

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

Snohomish School District No. 201
Snohomish County

Audit Period
September 1, 2004 through August 31, 2005

Report No. 70154

Issue Date
February 17, 2006



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

February 17, 2006

Snohomish School District No. 201
Snohomish, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Snohomish School District No. 201's financial statements and compliance with federal laws and regulations.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Snohomish County
September 1, 2004 through August 31, 2005**

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Federal Summary

Snohomish School District No. 201 Snohomish County September 1, 2004 through August 31, 2005

The results of our audit of Snohomish School District No. 201 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- An unqualified opinion was issued on the District's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the District.
- We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal programs.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- 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.
- The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027/.173	Special Education Cluster

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

Snohomish School District No. 201
Snohomish County
September 1, 2004 through August 31, 2005

Board of Directors
Snohomish School District No. 201
Snohomish, Washington

We have audited the financial statements of Snohomish School District No. 201, Snohomish County, Washington, as of and for the year ended August 31, 2005, and have issued our report thereon dated January 9, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

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

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BRIAN SONNTAG, CGFM
STATE AUDITOR

January 9, 2006

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**Snohomish School District No. 201
Snohomish County
September 1, 2004 through August 31, 2005**

Board of Directors
Snohomish School District No. 201
Snohomish, Washington

COMPLIANCE

We have audited the compliance of Snohomish School District No. 201, Snohomish County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended August 31, 2005. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended August 31, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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BRIAN SONNTAG, CGFM
STATE AUDITOR

January 9, 2006

Independent Auditor's Report on Financial Statements

Snohomish School District No. 201 Snohomish County September 1, 2004 through August 31, 2005

Board of Directors
Snohomish School District No. 201
Snohomish, Washington

We have audited the accompanying financial statements of Snohomish School District No. 201, Snohomish County, Washington, as of and for the year ended August 31, 2005, as listed on page 8. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1B to the financial statements, the District prepares its financial statements using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which demonstrates compliance with the regulatory basis of accounting which differs from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and the accounting principles generally accepted in the United States of America are also described in Note 1B.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Snohomish School District No. 201, as of August 31, 2005, and the changes in financial position, thereof, for the year then ended on the basis of accounting described in Note 1B.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 Debt 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 has been

subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information and use of the governing body and management of Snohomish School District No. 201. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 9, 2006

Financial Section

**Snohomish School District No. 201
Snohomish County
September 1, 2004 through August 31, 2005**

FINANCIAL STATEMENTS

Balance Sheet – 2005
Statement of Revenues, Expenditures and Changes in Fund Balance – 2005
Statement of Fiduciary Net Assets – Other Trust and Agency Funds – 2005
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Schedule of Expenditures of Federal Awards – 2005
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REPORT F196

E.S.D. 189

14, '05

COUNTY: 31 SNOHOMISH

SNOHOMISH SCHOOL DISTRICT NO. 201
Balance Sheet as of August 31, 2005

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	ANNUAL FINANCIAL STATEMENTS			
	General	ASB	Debt Service	Capital Projects
Permanent	Fund	Fund	Fund	Fund
-----	-----	-----	-----	-----

