,000	12,913,017	28,948,017
2018	16,515,000	12,295,492	28,810,492
2018-2022	72,050,000	42,567,466	114,617,466
2023-2027	132,135,000	31,814,950	163,949,950
2028-2032	66,550,000	4,840,991	71,390,991
Total	365,270,000	146,800,315	512,070,315

At August 31, 2013, the District had \$ 25,923,932 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Unissued

The District has \$109,121,500 of bonds authorized by voter approval in February of 2012 that have not yet been issued.

Refunded Debt

On May 22, 2013 the District issued \$21,170,000 in general obligation bonds with an average interest rate of 1.27% percent to advance refund \$19, 555,000 of outstanding 2004A and 2004B series bonds with an average interest rate of 5.25 percent. The net proceeds of \$21,042,119.00 (after payment of \$124,055.16 of underwriting fees and other issuance costs, a cash contribution of \$513,319.88 for a 6-13-2013 interest payment and to provide a deposit of \$3,824.71 to the District's Debt Service Fund) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004A and 2004B series bonds. As a result, the callable portions of the 2004A and 2004B series bonds are considered defeased.

The District advance refunded the 2004 series A & B bonds to reduce its total debt service payments over the next 7 years by \$2,010,933.38 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,920,064.97.)

Cash Flows Difference	
Old Debt Service Cash Flows	24,278,818.75
New Debt Service Cash Flows	(22,271,710.08)
Less Accrued Interest In 6/1/2013 Payment	0.00
Plus District Contribution from Sinking Fund Resources	0.00
Bond Proceeds Deposited into the Debt Service Fund	3,824.71
Total	2,010,933.38
Economic Gain	
Present Value of Old Debt Service Cash Flows	23,086,240.26
Present Value of New Debt Service Cash Flows	(21,170,000.00)
Less Accrued Interest Included in 6/1/2013	0.00
Plus District Contribution from Sinking Fund Resources	
Bond Proceeds Deposited into the Debt Service Fund	3,824.71
Total	1,920,064.97

Short-Term Debt

The District has no Short-term debt activity for the year ended August 31, 2013

Prior-Year Defeasance of Debt

(In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2013, \$59,555,000 of bonds outstanding were considered defeased.

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The Issaquah School District did not participate in any interfund loan activity:

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

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 Inter-local 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 Inter-local 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 Inter-local 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 Inter-local 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: PROPERTY TAXES

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

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

KCDA

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by approving the Agreement For The KCDA dated April 22, 1974, and has remained in the joint venture ever since. The District's current equity of \$155,407 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

Puget Sound Workers' Compensation Trust

The District is a member of the Puget Sound Workers' Compensation Trust, which is a self-insured pool that provides insurance for on-the-job injuries for 34 school districts and their 45,000 employees in King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom counties.

Districts receive professional claims management services to help injured workers return to the workplace. At the same time, Trust staff work with the employer to assess workplace safety and implement effective loss control programs. Participating school districts own the Trust, with all premiums building equity to help offset costs.

The District contributed \$279,091 from 9-1-2012 to 8-31-2013. The District's equity balance in the unemployment compensation pool is currently \$1,576,467. The District annually evaluates its pool contribution rates and is required to keep .20% of total annual gross wages in reserve. The funds contributed to the pool are considered expensed at the time of the issuance of each monthly payroll.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

The District's financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$150,000				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$1,051,192				
Debt Service				\$25,923,932	
Uninsured Risks	\$250,000				
Other Items		\$2,038,691			
Committed Fund Balance					
Other Commitments	\$1,088,220		\$8,262,109		
Assigned Fund Balance					
Contingencies	\$250,000				
Other Purposes	\$4,250,000				
Fund Purposes			\$65,864,086		\$4,424,814
Unassigned Fund Balance	\$11,811,203				

In addition, the Capital Projects Fund has the following amounts in Restricted and Committed Fund Balance, based on the source of the revenues:

Committed from Levy Proceeds	\$8,262,109
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On February 13, 2013, the board of directors took an action to commit a portion of the District's ending balance towards a Board-designated emergency reserve fund; (\$1,000,000) to emergency capital equipment and/or facility repair/replacement needs, and/or other unforeseen liabilities or expenses while maintaining the fund at an adequate level. In addition \$88,220 has been reserved for the imprest fund. The amount of fund balance that has been set aside may only be used for that purpose. It cannot be used for any other purpose of the District.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

403(b) Plan – Tax Sheltered Annuity (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years as elective deferrals (employee contribution).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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

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

No unrecorded liability exists for other employee benefits.

