

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

Shoreline School District No. 412
King County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1011531

Issue Date
March 31, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



Washington State Auditor Troy Kelley

March 31, 2014

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Shoreline School District No. 412'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

Shoreline School District No. 412 King County September 1, 2012 through August 31, 2013

The results of our audit of Shoreline School District No. 412 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>
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

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

**Shoreline School District No. 412
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Shoreline School District No. 412
Shoreline, 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 Shoreline School District No. 412, 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 February 19, 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.

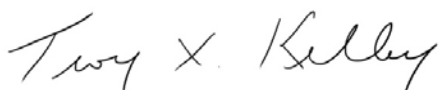
COMPLIANCE AND OTHER MATTERS

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

February 19, 2014

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

**Shoreline School District No. 412
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Shoreline School District No. 412, 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

February 19, 2014

Independent Auditor's Report on Financial Statements

Shoreline School District No. 412 King County September 1, 2012 through August 31, 2013

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Shoreline School District No. 412, 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. 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 Shoreline School District No. 412, 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 and Fiduciary 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, Transportation Vehicle, Permanent and Fiduciary 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

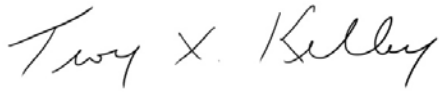
Supplementary and Other Information

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 February 19, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on 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.

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

TROY KELLEY
STATE AUDITOR

February 19, 2014

Financial Section

**Shoreline School District No. 412
King County
September 1, 2012 through August 31, 2013**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2013
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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Statement of Fiduciary Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013
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Schedule of Long-Term Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

Shoreline School District No. 412

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	17,801,776.19	955,967.49	5,715,121.61	57,213,760.36	864,060.79	0.00	82,550,686.44
Minus Warrants Outstanding	-1,626,269.94	-32,365.65	0.00	-385,292.35	0.00	0.00	-2,043,927.94
Taxes Receivable	11,109,147.79		9,817,108.44	1,473,367.70	0.00		22,399,623.93
Due From Other Funds	171,126.20	1,000.00	0.00	19,495.70	0.00	0.00	191,621.90
Due From Other Governmental Units	559,736.43	50.00	0.00	12,311,651.47	0.00	0.00	12,871,437.90
Accounts Receivable	265,471.24	0.00	0.00	0.00	0.00	0.00	265,471.24
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	122,513.87	0.00					122,513.87
Prepaid Items	31,633.15	8,590.48		0.00	0.00	0.00	40,223.63
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00		0.00	0.00	0.00	0.00	0.00
Self-Insurance Security Deposit	0.00			0.00			0.00
TOTAL ASSETS	28,435,134.93	933,242.32	15,532,230.05	70,632,982.88	864,060.79	0.00	116,397,650.97
LIABILITIES:							
Accounts Payable	1,054,292.01	17,429.13	0.00	8,290,752.23	0.00	0.00	9,362,473.37
Contracts Payable Current	0.00	0.00		27,864.84	0.00	0.00	27,864.84
Accrued Interest Payable			0.00				0.00
Accrued Salaries	404,325.73	0.00		0.00			404,325.73
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	80,326.83	0.00		0.00			80,326.83
Due To Other Governmental Units	2,594.95	0.00		766.24	0.00	0.00	3,361.19
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00			0.00			0.00
Due To Other Funds	20,495.70	4,090.59	0.00	167,035.61	0.00	0.00	191,621.90

