

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

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**Mercer Island School District No. 400**  
**King County**

Audit Period  
**September 1, 2012 through August 31, 2013**

**Report No. 1011983**

Issue Date  
**May 29, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

May 29, 2014

Board of Directors  
Mercer Island School District No. 400  
Mercer Island, Washington

### *Report on Financial Statements and Federal Single Audit*

Please find attached our report on Mercer Island School District No. 400'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

## **Mercer Island School District No. 400 King County September 1, 2012 through August 31, 2013**

The results of our audit of Mercer Island School District No. 400 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***

**Mercer Island School District No. 400  
King County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Mercer Island School District No. 400  
Mercer Island, 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 Mercer Island School District No. 400, King County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 20, 2014.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

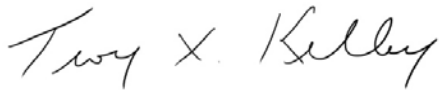
## ***COMPLIANCE AND OTHER MATTERS***

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

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

## ***PURPOSE OF THIS REPORT***

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



**TROY KELLEY**  
STATE AUDITOR

May 20, 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**

**Mercer Island School District No. 400  
King County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Mercer Island School District No. 400  
Mercer Island, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of Mercer Island School District No. 400, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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



### ***Opinion on Each Major Federal Program***

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

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

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

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

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

### ***PURPOSE OF THIS REPORT***

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

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

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

**TROY KELLEY**  
STATE AUDITOR

May 20, 2014

# **Independent Auditor's Report on Financial Statements**

**Mercer Island School District No. 400  
King County  
September 1, 2012 through August 31, 2013**

Board of Directors  
Mercer Island School District No. 400  
Mercer Island, Washington

## ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of Mercer Island School District No. 400, King County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

***Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)***

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercer Island School District No. 400, 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 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.

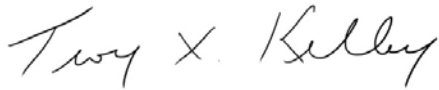
***Other Matters***

***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 May 20, 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

May 20, 2014

## **Financial Section**

**Mercer Island School District No. 400  
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  
Funds – 2013  
Statement of Fiduciary Net Position – Fiduciary Funds – 2013  
Statement of Changes in Fiduciary Net Position– Fiduciary Funds – 2013  
Notes to Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Long-Term Liabilities – 2013  
Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

E.S.D. 121

## Balance Sheet

COUNTY: 17 King

## Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	6,468,700.86	623,335.07	3,307,920.44	4,393,812.36	1,159,197.60	0.00	15,952,966.33
Minus Warrants Outstanding	-1,117,664.72	-27,976.75	0.00	-124,822.50	0.00	0.00	-1,270,463.97
Taxes Receivable	5,860,320.28		2,206,477.30	2,188,478.17	656.38		10,255,932.13
Due From Other Funds	90,181.13	0.00	0.00	955.04	0.00	0.00	91,136.17
Due From Other Governmental Units	462,743.00	0.00	0.00	31,214.15	0.00	0.00	493,957.15
Accounts Receivable	96,388.89	0.00	0.00	0.00	0.00	0.00	96,388.89
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	9,213.08	0.00					9,213.08
Prepaid Items	179,965.05	49,789.33		82,917.49	0.00	0.00	312,671.87
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
<b>TOTAL ASSETS</b>	<b>12,049,847.57</b>	<b>645,147.65</b>	<b>5,514,397.74</b>	<b>6,572,554.71</b>	<b>1,159,853.98</b>	<b>0.00</b>	<b>25,941,801.65</b>
<b>LIABILITIES:</b>							
Accounts Payable	317,199.45	50,959.60	0.00	643,476.84	0.00	0.00	1,011,635.89
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	96,334.41	0.00		0.00			96,334.41
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	15,850.19	0.00		0.00			15,850.19
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	91,136.17	0.00	0.00	0.00	0.00	91,136.17