ASSETS:				
Cash & Cash Equivalents	1,827,141.64	38,982.54	20,732.91	242,416.19
Minus Outstanding Warrants	1,787,253.95	20,977.43		141,737.41
Taxes Receivable	5,828,236.47		6,280,137.29	2,386.07
Due From Other Funds	277,649.53	1,969.70		
Due From Other Gov. Units	558,894.12			
Accounts Receivable	104,346.73	4,505.09		
Interfund Loans Receivable				
Accrued Interest Receivable	38,092.38	1,088.03		604,262.28
Inventory	79,731.18			
Prepaid Items	144,942.71	15,431.57		1,807.00
Investments	7,864,000.00	588,200.00	5,679,986.00	95,601,639.22
Investments/Cash w/Trustees				
Investments-Deferred Comp				
Self-Insur Security Dep				
TOTAL ASSETS	14,935,780.81	629,199.50	11,980,856.20	96,310,773.35
				77,624.00
LIABILITIES:				
Accounts Payable	1,403,050.76	35,249.96		29,686.90
Contracts Payable Current	79,609.54			1,098,916.40
Accrued Interest Payable				
Accrued Salaries	260,775.14			
Rev Anticipation Notes Pay				
Vacation Leave Payable-Current				
Sick Leave Payable-Current				
Payroll Ded & Taxes Pay	74,404.55			590.90
Due to Other Govt. Units	1,713.50			
Deferred Compensation Pay				
Est Employee Benefits Pay				
Due to Other Funds	4,355.77	43,801.91		233,847.62
Interfund Loans Payable				
Deposits	1,633.10	1,458.95		
Matured Bonds Payable				
Matured Bond Interest Pay				
Arbitrage Rebate Payable				2,645.00
Deferred Revenue				
TOTAL LIABILITIES	5,925,433.75	224,218.09	6,280,137.29	8,878.49
	7,750,976.11	304,728.91	6,280,137.29	9,469.39
FUND BALANCE:				
Reservation of Fund Balance	1,340,225.00			94,798,296.00
Unreserve Desig. Fund Balance	2,194,210.00			
Unreserve Undesig. Fund Balance	3,650,369.70	324,470.59	5,700,718.91	147,381.43
TOTAL FUND BALANCE	7,184,804.70	324,470.59	5,700,718.91	94,945,677.43
				68,154.61
TOTAL LIAB & FUND BALANCE	14,935,780.81	629,199.50	11,980,856.20	96,310,773.35
				77,624.00

The accompanying notes are an integral part of this statement.

REPORT F196

E.S.D. 189

14, '05

COUNTY: 31 SNOHOMISH

SNOHOMISH SCHOOL DISTRICT NO. 201

Statement of Revenues, Expenditures and Changes in Fund Balance

For The Year Ended August 31, 2005

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Permanent	General	Assoc.	Debt	Capital	Transportation
Fund	Fund	Student	Service	Projects	Vehicle
Fund	Fund	Body	Fund	Fund	Fund
REVENUES:					
Local	14,629,731.79	1,067,507.69	9,223,566.23	4,240,313.19	241,130.56
State	46,802,447.66		212,131.18		389,008.44
Federal	3,502,873.38				
Other	615,778.07				
TOTAL REVENUES	65,550,830.90	1,067,507.69	9,435,697.41	4,240,313.19	630,139.00
EXPENDITURES:					
CURRENT:					
Regular Instruction	35,882,382.00				
Special Education	7,050,567.71				
Vocational Education	1,972,255.38				
Skills Center					
Compensatory Programs	3,170,904.96				
Other Instructional Progs	896,791.72				
Community Services	490,551.33				
Support Services					
Student Activities/Other	14,236,703.76				
CAPITAL OUTLAY:		1,056,522.66			
Sites				12,006,286.44	
Building				2,343,504.80	
Equipment				3,456.81	
Energy				23,313.60	
Transportation Equipment					541,177.46
Other	929,089.81				
DEBT SERVICE:					
Principal			4,990,000.00		
Interest and Other Charges			4,723,438.29		
TOTAL EXPENDITURES	64,629,246.67	1,056,522.66	9,713,438.29	14,376,561.65	541,177.46
REVENUES OVER (UNDER) EXP:	921,584.23	10,985.03	277,740.88	10,136,248.46	88,961.54
OTHER FINANCING SOURCES(USES):					
Bond Sales & Refund Bond Sales					
Long-Term Financing					
Transfers In					
Transfers Out					
Other Financing Uses (GL 535)			272,430.00		272,430.00
Other					
TOTAL OTHER FINANCING SOURCES (USES)			272,430.00		272,430.00
EXCESS OF REVS & OTHER FIN SOURCES OVER (UNDER) EXP AND OTHER FIN USES	921,584.23	10,985.03	5,310.88	10,136,248.46	183,468.46
BEGINNING TOTAL FUND BALANCE					
Prior Year(s) Corrections	6,263,220.47	313,485.56	5,706,029.79	105,081,925.89	251,623.07
or Restatements					
ENDING TOTAL FUND BALANCE	7,184,804.70	324,470.59	5,700,718.91	94,945,677.43	68,154.61

The accompanying notes are an integral part of this statement.