Issaquah School District No. 411
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2013

Description	Beginning Outstanding Debt September 1, 2012	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2013
Total Voted Bonds	338,085,000.00	72,405,000.00	45,220,000.00	365,270,000.00
Total Non-Voted Notes/Bonds	0.00	0.00	0.00	0.00
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
Qualified School Construction Bonds(QSCB)	0.00	0.00	0.00	0.00
Other Long-Term Debt				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	4,061,223.20	518,638.93	1,037,277.86	3,542,584.27
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	4,061,223.20	518,638.93	1,037,277.86	3,542,584.27
TOTAL LONG-TERM LIABILITIES	342,146,223.20	72,923,638.93	46,257,277.86	368,812,584.27

Issaquah School District
 King County
 EIN: 91- 6001643
 Schedule of Expenditure of Federal Awards
 For Fiscal Year Ending August 31, 2013

Federal CFDA Number	Other ID Number	Federal Agency Name	Federal Program Title	Expenditures			Total Funds Expended	Footnote
				Pass Thru Agency	Pass Thru Awards	Direct Fund Amount		
10.555	N/A	<u>Dept of Agriculture</u>	National School Lunch Program Cash Assistance Non-Cash Assistance (Commodities) Total	WA OSPI WA OSPI	\$ 636,586 \$ 156,228 \$ 792,814	\$ - \$ - \$ -	\$ 636,586 \$ 156,228 \$ 792,814	3
10.665	N/A		Schools & Roads - Grants to States	OFFICE OF STATE TREASURER	\$ 10,346	\$ -	\$ 10,346	
Dept of Agriculture Subtotal					\$ 803,161	\$ -	\$ 803,161	
12.999	N/A	<u>Dept of Defense</u>	JROTC		\$ 85,056	\$ -	\$ 85,056	2
Dept of Defense Subtotal					\$ -	\$ 85,056	\$ 85,056	
84.010	0200963	<u>Dept of Education</u>	Title I Grants to Local Educational Agencies	WA OSPI	\$ 619,870	\$ -	\$ 619,870	4
84.013	0223285		Title I State Agency Program for Neglected & Delinquent Child	WA OSPI	\$ 172,839	\$ -	\$ 172,839	4
84.027	0337437/0304056		Special Education - Grants to States	WA OSPI	\$ 3,046,271	\$ -	\$ 3,046,271	2,4
84.048	0172430		Career and Technical Education - Basic Grants to States	WA OSPI	\$ 60,571	\$ -	\$ 60,571	2,4
84.173	0364054		Special Education - Preschool Grants	WA OSPI	\$ 104,235	\$ -	\$ 104,235	2,4
84.367	0522150		Improving Teacher Quality State Grants	WA OSPI	\$ 200,735	\$ -	\$ 200,735	2,4
84.365	0401403		English Language Acquisition State Grants	WA OSPI	\$ 101,180	\$ -	\$ 101,180	2,4
Dept of Education Subtotal					\$ 4,305,702	\$ -	\$ 4,305,702	
93.600	N/A	<u>Dept. Health/Human Svcs.</u>	Headstart	PSESD	\$ 127,420	\$ -	\$ 127,420	
Health/Human Services Dept Subtotal					\$ 127,420	\$ -	\$ 127,420	
Grand Totals					\$ 5,236,282	\$ 85,056	\$ 5,321,338	

Issaquah School District
King County
Notes to the Schedule of Expenditure of Federal Awards

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Issaquah School District's financial statements. The Issaquah School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. The entire program costs are more than shown.

NOTE 3 – NON CASH AWARDS – FOOD COMMODITIES

The amount of commodities reported on the schedule is the value of commodities distributed by the Issaquah School District during the current year and priced as prescribed by the USDA.

NOTE 4 – FEDERAL INDIRECT RATE

The Issaquah School District claimed indirect costs under this grant using the allowable federal rate specific to the grant.

NOTE 5 – AMERICAN RECOVERY AND REINVESTMENT ACT

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



ABOUT THE STATE AUDITOR'S OFFICE

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

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.

State Auditor
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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
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