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

E.S.D. 121

## Balance Sheet

COUNTY: 17 King

## Governmental Funds

August 31, 2013

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
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	6,401,689.56	0.00	2,206,477.30	2,188,478.17	656.38	0.00	10,797,301.41
<b>TOTAL LIABILITIES</b>	<b>6,831,073.61</b>	<b>142,095.77</b>	<b>2,206,477.30</b>	<b>2,831,955.01</b>	<b>656.38</b>	<b>0.00</b>	<b>12,012,258.07</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	189,178.13	0.00	0.00	0.00	0.00	0.00	189,178.13
Restricted Fund Balance	80,000.00	503,051.88	3,307,920.44	1,693,831.09	0.00	0.00	5,584,803.41
Committed Fund Balance	820,000.00	0.00	0.00	0.00	0.00	0.00	820,000.00
Assigned Fund Balance	0.00	0.00	0.00	2,046,768.61	1,159,197.60	0.00	3,205,966.21
Unassigned Fund Balance	4,129,595.83	0.00	0.00	0.00	0.00	0.00	4,129,595.83
<b>TOTAL FUND BALANCE</b>	<b>5,218,773.96</b>	<b>503,051.88</b>	<b>3,307,920.44</b>	<b>3,740,599.70</b>	<b>1,159,197.60</b>	<b>0.00</b>	<b>13,929,543.58</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>12,049,847.57</b>	<b>645,147.65</b>	<b>5,514,397.74</b>	<b>6,572,554.71</b>	<b>1,159,853.98</b>	<b>0.00</b>	<b>25,941,801.65</b>



E.S.D. 121

## Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 17 King

## 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
<b>REVENUES:</b>							
Local	17,058,141.86	1,421,497.55	5,040,541.85	4,961,795.07	11,254.77		28,493,231.10
State	24,545,951.61		0.00	31,214.15	292,389.97		24,869,555.73
Federal	1,449,356.55		0.00	0.00	0.00		1,449,356.55
Federal Stimulus	0.00						0.00
Other	297,226.66			0.00	0.00	0.00	297,226.66
<b>TOTAL REVENUES</b>	<b>43,350,676.68</b>	<b>1,421,497.55</b>	<b>5,040,541.85</b>	<b>4,993,009.22</b>	<b>303,644.74</b>	<b>0.00</b>	<b>55,109,370.04</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	25,597,865.01						25,597,865.01
Federal Stimulus	0.00						0.00
Special Education	5,278,559.11						5,278,559.11
Vocational Education	766,100.67						766,100.67
Skills Center	57,279.57						57,279.57
Compensatory Programs	686,222.23						686,222.23
Other Instructional Programs	524,681.07						524,681.07
Community Services	295,904.66						295,904.66
Support Services	10,008,059.49						10,008,059.49
Student Activities/Other		1,343,038.60				0.00	1,343,038.60
<b>CAPITAL OUTLAY:</b>							
Sites				245,180.49			245,180.49
Building				578,588.03			578,588.03
Equipment				3,474,840.09			3,474,840.09
Instructional Technology				0.00		0.00	0.00
Energy				0.00		0.00	0.00
Transportation Equipment					184,381.65		184,381.65
Sales and Lease				0.00		0.00	0.00
Other	182,907.55						182,907.55
<b>DEBT SERVICE:</b>							
Principal	0.00		3,865,000.00	0.00	0.00		3,865,000.00
Interest and Other Charges	0.00		747,043.77	0.00	0.00		747,043.77
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>43,397,579.36</b>	<b>1,343,038.60</b>	<b>4,612,043.77</b>	<b>4,298,608.61</b>	<b>184,381.65</b>	<b>0.00</b>	<b>53,835,651.99</b>

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

E.S.D. 121

## Statement of Revenues, Expenditures, and Changes in Fund Balance

COUNTY: 17 King

## 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
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-46,902.68	78,458.95	428,498.08	694,400.61	119,263.09	0.00	1,273,718.05
<b>OTHER FINANCING SOURCES (USES):</b>							
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	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	27,604.57		0.00	0.00	0.00		27,604.57
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>27,604.57</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>27,604.57</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	-19,298.11	78,458.95	428,498.08	694,400.61	119,263.09	0.00	1,301,322.62
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>5,238,072.07</b>	<b>424,592.93</b>	<b>2,879,422.36</b>	<b>3,046,199.09</b>	<b>1,039,934.51</b>	<b>0.00</b>	<b>12,628,220.96</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>5,218,773.96</b>	<b>503,051.88</b>	<b>3,307,920.44</b>	<b>3,740,599.70</b>	<b>1,159,197.60</b>	<b>0.00</b>	<b>13,929,543.58</b>