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

Shoreline School District No. 412

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	1,455.00	0.00		12,000.00			13,455.00
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	11,864,548.32	222,985.86	9,817,108.44	1,473,367.70	0.00	0.00	23,378,010.32
TOTAL LIABILITIES	13,428,038.54	244,505.58	9,817,108.44	9,971,786.62	0.00	0.00	33,461,439.18
FUND BALANCE:							
Nondisposable Fund Balance	154,147.00	8,590.48	0.00	0.00	0.00	0.00	162,737.48
Restricted Fund Balance	866,197.00	680,146.26	5,715,121.61	58,292,261.38	0.00	0.00	65,553,726.25
Committed Fund Balance	7,374,468.00	0.00	0.00	2,033,305.57	0.00	0.00	9,407,773.57
Assigned Fund Balance	1,518,776.00	0.00	0.00	335,629.31	864,060.79	0.00	2,718,466.10
Unassigned Fund Balance	5,093,508.39	0.00	0.00	0.00	0.00	0.00	5,093,508.39
TOTAL FUND BALANCE	15,007,096.39	688,736.74	5,715,121.61	60,661,196.26	864,060.79	0.00	82,936,211.79
TOTAL LIABILITIES AND FUND BALANCE	28,435,134.93	933,242.32	15,532,230.05	70,632,982.88	864,060.79	0.00	116,397,650.97

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

Shoreline School District No. 412

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	29,849,991.08	1,804,833.59	20,017,452.44	4,411,948.99	11,676.34		56,095,902.44
State	52,840,003.73		0.00	16,313,685.52	337,089.34		69,490,778.59
Federal	4,949,465.04		0.00	0.00	0.00		4,949,465.04
Federal Stimulus	0.00						0.00
Other	10,639.50			0.00	0.00	0.00	10,639.50
TOTAL REVENUES	87,650,099.35	1,804,833.59	20,017,452.44	20,725,634.51	348,765.68	0.00	130,546,785.57
EXPENDITURES:							
CURRENT:							
Regular Instruction	48,222,766.58						48,222,766.58
Federal Stimulus	0.00						0.00
Special Education	13,124,749.66						13,124,749.66
Vocational Education	2,073,955.02						2,073,955.02
Skills Center	0.00						0.00
Compensatory Programs	3,021,460.31						3,021,460.31
Other Instructional Programs	874,019.16						874,019.16
Community Services	2,929,587.98						2,929,587.98
Support Services	15,783,373.84						15,783,373.84
Student Activities/Other		1,882,898.57				0.00	1,882,898.57
CAPITAL OUTLAY:							
Sites				2,415,398.33			2,415,398.33
Building				69,315,904.53			69,315,904.53
Equipment				5,272,744.57			5,272,744.57
Instructional Technology				0.00		0.00	0.00
Energy				0.00		0.00	0.00
Transportation Equipment					318,052.20		318,052.20
Sales and Lease						0.00	0.00
Other	60,861.71						60,861.71
DEBT SERVICE:							
Principal	0.00		15,557,390.89	0.00	0.00		15,557,390.89
Interest and Other Charges	2,078.15		9,559,092.97	0.00	0.00		9,561,171.12
Bond/Levy Issuance				5,750.00	0.00		5,750.00
TOTAL EXPENDITURES	86,092,852.41	1,882,898.57	25,116,483.86	77,009,797.43	318,052.20	0.00	190,420,084.47

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

Shoreline School District No. 412

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	1,557,246.94	-78,064.98	-5,099,031.42	-56,284,162.92	30,713.48	0.00	-59,873,298.90
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	9,970.53		314,655.58	0.00	0.00		324,626.11
Transfers Out (GL 536)	0.00		0.00	-324,626.11	0.00	0.00	-324,626.11
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	1,475,315.00	0.00		1,475,315.00
TOTAL OTHER FINANCING SOURCES (USES)	9,970.53		314,655.58	1,150,688.89	0.00	0.00	1,475,315.00
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,567,217.47	-78,064.98	-4,784,375.84	-55,133,474.03	30,713.48	0.00	-58,397,983.90
BEGINNING TOTAL FUND BALANCE	13,439,878.92	766,801.72	10,499,497.45	115,794,670.29	833,347.31	0.00	141,334,195.69
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	15,007,096.39	688,736.74	5,715,121.61	60,661,196.26	864,060.79	0.00	82,936,211.79

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

Shoreline School District No. 412

Statement of Fiduciary Net Position

Fiduciary Funds

August 31, 2013

ASSETS:

Cash on Deposit with County Treasurer
Minus Warrants Outstanding
TOTAL ASSETS

\$273,761.51
-176.85
\$273,584.66

LIABILITIES:

TOTAL LIABILITIES

\$0.00

NET POSITION

Net position held in trust for trust principal, scholarships,
and private beneficiaries

\$273,584.66

Shoreline School District No. 412

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2013

ADDITIONS:

Donations	\$7,596.10
Investment Earnings	4,292.09
TOTAL ADDITIONS	\$11,888.19

DEDUCTIONS:

Scholarships	\$8,137.53
Community Park Maintenance	2,292.06
TOTAL DEDUCTIONS	10,429.59

CHANGE IN FIDUCIARY NET POSITION

1,458.60

NET FIDUCIARY POSITION--BEGINNING

\$272,126.06

NET FIDUCIARY POSITION--ENDING

\$273,584.66

SHORELINE SCHOOL DISTRICT NO. 412
NOTES TO THE FINANCIAL STATEMENTS
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shoreline School 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 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 budgetary comparison schedule compares the district's actual results with the final budgeted amounts. The original budget 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.

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 (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 for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as necessary, activities such as food service, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects

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 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 public 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 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.

Fiduciary Funds

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

Private-Purpose Trust Fund

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

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 in 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 90 days after year-end to pay liabilities of the current period. Property taxes receivable are measureable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable 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, 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 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 only be used for the same purpose as they were originally received. When the District has such a 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 District classifies ending fund balance for its governmental funds into five categories:

Non-spendable Fund Balance. The amounts reported as Non-spendable 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 formal adopted board resolution or are related to an established policy of the board. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by 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.

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.

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.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

In accordance with state investment laws, the District's board of directors has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all of its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of August 31, 2013, the District had the following investments:

Investment Type	Carrying Amount	Fair Value	Effective Duration
King County Investment Pool	\$82,706,259	\$82,400,246	1.45 Years

Impaired Investments. As of August 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. King County considers the District's share of the impaired investment pool to have a carrying amount of \$318,451, less unrealized loss exposure of \$130,373, and therefore a net fair value of \$188,078. However, in 2008, and as disclosed every year since, the District recognized the full losses of both the realized investment losses (\$1,167,234) and the impaired investments (\$887,588) in its financial statements. Therefore, the District has no loss exposure and all subsequent revenues are treated as investment earnings in the current year.

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 2002, 2005, 2006, 2008, 2010, and 2011 bonds issued after September 1, 1986. 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 this uncertainty of having to make this payment, the District entered into a third party agreement in 2007 to have the arbitrage values and reports completed as required. However, investment earnings for the last several years have been considerably below the coupon interest rate in its bonds. Therefore, the District has no current or expected liability for arbitrage payments to the federal government.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

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

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

General Information

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, defined benefit and defined contribution, 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 Employee's Retirement System (SERS). DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive financial report (CAFR) that includes financial and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Membership by retirement system as of June 30, 2012:

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

Plan 1 under 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, 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, 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 members, 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 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's contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

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 increases 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 contributions in dollars (participant information for all plans is as of August 31):

Plan	2010-11	2011-12	2013-14
Plan 1 TRS	\$208,230	\$215,446	189,212
Plan 2 TRS	179,517	244,487	261,867
Plan 3 TRS	1,868,403	2,454,032	2,490,961
Plan 1 PERS	59,752	68,157	51,360
Plan 2 SERS	343,574	479,481	500,723
Plan 3 SERS	494,408	677,775	688,185

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, 2013, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
PO Box 43113
Olympia, WA 98504-3113
or it may be downloaded from the DRS website at www.drs.wa.gov.