REPORT F196

E.S.D. 189

14, '05

COUNTY: 31 SNOHOMISH

SNOHOMISH SCHOOL DISTRICT NO. 201

Statement of Fiduciary Net Assets

Other Trust & Agency Funds
For The Year Ended August 31, 2005

RUN: 08:50 DEC

Private Purpose Trust	Other Trust
-----------------------------	----------------

3,250.00	
1,050.00	
35,725.09	
26,880.04-	

648.38	
92,850.00	

106,643.43

2,137.41

2,137.41

5,867.84

98,638.18

104,506.02

ASSETS:

Imprest Cash

Cash on Hand

Cash on Deposit with Cty Treasurer

Minus Warrants Outstanding

Due From Other Funds

Accounts Receivable

Accrued Interest Receivable

Investments

Investments/Cash w/Trustees

Other Assets

Capital Assets, Land

Capital Assets, Buildings

Capital Assets, Equipment

Accum. Depreciation, Buildings

Accum. Depreciation, Equipment

TOTAL ASSETS

LIABILITIES:

Accounts Payable

Due to Other Funds

TOTAL LIABILITIES

Net Assets Held in Trust:

Reserved for Other Items

Reserved for Trust Principal

Unreserved, Designated for Other Items

Unreserved, Undesignated Fund Balance

Total Net Assets Held in Trust

The accompanying notes are an integral part of this statement.

REPORT F196

E.S.D. 189

14, '05

COUNTY: 31 SNOHOMISH

SNOHOMISH SCHOOL DISTRICT NO. 201
Statement of Changes in Fiduciary Net Assets

Other Trust & Agency Funds
For The Year Ended August 31, 2005

Private Purpose Trust	Other Trust
-----------------------------	----------------

ADDITIONS:	
Contributions:	
Private Donations	129,449.13
Employer Members	
Other	
Total Contributions	129,449.13
Investment Earnings:	
Net Increase (Decrease) in Fair Value of Investments	
Interest	2,046.74
Dividends	
Total Investment Earnings	2,046.74
Less Investment Expense	
Net Investment Earnings	2,046.74
Rent or Lease Revenue	
Total Additions	131,495.87

DEDUCTIONS:	
Benefits	
Refund of Contributions	
Administrative Expenses	
Scholarships	39,037.94
Other	3,632.84
Total Deductions	42,670.78
Changes in Net Assets	

Net Assets--Beginning of Year	15,680.93
Prior Year(s) Corrections or Restatemnts	
Net Assets--End of Year	104,506.02

The accompanying notes are an intregal part of this statement.

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SNOHOMISH SCHOOL DISTRICT NO. 201
Notes to Financial Statements
September 1, 2004 through August 31, 2005

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation - Fund Accounting

The Snohomish School 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. However, the district elects to not present district-wide financial statements, and management's discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized 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 (or expenses), 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 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.

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of 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 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.

Debt Service Fund

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

Special Revenue Funds

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Fund (ASB Fund) is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

Permanent Funds

These funds are used to report resources legally restricted such that only earnings, and not principal, may be used to support the district's programs. Snohomish School District does not currently have this type of fund.

FIDUCIARY FUNDS

Fiduciary funds that include pension, private-purpose trust funds, and agency funds, are used to account for assets held by the district in a trustee and agency capacity.

Private-Purpose Trust Fund - This fund is used to account for resources legally held in trust where principal and income benefit individuals, private organizations, or other governments.

Pension Trust Fund - This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans. Snohomish School District does not currently have this type of fund.

C. Basis of Accounting

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 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) District-wide statements 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 Debt. The Schedule of Long-Term Debt is required supplemental information.
- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.

The modified accrual basis of accounting is used for all governmental funds. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues 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. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified 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 (obligations means purchase order issued, contracts awarded, or goods and services received).

All governmental funds reporting focus 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.

D. 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, pursuant to law, the budgeted ending fund balance cannot be negative.

E. 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.

All of the district's investments 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, 2005, are as follows:

	Number of Securities	Carrying Amount	Market Value
State Treasurer's Invest. Pool	1	37,514,858.85	*37,514,858.85
Certificate of Deposit or Other Time Deposits	4	6,060,000.00	6,060,000.00
Obligations of U.S. Government or its Subsidiary Corporations	19	66,318,716.37	65,939,456.49
Total Investments		109,893,575.22	109,514,315.34

* Aggregate

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. Management may reserve a portion of fund balance in any amount as a budgetary technique to ensure the availability of resources at the appropriate time. 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.