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

ASSETS:	Private Purpose Trust	Other Trust
Imprest Cash	0.00	0.00
Cash On Hand	113,713.65	0.00
Cash On Deposit with Cty Treas	0.00	0.00
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
<b>TOTAL ASSETS</b>	<b>113,713.65</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>
<b>NET POSITION:</b>		
<b>Net position held in trust for:</b>		
Scholarships and private beneficiaries	113,713.65	0.00
<b>TOTAL NET POSITION</b>	<b>113,713.65</b>	<b>0.00</b>

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

Mercer Island School District No. 400  
Statement of Changes in Fiduciary Net Position

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## Fiduciary Funds

For the Year Ended August 31, 2013

<b>ADDITIONS:</b>			
<b>Contributions:</b>			
Private Donations	41,733.28	Other Trust	0.00
Employer			0.00
Members			0.00
Other	0.00		0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>41,733.28</b>		<b>0.00</b>
<b>Investment Income:</b>			
Net Appreciation (Depreciation) in Fair Value	830.11		0.00
Interest and Dividends	498.43		0.00
Less Investment Expenses	-77.98		0.00
Net Investment Income	1,250.56		0.00
<b>Other Additions:</b>			
Rent or Lease Revenue	0.00		0.00
Total Other Additions	0.00		0.00
<b>TOTAL ADDITIONS</b>	<b>42,983.84</b>		<b>0.00</b>
<b>DEDUCTIONS:</b>			
Benefits			0.00
Refund of Contributions	0.00		0.00
Administrative Expenses	0.00		0.00
Scholarships	11,650.00		0.00
Other	534.50		0.00
<b>TOTAL DEDUCTIONS</b>	<b>12,184.50</b>		<b>0.00</b>
Net Increase (Decrease)	30,799.34		0.00
Net Position--Beginning	82,914.31		0.00
Prior Year(s) Corrections or Restatements	0.00		0.00
<b>NET POSITION--ENDING</b>	<b>113,713.65</b>		<b>0.00</b>

**Mercer Island School District**  
**Notes to Financial Statements**  
September 1, 2012 through August 31, 2013

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Mercer Island 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.

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

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term 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.
- (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 are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

#### **Capital Projects Funds**

These funds account for financial resources 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 principle and interest.

#### **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 in use by the Riverview School District. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

### **FIDUCIARY FUNDS**

Fiduciary funds including private-purpose trust 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.

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

The measurement focus for the District's funds is the modified accrual basis and the current financial resources focus. This basis of accounting focuses primarily on the sources, uses, and balances of current

financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

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

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

### ***Budgetary Data***

#### General Budgetary Policies

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

#### Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, pursuant to law, the budgeted ending fund balance cannot be negative.

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

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

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal

requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to 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 a subsequent formal action of the board of directors.

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

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

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**

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



All of the District's investments during the year and at year end were insured or registered and held by the District or its agent in the District's name.

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

Investment Type	Carrying Amount	Fair Value	Effective Duration
King County Investment Pool	\$ 15,987,982.34	\$ 15,928,826.81	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. The District's share of the impaired investment pool principle is \$40,358.78 and the district's fair value of these investments is \$23,871.79.

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.

The County provided the following information regarding the District's investment losses in the pool as described above, and potential maximum losses on impaired investments as of August 31, 2013.