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OTHER POST-EMPLOYMENT BENEFIT 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 HCA 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 HCA. For 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 \$754,106. 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 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: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Projects are deleted from this list at substantial completion. The high school construction projects are primarily funded from the 2010 bond authorization plus state funds. The remaining construction projects are funded from the 2006 bond authorization. Construction in progress is composed of:

Project	Project Authorization Amount	State Funds Committed	Local Funds Committed	Expended as of 8/31/13
Shorecrest High School Replacement & Modernization	\$90,000,000	\$19,414,577	\$70,585,423	\$59,880,515
Shorewood High School Replacement & Modernization	90,000,000	18,335,410	71,664,590	78,039,541
Parkwood Fields	1,000,000	0	1,000,000	828,761
Total	\$181,000,000	\$37,749,987	\$143,250,013	\$138,748,817

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for 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. Encumbrances in the amount of \$23,584,811 within the Capital Projects Fund were re-encumbered on September 1, 2013.

NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$294,027,809 for fiscal year 2012-13. In the opinion of the District's insurance consultant, this amount is sufficient to adequately fund replacement of the District's assets.

Capital Assets Lease Agreements

The District currently holds building and property lease agreements with other educational, community, governmental, and communication organizations. Lease revenues received in excess of operational costs are recorded in the capital projects fund as required by state law. The District leased the following facilities during the 2012-13 fiscal year:

The following lease agreement exists for the Shoreline Stadium located at 18560 1st Ave NE in Shoreline:

Approximately 850 square feet are leased to Crown Castle GT Company effective February 15, 1997 for five years with five additional five-year term extensions. Renewal is automatic unless written notice is provided 120 days prior to renewal. This lease provides for an antenna tower for wireless communication systems. Lease payments are adjusted annually based on the Consumer Price Index. In the 2012-13 fiscal year, the District deposited \$13,817 into the capital projects fund from this agreement.

The following lease agreement exists for Highland Terrace Elementary located at 100 N 160th Street in Shoreline:

Approximately 300 square feet are leased to Sprint PC effective March 4, 2004 for five years with four additional five-year terms. Renewal is automatic unless written notice is provided 90 days prior to renewal. This lease provides space for an antenna tower for wireless communication systems. Lease payments are adjusted 15% every five years. In the 2012-13 fiscal year, the District deposited \$21,601 into the capital projects fund from this agreement.

The following lease agreements exist for Aldercrest Learning Center located at 2800 NE 200th in Shoreline:

The Mars Hill Church lease is for 38,980 square feet. The district entered into a five-year lease on October 20, 2010. Reimbursement for utilities, custodial services, and other indirect costs are included in the lease. Lease payments received in 2012-13 were \$242,862. The District deposited \$199,584 in the capital projects fund and \$43,278 in the general fund to cover operating costs associated with the lease.

The following lease agreements exist for Cedarbrook Elementary located at 2000 NE Perkins Way in Shoreline:

Approximately 8,050 square feet are leased to the Living Wisdom School, a non-profit corporation. The district entered into a five-year lease effective September 1, 2012. Lease payments received were \$44,443. Reimbursement for utilities, custodial services, and other indirect costs are included in the lease. The District deposited \$40,000 into the capital projects fund and \$4,443 into the general fund to cover operating costs associated with the lease.

The following lease agreements exist for North City Elementary located at 815 NE 190th in Shoreline:

The lease period is September 1, 2012 through August 31, 2013 and is renewed on a year-to-year basis. Reimbursement for utilities, custodial services, and other indirect costs are included in the lease. Except for operating costs associated with the leases, all funds are deposited in the capital projects fund.

Tenant	Square Feet	Purpose	Lease Amount	Capital Projects Fund	General Fund
Wonderland Development	4,118	Preschool	\$15,974	\$9,585	\$6,389
Shorenorth Parent Educ Ctr	2,883	Preschool	10,196	5,302	4,894
North City Parent Lab School	2,883	Preschool	11,896	6,662	5,234
Shoreline Coop Preschool	2,548	Preschool	9,346	5,515	3,831
Tessera Arts Preschool	1,191	Preschool	10,750	8,922	1,828

The following lease agreements exist for the Shoreline Center located at 18560 1st Avenue NE in Shoreline:

The lease period is September 1, 2012 through August 31, 2013 and is renewed on a year-to-year basis. Reimbursement for utilities, custodial services, and other indirect costs are included in the leases. Except for operating costs associated with the leases, all funds are deposited in the capital projects fund.