F. Revenue and Expenditure RecognitionDebt Service

Principal and interest on general long-term debt is recognized only when due.

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 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. 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 taxes due on October 31 are recorded as deferred revenue.

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 28.A.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 buy out 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 termination payment method.

Note 2 - Capital Assets

The district's capital assets are insured in the amount of \$123,078,431 for fiscal 2004-05. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Note 3 - Pensions**A. General Information**

Substantially all Snohomish School 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 September 30, 2004:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	66,634	6,746	36,292
PERS	156,256	21,031	66,896
SERS	49,854	4,463	1,578

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, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

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 after five years of credited service and attainment of age 60 or after ten years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and 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 advice from the Office of the State Actuary. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in 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 as of August 31, 2005:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	0.87%	Plan 2 SERS	0.85%
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 as of August 31, 2005:

Plan 1 TRS	1.37%*	Plan 1 PERS	2.44%*
Plan 2 TRS	1.37%*	Plan 2 SERS	1.04%*
Plan 3 TRS	1.37%*	Plan 3 SERS	1.04%*

*Includes DRS Administrative Expense Rate of .22%

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 September 30):

<u>Plan</u>	<u>FY 04-05</u>
Plan 1 TRS	\$ 73,069.06
Plan 2 TRS	\$ 33,128.33
Plan 3 TRS	\$280,299.90
Plan 1 PERS	\$ 7,460.06
Plan 2 SERS	\$ 35,647.75
Plan 3 SERS	\$ 57,008.31

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, 2005, 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 4 - Construction and Other Significant Commitments

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2005	Additional Local Funds Committed	Additional State Funds Committed
<u>New Construction</u>				
New Elementary	17,769,472	709,110	908,583	
New High School	65,951,809	1,644,018	3,228,216	
Valley View Middle School Portable Restroom	150,000	78,465	69,795	
Seattle Hill Elementary Portable	150,000	2,185	77,905	
<u>Remodel Construction</u>				
Snohomish High Modernization	63,770,000	308,840	14,110	23,700,000
<u>Other</u>				
SHS Stadium Turf	744,974	644,106	55,977	
Health/Safety/Energy Improvements	3,581,000	44,377	20,852	
Technology/Fiber Network	2,777,000	57,312	0	

Note 5 – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the Department of Retirement Systems. All monies deferred by employees are held in trust by the Washington State Investment Board for the exclusive benefit of program participants and eligible beneficiaries.

Note 6 - Risk Management

The Snohomish School District is a member of the Schools Insurance Association of Washington (SIAW). 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 on September 1, 1995, when 7 mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 44 member districts.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a claims-made basis. All other coverages are on an occurrence basis. The pool provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, boiler and machinery, crime, excess liability and educators legal liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$4,022,000 to eliminate any risk to members and, in addition, funds the Stop Loss in the budget.

Property insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the first \$5,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$5,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. 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 Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2005 were \$1,822,024. For Fiscal Year 2005-06, the pool has contracted with the third party administrator to perform administration, claims management and loss prevention services for \$1,906,420.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates to perform day-to-day administration of the pool. This pool has no employees.

Note 7 – Lease Obligations and Conditional Sales Contract Obligations

As of August 31, 2005, outstanding operating lease obligations were as follows:

Lessor	Effective Date of Lease	Original Amount of Lease	Annual Installment	Final Installment Date	Interest Rate	Balance Due
Operating Lease Commitments:						
IOS Capital	7/1/2003	799,663	154,313	6/30/2008	N/A	462,939

The District has treated the IOS Capital copier lease as a true operating lease for constitutional and statutory debt limit purposes, and as a result, the lease is not subject to long-term debt requirements and does not constitute non-voted debt. Operating leases do not generate asset or liability recognition at their inception and therefore the lease payments are recognized as expenditures as they become payable. Operating lease payments for each of the next three fiscal years are \$154,313 per year, and total \$462,939 over the three-year period.