Impaired Investments	Maximum Exposure on Impaired Investments*	Unrealized loss exposure Based on Fair Value as of 8-31-13	Net Fair Value as of 8-31-13 (maximum exposure less unrealized loss exposure)
General Fund	10,822.27	4,406.60	6,415.67
GO Bond	10,079.39	4,122.29	5,957.10
Vehicle Trans. Fund	3,102.78	1,264.37	1,838.41
Capital Proj. Fund	12,661.92	5,189.38	7,472.54
ASB Deposit Fund	3,330.96	1,356.33	1,974.63
Expendable Trust	361.46	148.02	213.44
Total	40,358.78	16,486.99	23,871.79

### **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

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

### **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 and 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, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

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

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

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, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten

service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

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

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

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

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

### Contributions

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.09%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

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

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

	9/1/12-8/31/13		9/1/12-6/30/13	7/1/13-8/31/13
Plan 1 TRS	8.05%	Plan 1 PERS	7.21%	9.19%
Plan 2 TRS	8.05%	Plan 2 SERS	7.59%	7.59%
Plan 3 TRS	8.05%	Plan 3 SERS	7.59%	7.59%

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

<u>Plan</u>	<u>FY 12-13</u>	<u>FY 11-12</u>	<u>FY 10-11</u>
Plan 1 TRS	\$ 84,311.34	\$ 110,550.65	\$ 105,295.27
Plan 2 TRS	\$ 189,418.00	\$ 163,696.91	\$ 140,034.09
Plan 3 TRS	\$ 1,204,758.19	\$ 1,145,270.43	\$ 851,747.63
Plan 1 PERS	\$ 3,528.98	\$ 4,301.42	\$ 5,860.48
Plan 2 SERS	\$ 144,659.40	\$ 139,053.67	\$ 107,199.06
Plan 3 SERS	\$ 353,729.91	\$ 346,430.88	\$ 232,732.65

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

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

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retiree employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life insurance, and long-term disability insurance.

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

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2012-13, the District was required to pay the HCA \$65.17 per month per full-time equivalent employee to support the program, for a total payment of \$269,906.21. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

**NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES**

The District has no lease or conditional sales contract obligations other than for copier or other routine office equipment such as postage machines. Leases for those items are year-to-year agreements which may be terminated by the District at the beginning of any year for funding reasons. As a result they are not considered capital leases and are not long-term debt.

**NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

Construction in progress is composed of:

<b>Project</b>	<b>Project Authorization Amount</b>	<b>Expended as of 8/31/2013</b>	<b>Additional Local Funds Committed</b>	<b>Additional State Funds Committed</b>
HS Boiler /Lighting Upgrade	\$ 740,118	\$ 705,071	0	0

**NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The district's capital assets are insured in the amount of \$ 95,800,742 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.

Operating lease disclosures are as follows:

CHILD leases space at the North Mercer campus for \$150,982 annually.  
Country Village Day Care leases space at the North Mercer campus for \$126,255 annually.  
Little Acorn Preschool leases space at the North Mercer campus for \$36,882 annually.  
Mercer Island Schools Foundation leases office space at the Administration Building for \$1 annually.  
Youth Theatre NW leases space at the North Mercer campus for \$47,955 annually.  
Boys and Girls Club of King County leases the ground on which the Club is built for \$1 annually.

**NOTE 10: REQUIRED DISCLOSURES ABOUT LONG TERM LIABILITIES****Long-Term Debt**

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

<b>Issue Name</b>	<b>Amount Authorized</b>	<b>Annual Installments</b>	<b>Final Maturity</b>	<b>Interest Rate(s)</b>	<b>Amount Outstanding</b>
2001 UTGO Refunding (96, 94 & 93)	22,375,000	636,659 -4,768,969	12/1/15	3.5-5.625%	9,315,000
2002 UTGO	1,100,000	102,125 -108,400	6/1/14	2.5-4.25%	200,000
2008 UTGO Refunding (97,98)	8,555,000	574,081-2,322,750	12/1/14	3.25-3.75%	3,390,000
<b>Total General Obligation Bonds</b>	<b>32,030,000</b>				<b>12,905,000</b>

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

Long-Term Debt Payable at 9/1/2012	16,770,000
New Issues	0
Principal Paid	(3,865,000)
Debt Retired	0
Long-Term Debt Payable at 8/31/2013	12,905,000

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

Year ending 8/31	Principal	Interest	Total
Prior Year			
2014	4,125,000.00	555,675.00	4,680,675.00
2015	4,265,000.00	352,546.88	4,617,546.88
2016	4,515,000.00	126,984.38	4,641,984.38
	12,905,000.00	1,035,206.26	13,940,206.26

At August 31, 2013 district had \$ 3,307,920.44 available in the Debt Service Fund to service the general obligation bonds.