Tenant	Square Feet	Purpose	Lease Amount	Capital Projects Fund	General Fund
Senior Services Center	11,900	Senior Center	\$43,048	\$28,842	\$14,206
NorWest Voc-Tech, LLC	1,457	Office	10,340	7,761	2,579
US Representative Inslee	1,256	Office	7,138	6,282	856
State Representative Ryu	1,256	Office	1,675	1,340	335
Washington Alliance for Better Schools	1,104	Office	7,727	6,181	1,546
Shoreline/LFP Arts Council	1,012	Office	3,660	2,013	1,647
Chamber of Commerce	736	Office	6,525	5,024	1,501
State Senator Chase	520	Office	5,410	4,274	1,136
Northshore/SL Comm Network	113	Office	225	180	45

NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**Long-Term Debt**

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

General Obligation Bonds

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rates	Amount Outstanding
Voted Debt:					
2002	\$9,000,000	\$265,500 – \$1,233,000	6/1/22	2.50% - 5.00%	\$5,650,000
2005	\$21,275,000	\$302,662 – \$4,198,381	12/1/17	3.00% - 5.25%	\$9,270,000
2006	\$72,185,000	\$2,110,100 – \$15,375,000	12/1/25	4.00% - 5.75%	\$51,535,000
2008	\$25,000,000	\$345,000 – \$10,985,525	12/1/21	4.00% - 5.75%	\$6,000,000
2010	\$80,000,000	\$1,397,750 – \$13,071,806	12/1/29	2.00% - 4.00%	\$67,500,000
2011	\$70,000,000	\$2,312,500 – \$21,525,000	12/1/30	2.00% - 5.00%	\$67,000,000
					\$206,955,000
Non-Voted					
2005	\$3,799,605	\$90,634 – \$361,267	11/15/23	4.85%	\$2,718,978
Total General Obligation Bonds					\$209,673,978

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

Long-Term Debt Payable at 9/1/2012	\$225,231,369
New Issues	\$0
Debt Retired	(\$15,557,391)
Long-Term Debt Payable at 8/31/2013	\$209,673,978

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

Years Ending August 31	Principal	Interest	Total
2014	\$10,505,526	\$9,054,404	\$19,559,930
2015	7,704,387	8,718,045	16,422,432
2016	8,134,011	8,393,707	16,527,718
2017	4,684,439	8,063,020	12,747,459
2018	7,215,710	7,793,776	15,009,486
2019 – 2023	43,095,357	33,691,357	76,786,714
2024 – 2028	71,644,548	20,515,661	92,160,209
2029 - 2031	56,690,000	4,140,375	60,830,375
Total	\$209,673,978	\$100,370,345	\$310,044,323

At August 31, 2013, the District had \$5,715,122 available in the Debt Service Fund to service the general obligation bonds.

Bonds Authorized But Not Issued

On February 7, 2006 voters authorized the issuance of \$149,500,000 in Unlimited Tax General Obligation Bonds. The District issued \$61,500,000 of these bonds on April 5, 2006 and \$25,000,000 on November 4, 2008. The District anticipates issuing the remaining \$63,000,000 over the next several years, with \$10,000,000 issued on November 20, 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. As of the balance sheet date, the district had no defeased debt. However, on November 20, 2013 the district issued \$50,035,000 of bonds, which included refunding \$42,500,000 of bonds issued in 2006.

NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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 a pool or organization for the joint purpose of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management

services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

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

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

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Government Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

Workers Compensation

The District joined the Puget Sound Workers Compensation Trust (PSWCT) on September 1, 2008. The trust is administered by Puget Sound Educational Service District and provides claims processing and management, loss control and time loss and medical claims. Rates are set for each member district based on their respective loss experience.