Note 8 - Long-Term Debt

Bonds payable at August 31, 2005, are comprised of the following individual issues:

Issue Date	Amount Issued	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
	VOTED BONDS				
6/1/92	13,000,000	varies	12/1/06	3.45-6.75	2,405,000
6/1/98	6,610,000	varies	12/1/05	4.30-5.00	2,765,000
6/1/98	3,900,000	varies	12/1/08	4.30-5.00	1,785,000
5/1/00	6,120,000	varies	12/1/07	5.10-5.625	5,780,000
10/15/01	1,675,000	varies	12/1/06	3.25	685,000
9/1/03	4,690,000	varies	6/1/06	2.00-3.00	1,635,000
8/1/04	100,000,000	varies	12/1/23	3.00-5.00	<u>100,000,000</u>
Total Voted Bonds					<u>115,055,000</u>
Total General Obligation Bonds					115,055,000

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2005.

Long-Term Debt Payable at 9/1/04	\$120,045,000
New Issues	0
Debt Retired	<u>4,990,000</u>
Long-Term Debt Payable at 8/31/05	\$115,055,000

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2005:

Years Ending August 31,	Principal	Interest	Total
2006	9,175,000	5,288,035	14,463,035
2007	6,435,000	4,944,740	11,379,740
2008	5,495,000	4,640,104	10,135,104
2009	500,000	4,475,699	4,975,699
2010	3,760,000	4,371,324	8,131,324
2011	4,255,000	4,176,611	8,431,611
2012	4,765,000	3,979,108	8,744,108
2013	4,090,000	3,800,142	7,890,142
2014	4,555,000	3,630,686	8,185,686
2019 (preceding 5 years)	29,315,000	14,484,390	43,799,390
2024 (preceding 5 years)	42,710,000	5,690,750	48,400,750
Total	115,055,000	59,481,589	174,536,589

At August 31, 2005 the district had \$5,700,719 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Un-issued

The 2004 Bonds represent the first series of a total \$141,570,000 of unlimited tax general obligation bonds authorized by the District's voters on May 18, 2004. The District expects to issue the remaining authorization of \$41,570,000 in multiple bond sales over the next 16 months.

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. At August 31, 2005, none of the bonds outstanding are considered defeased.

Note 9 - Summary of Significant Contingencies**Litigation**

The District is one of a number of public entity defendants named in a class action lawsuit filed in King County Superior Court, and subsequently removed to the United States District Court for the Western District of Washington. The lawsuit, Sundquist Homes et al, v. Snohomish County et al., concerns impact fees imposed by Snohomish County pursuant to the Growth Management Act. With respect to the District, the plaintiffs seek recovery of school impact fees made available to the District by the County during the time periods of January 1995 to May 1999 and July 2000 through the present.

In June 2003, the U.S. District Court Judge granted defendants' motion for summary judgment and dismissed the case. He also denied the plaintiffs' motion for class certification. The plaintiffs appealed the case to the U.S. Court of Appeals for the Ninth Circuit. On November 15, 2004, after the Court heard oral arguments, the Court withdrew the case from submission pending the final disposition of James v. Kitsap County, Case No. 73747-9. On July 7, 2005, the Washington State Supreme Court issued a favorable ruling in James, and on November 2, 2005, the Supreme Court issued its decision denying the developers' Motion for Reconsideration. These actions by the Washington State Supreme Court could lead to an affirmance of the U.S. District Court's summary judgment order in Sundquist Homes. The defendants have sent a copy of the Washington State Supreme Court decision to the Ninth Circuit. The plaintiffs in this action have not yet specified the amount claimed against the District, and it is too early in the litigation to predict what, if any, financial exposure the District has in this lawsuit. The District is vigorously defending itself against all claims alleged in this suit.

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 general obligation bond issues after September 1, 1986, currently totaling \$115,055,000. 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 rebated amount fluctuates each year and may or may not be owing at the payment intervals. Because of the uncertainty of having to make this payment, the district is contingently liable for arbitrage rebate currently computed to total \$2,645.

Note 10 - Other Disclosures**K C D A**

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association on July 9, 1974, and has remained in the joint venture ever since. The district's current equity of \$87,567.59 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.