#### **NOTE 11: INTERFUND BALANCES AND TRANSFERS**

The Mercer Island School District has no outstanding interfund loans as of August 31, 2013.

#### **NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES**

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

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

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are

responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

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

The Pool is fully funded by its member participants.

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

#### UNEMPLOYMENT INSURANCE

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.

#### WORKERS' COMPENSATION

The District is a member of the Puget Sound Workers' Compensation Trust. 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.

#### **NOTE 13: PROPERTY TAXES**

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

#### **NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

a. King County Directors Association

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 district's current equity of \$58,081.12 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 10 annual allocations of merchandise or 15 annual payments.

b. The Mercer Island Schools Foundation

The Mercer Island Schools Foundation is a registered, non-profit organization formed by Mercer

Island residents to finance equipment, learning materials and enrichment activities through solicitation of donations. During 2012-13, the foundation donated \$1,367,452.11 to the district for those purposes. The foundation gifts to the district reflect the district's biennial goals.

**NOTE 15: FUND BALANCE CLASSIFICATION DETAILS**

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

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Non spendable Fund Balance					
Inventory and Prepaid Items	\$189,178.13				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$60,000.00				
Debt Service				\$3,307,920.44	
Uninsured Risks	\$20,000.00				
Committed Fund Balance					
Other Commitments	\$820,000.00				
Assigned Fund Balance					
Fund Purposes		\$503,051.88	\$2,046,768.61		\$1,159,197.60

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

Restricted from Levy Proceeds	\$1,693,831.09
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**NOTE 16: POST EMPLOYMENT BENEFIT PLANS OTHER THAN BENEFIT PLANS-BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

**457 Plan – Deferred Compensation Plan**

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

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

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under elective employee deferrals.

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

**NOTE 17: TERMINATION BENEFITS**



## **Compensated Absences**

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For 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 vesting method.

Vacation pay, including benefits, 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.

### **NOTE 18: OTHER DISCLOSURES**

#### **Self-Insurance-Security Deposit**

The District is insured for Workers' Compensation claims through the Puget Sound ESD Workers' Compensation Trust. No funds from the District are directly on deposit for self-insured risks with the Puget Sound Workers' Compensation Trust.

## Schedule of Long-Term Liabilities

For the Year Ended August 31, 2013

Description	Beginning		Amount Issued/Increased	Redeemed/Decreased	Ending	
	Outstanding Debt September 1, 2012	Outstanding Debt August 31, 2013			Amount	Outstanding Debt August 31, 2013
Total Voted Bonds	16,770,000.00		0.00		3,865,000.00	12,905,000.00
Total Non-Voted Notes/Bonds	0.00		0.00		0.00	0.00
Qualified Zone Academy Bonds QZAB)	0.00		0.00		0.00	0.00
Qualified School Construction Bonds (QSCB)	0.00		0.00		0.00	0.00
<b>Other Long-Term Debt</b>						
Capital Leases	0.00		0.00		0.00	0.00
Contracts Payable (GL 603)	0.00		0.00		0.00	0.00
NonCanceliable Operating Leases	0.00		0.00		0.00	0.00
Claims & Judgments	0.00		0.00		0.00	0.00
Compensated Absences	1,130,884.28		262,970.79		208,810.50	1,185,044.57
Other Long-Term Liabilities	0.00		0.00		0.00	0.00
Total Other Long-Term Liabilities	1,130,884.28		262,970.79		208,810.50	1,185,044.57
<b>TOTAL LONG-TERM LIABILITIES</b>	17,900,884.28		262,970.79		4,073,810.50	14,090,044.57

## For the year ending August 31, 2013

*The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Mercer Island School District's financial statements. The Mercer Island School District uses the modified accrual basis of accounting.

Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

## NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS

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

## NOTE 3—NONCASH AWARDS

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

## NOTE 4—NOT AVAILABLE (N/A)

The Mercer Island School District was unable to obtain other identification number.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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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**Chief of Staff**  
**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**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Mark Rapozo, CPA**  
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