Unemployment

The District is a member of the Puget Sound Educational Service District Unemployment Compensation Pool. This pool provides school districts with a coordinated program of self-insurance for unemployment compensation. Members pay assessments only as required to maintain specified account balances.

Self-Insurance

Prior to joining the PSWCT and Unemployment Compensation Pool, the District was self-insured. The District has a restricted fund balance reservation of \$649,000 to cover claims incurred prior to joining the above pools. The District continues to monitor this reservation as the prior claims continue to be resolved.

NOTE 11: 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 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 ending 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 12: JOINT VENTURES

JOINT VENTURE

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 passing Amended Articles Agreement dated August 12, 1974, and has remained in the joint venture ever since. The District's current equity of \$166,013 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 has the option to withdraw from the joint venture and receive its equity in ten annual allocations of merchandise or 15 annual payments.

JOINT USE

The Shoreline School District and the City of Shoreline entered into a joint use agreement on August 29, 2000. The agreement is entered pursuant to RCW 39.34 (Inter-local Cooperation Act) and RCW 28A.335 (School District Property). The purpose of the agreement is to provide an adequate program of community recreation and to do all things necessary or convenient to aid and cooperate in the cultivation of the

community's health and vitality by providing for adequate programs of public recreation. In the interest of providing the best service with the least possible expenditure of public funds, the joint use concept can best provide for the usage, maintenance and operation of the facilities specified in the addendum for utilization of both parties and would also allow and encourage the City and District to work together in planning and developing public facilities for joint use. As of August 31, 2013, the facilities specified in the addendum are:

- Einstein Middle School Playfield and Hillwood Park
- Kellogg Middle School Track/Infield and Hamlin Park
- Shorecrest High School Ballfields and Hamlin Park Ballfields
- Paramount School Park
- Meridian Park School Tennis Courts
- Shoreline Center and Shoreline Park
- Shoreline Pool and Shoreline Park
- Spartan Recreation Center
- Compost Facility
- Sunset School Park

The District and City mutually agreed that the facilities identified in the addendum would be made available to each other, based on suitability for each agency's programs. Use of District facilities shall be in accordance with the policies and procedures of the District for the use of school facilities, by the laws of the State of Washington, and as otherwise provided by the agreement. Use of City facilities shall be in accordance with the policies and procedures of the City in granting permits for the use of its facilities, by the laws of the State of Washington, and as otherwise provided for in the agreement.

Each agency may terminate the agreement as it relates to any or all facilities upon giving to the other party twelve (12) month's advance written notice of intention to terminate. In the event that termination deprives the non-terminating party of use of a co-funded facility or improvement, the party no longer having access shall be reimbursed its share of the undepreciated value of any permanent improvements. Undepreciated value shall be determined by reducing capital cost by 5% per year after completion of construction or other method agreed to by both agencies.

NOTE 13: 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	\$154,147	\$8,590			
Inventory and Prepaid Items	\$154,147	\$8,590			
Restricted Fund Balance	\$866,197	\$680,146	\$58,292,261	\$5,715,122	
Carryover of Restricted Revenues	\$217,197				
Other Items	\$649,000	\$680,146	\$58,292,261	\$5,715,122	
Committed Fund Balance	\$7,374,468		\$2,033,306		
Minimum Fund Balance Policy	\$4,797,600				
Other Commitments	\$2,576,868		\$2,033,306		
Assigned Fund Balance	\$1,518,776		\$355,629		\$864,061
Other Purposes	\$1,518,776				
Fund Purposes			\$355,629		\$864,061

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

Restricted from Bond Proceeds	\$39,600,720
Restricted from State Proceeds	\$16,315,349
Restricted from Levy Proceeds	\$1,630,188
Restricted-Other Proceeds	\$746,004
Total Restricted Funds	\$58,292,261
Committed from Other Proceeds	\$2,033,306

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain an unreserved fund balance range of 4.0% to 5.0% of budgeted General Fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as part of Committed fund balance.