Note 11 – Subsequent Events

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

SNOHOMISH SCHOOL DISTRICT NO. 201
Schedule of Long-Term Debt
For The Year Ended August 31, 2005

Description	(1) Beginning Outstanding Debt 9/1/2004	(2) Amount Issued/ Increased	(3) Amount Redeemed/ Decreased	(4) Ending Outstanding Debt 8/31/2005 (1)+(2)-(3)
Total Voted Bonds	119,775,000.00		4,720,000.00	115,055,000.00
Total Non-Voted Notes/Bonds	270,000.00		270,000.00	0.00
Qualified Zone Academy Bonds				
Other Long-Term Debt:				
Capital Leases				
Contracts Payable (GL 603)				
NonCancellable Operating Leases				
Claims & Judgements	876,365.00	2,169.00		878,534.00
Compensated Absences				
Other Long-Term Debt				
Total Other Long-Term Debt	876,365.00	2,169.00		878,534.00
Total Long-Term Debt	120,921,365.00	2,169.00	4,990,000.00	115,933,534.00

The accompanying notes are an intregal part of this statement.

Snohomish School District
Snohomish County
EIN: 91-6014712
Schedule of Expenditure of Federal Awards
For Fiscal Year Ending August 31, 2005

Federal Catalog Number	Federal Agency Name	Federal Program Title	Pass Thru Agency	Pass Thru Amount	Direct Fund Amount	Total Funds Expended	Foot Note
10.550	Dept of Agriculture	Food Distribution	WA OSPI	121,630		121,630	3
10.553	Dept of Agriculture	School Breakfast Program (A)	WA OSPI	73,763		73,763	
10.555	Dept of Agriculture	Nat'l School Lunch Program (A)	WA OSPI	375,981		375,981	
10.561	Dept of Agriculture	State Administrative Matching Grants for Food Stamp Program	Snohomish County Office of Human Services	5,103		5,103	
10.665	Dept of Agriculture	School & Roads Grants to State	Office of State Treasurer	78,021		78,021	2
		Dept of Agriculture Subtotal		654,498	0	654,498	
66.468	EPA	Capitalization Grants for Drinking Water State	WA OSPI	2,000		2,000	
		Environmental Protection Agency Subtotal		2,000	0	2,000	
12.606	Dept of Defense	USMC JROTC			53,167	53,167	
		Dept of Defense Subtotal		0	53,167	53,167	
84.010	Dept of Education	Title I Grants to LEA's	WA OSPI	553,964		553,964	
84.027	Dept of Education	Special Ed - State Grants	WA OSPI	1,646,962		1,646,962	
84.027	Dept of Education	Special Ed - State Grants	Univ of Wash	2,245		2,245	
84.173	Dept of Education	Special Ed - Preschool Grants	WA OSPI	71,581		71,581	
84.181A	Dept of Education	Special Ed - Grants for Infants & Families with Dis	Dept. of Social & Health Svcs	7,289		7,289	
				1,728,077		1,728,077	
84.048	Dept of Education	Voc Ed Basic Grants to States	WA OSPI	44,998		44,998	
84.186	Dept of Education	Safe & Drug Free Schools & Comm St. Gr.	ESD 189	16,359		16,359	
84.298	Dept of Education	Innovative Ed Program Strategies	WA OSPI	31,119		31,119	
84.318	Dept of Education	Education Technology State Grants	WA OSPI	14,844		14,844	
84.325	Dept of Education	Special Education Personnel Preparation	University of Washington	1,912		1,912	
84.365	Dept of Education	English Language Acquisition Grants	WA OSPI	11,275		11,275	
84.367	Dept of Education	Improving Teacher Quality State Grants	WA OSPI	212,219		212,219	
		Dept of Education Subtotal		2,614,767	0	2,614,767	
93.778	Health/Human Servs Dept	Medicaid-Medical Assist Program	WA DSHS	146,485		146,485	
93.959	Health/Human Servs Dept	Substance Abuse Block Grant	Sno Cnty HSD	19,098		19,098	
		Health/Human Services Dept Subtotal		165,583	0	165,583	
		Totals		3,436,848	53,167	3,490,015	

SNOHOMISH SCHOOL DISTRICT No. 201
Schedule of Expenditure of Federal Awards
For the Year Ending August 31, 2004

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on 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 - 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.