NOTE 14: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS-BOTH IN SEPARATELY ISSUED PLAN STATEMENTS AND EMPLOYER STATEMENTS

457 PLAN

District employees have the option of participating in a deferred compensation plan as defined in Section 457 of the Internal Revenue Code that is administered by the State of Washington.

403(B)-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 under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

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 the assets of the District employees, not the school District, and are therefore not reflected on these financial statements.

NOTE 15: 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 provisions of RCW 28A.400.210 and District Policy 5322, unused 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. The statute also provides for an annual buy out of unused sick leave in 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 accrued sick leave that is cashed out upon death or retirement, 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.

Unused vacation leave may also be cashed out within certain restrictions at termination or retirement. Pay (including payroll taxes) for accrued, unused vacation that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

Shoreline School District No. 412
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	222,335,000.00	0.00	15,380,000.00	206,955,000.00
Total Non-Voted Notes/Bonds	2,896,368.59	0.00	177,390.89	2,718,977.70
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	2,481,576.01	731,786.93	473,451.76	2,739,911.18
Other Long-Term Liabilities	0.00	0.00	0.00	0.00
Total Other Long-Term Liabilities	2,481,576.01	731,786.93	473,451.76	2,739,911.18
TOTAL LONG-TERM LIABILITIES	227,712,944.60	731,786.93	16,030,842.65	212,413,888.88

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

SHORELINE SCHOOL DISTRICT #412
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending August 31, 2013

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
U.S. Department of Agriculture								
	WA OSPI	School Breakfast Program	10.553			\$263,013	\$263,013	3
	WA OSPI	National School Lunch Program	10.555			\$929,009	\$929,009	3
Office of State								
	Treasurer	Schools and Roads-Grants to States	10.665			\$5,014	\$5,014	
		Subtotal U.S. Department of Agriculture				\$1,197,036	\$1,197,036	
U.S. Department of Education								
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	201110		\$805,511	\$805,511	4,5
	WA OSPI	Special Education_Grants to States	84.027	304460		\$1,948,939	\$1,948,939	5
	WA OSPI	Special Education_Grants to States	84.027	337567		\$165,787	\$165,787	
						\$2,114,726	\$2,114,726	
	WA OSPI	Career and Technical Education -- Basic Grants to States	84.048	172685		\$42,496	\$42,496	5
	WA OSPI	Special Education_Preschool Grants	84.173	364459		\$81,833	\$81,833	5
	WA OSPI	Special Education - State Personnel Development	84.323	340444		\$30,000	\$30,000	5
	WA OSPI	English Language Acquisition State Grants	84.365	401609		\$111,628	\$111,628	6
	WA OSPI	Improving Teacher Quality State Grants	84.367	523074		\$295,044	\$295,044	5
	WA OSPI	Improving Teacher Quality State Grants	84.367	540230		\$1,000	\$1,000	5
						\$296,044	\$296,044	
		Subtotal U.S. Department of Education				\$3,482,238	\$3,482,238	
U.S. Department of Health and Human Services								
	PSESD	Head Start	93.600	N/A		\$211,259	\$211,259	
	PSESD	ARRA - Prevention and Wellness -- Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	7180		\$1,774	\$1,774	2
		Subtotal U.S. Department of Health and Human Services				\$213,033	\$213,033	
TOTAL FEDERAL AWARDS EXPENDED							\$0 \$4,892,307 \$4,892,307	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the district's financial statements. The 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—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

The funding for this program was provided by the American Recovery and Reinvestment Act of 2009. The district was a sub-recipient of these funds.

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, may be more than shown.

NOTE 4—SCHOOLWIDE PROGRAMS

The district operates a "schoolwide program" in two elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amount was expended by the district in its school wide program: Title I (84.010) \$238,217.75

NOTE 5—FEDERAL INDIRECT RATE

The district used the federal restricted rate of 2.71 percent for this program.

NOTE 6—INDIRECT RATE

The indirect rate for this grant was capped at 2.00 percent.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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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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